

Evaluation of the competitiveness and business environment of Armenia

October 2013

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Abstract

The purpose of this essay is to examine the competitiveness and the business environment using as a case study the country of Armenia. The main target of the essay is to prove the significance of the two global indexes, Global Competitiveness Index and Easy of Doing Business Index, which will be the key-tools for the following research. Their significance refers to both of them, as these indexes complement one another, by covering a whole range of parameters that contribute to our evaluation. Nevertheless criticism is also available. As regards to Armenia, the country is very small with biggest problems the lack in rule of law, isolation, poverty, underdeveloped infrastructure and financial markets and difficulty to adopt modern mechanisms that hampers the political and economic environment. On the other hand has proved that has a lot of capabilities in the global arena especially in the business environment, by distinguish itself in the easiness of registering property. Except the recommendations in each problem, this essay targets in the enhancement of transparency and the use of the diaspora in a lot of projects by saving money from people with abilities that love their country.

SECTION 1

Introduction

The present essay is aimed to look into the correlation between competitiveness and easiness of doing business in a country. Evidence for in support of this position, can be found in the correlation of a competitive environment with sustainability, prosperity and foreign direct investments and the increase of revenues. According to that statement, doing business in a country is not only important but vital for the national economy. Evidently, competitiveness of a country and the easiness of doing business are two things strongly interrelated with each other. It can be said that a business environment determines the competitiveness of a country and alternatively, that the competitiveness of a country can saw to us the business environment. We are going to examine that through the case of Armenia.

The main task of the essay is to examine the importance and usefulness of the two global indexes, the Global Competitiveness Index (GCI) and the Easy of Doing Business Index (EDB) which they publish annually the World Economic Forum and the World Bank, respectively. It is noteworthy to be mentioned that these indexes are significant tools for all the countries and governments, for entrepreneurs, banks, policy advisors, country experts or investment organizations. Consequently, according to the evaluation the above users think their next move and actions for progress and improvement. Certainly, a good performance in those global indexes, can lead a country among the first in list for foreign investments. There is no doubt, that foreign direct investments are a key component for significant revenues. The indexes use several variables which examine ways for the elimination of poverty, the enhancement of productivity, sets higher living standards by trying to create a more dynamic and prosperous economy in every country.

As it has to do with our case study Armenia, this paragraph will give us a laconic presentation of our case study country, which is in the 32nd position in the EDB index ranking and 79th in the GCI index for the current year. First of all, as a post-communist member, Armenia suffered from vast and difficult periods of transition. After its democratization the country continued to feel the pressure of two gigantic powers of the map, Russia and EU, as every possible small state. Moreover, the problems with Azerbaijan and Nagorno-Karabakh conflict and further problems with Turkey have isolated the country in a significant level. However, a significant factor that afflict the country and weakening Armenia, are the high levels of corruption which in combination with bureaucracy are great obstacles for foreign investments. Nowadays the country's economy depends highly in manufacturing, services, agriculture and from remittances that diaspora sends back to the country. Moreover, Armenia succeed economic growth for years, but in 2009 faced a severe economic recession. Certainly, Armenia represents a good paradigm such for new policies as for economic changes, as it is a multi-level and difficult case, worthy of attention and study, which will assist us to explore the two indexes.

The research in this essay, as it is said before, will use for tools the GCI and EDB indexes. After the end of the essay we will be able to know how to use these tools. In order to succeed that we will go through the methodology and thereafter we will not only be able to see the rankings for Armenia, but also for other regions and countries like the USA, the EU, China, the Balkans and the Black Sea regions. Obviously, the plethora of countries and regions will give us the advantage to compare and realize the meaning of Armenia's position in the global map.

