The Time to Jump on the Train

ICHD Policy brief

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David and Goliath

The investment milieu in developed countries is gradually deteriorating under the powerful blows of the world financial crisis, which according to certain estimates may last for over two years. Notwithstanding the high effectiveness of governance, the economic growth in developed countries has considerably decreased and maintains a similar tendency. For instance, the economic growth in Germany, Britain and France will not exceed 0.5% in 2009, even according to the most optimistic estimates. Furthermore, the GDP growth in Spain is already negative.

Though the financial crisis has struck the economies of developing countries with less effective governance levels, the situation in the developing world is considerably less dramatic. Economies of India and China will continue developing within the range of 6-9%. Consumption pace in developing countries continues to grow, targeting the consumer society levels of the developed countries. Under the conditions of the world financial crisis, migration flows tend to contribute to the interests of the developing countries as well, supplying additional resources from the developed countries towards developing ones.

Race for the western inheritance

Developing liberal economies with low levels of regulation, where the public share of economy is insignificant, social warrants and expectations from the state are little, national currency is stable, the economic growth is comparatively high and the role of the state in the redistribution of property is essential, are becoming quite attractive for foreign investors.

The world financial crisis seems to be a unique self-regulating mechanism, a global, inter-system process directed towards overcoming the huge gap between the developed and developing countries. It is not incidental that under a crisis the developing countries are more attractive and competitive, than the developed ones. Still, the developing countries do not transcend competition. They compete with each other.

Competition between developing countries to attract investment will essentially be driven by the above-mentioned criteria. However, under the conditions of the world financial crisis the most important factor for investment is the effectiveness of governance and the winners in the race will be the ones who will offer a more conducive environment for investment to investors "escaping" from stagnation.

Sharp wits, sharp teeth

What can Armenia do in these circumstances? First and foremost, it is crucial to correctly assess the exceptional opportunities presented by the time. Indeed, it is necessary to attempt alleviating the negative consequences of the crisis through social feedback. However, if we pick a wrong direction is these times pregnant with huge developmental potential and as a priority focus on survival rather than galloping growth, we may lose an unprecedented opportunity. Our history is full of such pages. Actually, we have erred often, trying to develop

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rapidly in the times of survival, for which we have been strictly punished. However, the drastic improvement of the competitiveness of the economy and society can be only beneficial in both situations. 21st century may not offer another such spectacular opportunity for unprecedented development to Armenia anymore. For instance, the Baltic countries and the Czech Republic - economies having developed in the result of another historical crisis, collapse of the Soviet Union, know but well the opportunities such crises provide for sharp teeth and sharp wits. Armenia, which has shriveled under the ruins of the Soviet Union, actually has all the reasons to look at this crisis through back glasses. However, it is free to take off these glasses and face the reality with naked eyes. It can sharply increase its governance efficiency and improve its competitiveness.

The train has slowed down and it is time to jump into it.

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