The essay divided into 6 SECTIONS. The first one is the introduction that already explained us in a brief way, the issues that are going to examine and analyze in this essay, and of course outlines the whole structure of the essay. The 2nd SECTION is dedicated to the Global Competitiveness Index. It will explain the methodology of the index, its importance and after that we will be able to see the scores of the case study country through the years in

comparison within its region and others. Likewise, in the 3rd SECTION, methodology analysis and comparison will be continued for our Easy of Doing Business index¹. Along the way, there is SECTION 4 which will present some criticism for our tools either bad either good, in order to conceptualize its usefulness and its validity or to realize its existence for political reasons or feasibilities. Subsequently, in SECTION 5, there is the exposure of our advices and recommendations, according to the results that the indexes gave us. Concretely, which are the main obstacles in Armenia's economy, where the government should focus in order to overcome these obstacles. Furthermore, which are the changes that have to be done in institutions, laws and their appropriate enforcement for successful outcomes. Finally, certain conclusions have been made in SECTION 6, by giving a summary of the essay and concluding remarks taking into account a big spectrum of speculations and results.

¹ All the following tables and methodology are according to the reports of the two indexes.

SECTION 2

The Global Competitiveness Index

This SECTION is devoted to the Global Competitiveness Index. However before we go through the details, there is need to focus in the meaning of competitiveness. “Competitiveness involves elements of productivity, efficiency and profitability. But it is not an end in itself or simple task. It is a powerful mean of increasing living standards and social welfare, a tool to achieve goals”². They use to define competitiveness as a set of institutions, policies and factors that determine the level of productivity in a country.³ Productivity is so important because can shows the levels of prosperity in an economy and also the rates of return obtained in an economy. The existence of this report is not only informative, but provides also management advices and policies that can enhance the competitiveness in each particular country depending on its particular problems.

The World Economic Forum publishes annually the Global Competitiveness Index report, which examines the whole macroeconomic and microeconomic environment of a country. The evaluation of the index is, close to one the less competitive and close to seven most competitive performances. In order to be more specific, create 12 pillars which are strongly dependent to each other.

- The first pillar: are the institutions, how transparent and effective is their function, without corruption or bureaucracy in order the country to be trustworthy.
- The second pillar: refers to efficient infrastructure. For instance, electricity supplies or telecommunication networks in a level, that are reliable at the minimum cost of money and time.

² Competitiveness Advisory Group.

³ The Global Competitiveness Report 2013/14, page 4.

- The third pillar: the stability of the macroeconomic environment which negatively affects the economy of a country. Concretely, fiscal deficits, high debts which need to be paid with high interest rates or inflation, create an imbalance in the economic environment, full of uncertainty.
- The fourth pillar: health, which is vital as for businesses as for the society, and primary education for a more productive workforce. Obviously the combination of these two makes the outcome more effective.
- The fifth pillar: higher education and training, key components for progress equal to economic growth. The workforce becomes more flexible, so the sooner the workforce can adopt new methods, the higher profits the company or country can gain.
- The sixth pillar: is goods market efficiency, it refers to tradable goods and services, as within the borders market as for foreign markets which can succeed high levels of productivity because of efficiency.
- The seventh pillar: is labor market efficiency. According to that the workforce must be able to change activities rapidly without disturbances and of course a working environment characterized by efficiency and meritocracy.
- The eighth pillar: is the financial market development. All the attention here is shifted in the proper functioning of the financial sector. In detail, there is need for efficient allocation of resources and efficient financial instruments in order to use them whenever they need.

- The ninth pillar: is the technological readiness which is a key component of development nowadays. Advanced technology makes higher the possibilities to be competitive and reach in the innovation level. The pillar is essential for foreign investors because enhance productivity.
- The tenth pillar: is the market size referring to the trade abilities of a country. Globalization actually helps a lot the opening of borders but the competition becomes very difficult to survive in the global field.
- The eleventh pillar: refers to business sophistication, which concerns advanced level economies. In particular sets higher levels of standards in quality of the products in the whole country and individual firms.
- The twelfth pillar: is innovation, the most challenge one. Is a high standard target which aims in technological innovation. It can be adopted, but we actually mean innovate on your own, being the creator. Noteworthy to say that all pillars could improve by innovation.

These pillars diversify in basic requirements, efficiency enhances and innovation. According to this diversification we are able to distinguish the stages of economic development in a country. In detail, when we are referring in less developed countries we call them factor-driven economies and these economies have to focus in the improvement of the basic requirements (institutions, infrastructure, macroeconomic environment, health & primary education). If the country is a developing one we call them efficiency-driven economies and have to focus in the efficiency enhancers pillars (higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size). Finally, for the developed countries, there is need to focus in innovation and business sophistication by calling these economies innovation-driven economies. It is noteworthy to be mentioned that economies that are between two stages are considering as economies in transition. This kind of segregation depends on weights which considering

criteria as, the GDP per capita at market exchange rates and the share of exports in mineral goods in total exports⁴. Armenia is in between of the two first stages, is a country in transition.

Taking into account the above theory we can proceed in the data of the current year 2013/14. In order to be easy to analyze them, certain indexes are including with current and previous data, which will help our analysis and evaluation. Armenia will be our case study. We will explore its needs in the economy, its vulnerabilities and its potentialities comparing with other better and worst performances globally.

The index above is giving us the scores and rankings for Armenia. The 2013/14 reports includes 148 countries. The different colors in the index indicate to us the performance of each pillar. As lighter are the shape fills the better performance Armenia has and alternatively, the darker the color, the worst performance the country has.

Armenia

Armenia ranks in 79th position. For sure is neither one of the best nor one of the worst performances, if we consider that the countries are 148 in number. The worst performances are in the market size pillar that comes 117th, and in innovation with a ranking in the 103rd position (see the table in the next page). Obviously, these positions are low ones, however it can be thought that it was expected, considering that Armenia is a small country and a developing one which is also isolated from its two neighbor countries Azerbaijan and Turkey. Consequently, only the last pillar of innovation, which is very hard to succeed, could be an antidote for its small market. But let's start from the beginning and the basic requirements. The pillar of institutions for Armenia ranked in the 65th position with a score 4. In general Armenia faces difficulties, to adopt properly, mechanisms from the

³ Methodology of the GCI index, www.weforum.org.

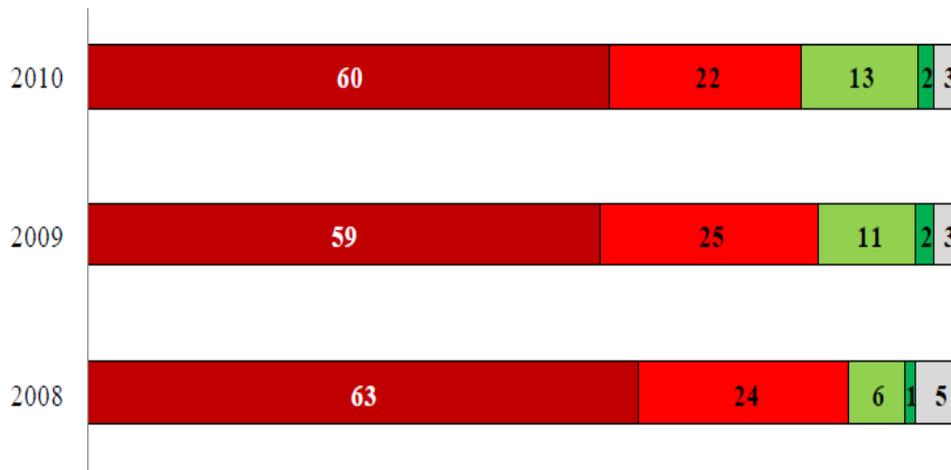
West or high corruption hampers its proper function. Corruption is a daily life phenomenon in the country, so familiar that the citizens of Armenia believe that its deterioration is an elusive dream. In the next page is the FIGURE A, which refers to a household survey for corruption and on how serious problem is corruption in Armenia.

INDEX⁵

Armenia	Rank (out of 148)	Score 4.1 (1-7)
Institutions	65	4.0
Infrastructure	80	3.8
Macroeconomic environment	64	3.9
Health and primary education	85	5.5
Higher education and training	77	4.2
Goods market efficiency	58	4.3
Labor market efficiency	50	4.5
Financial market development	76	3.9
Technological readiness	72	3.7
Market size	117	2.7
Business sophistication	87	3.8
Innovation	103	3.0

⁵ According to the data of the Global Competitiveness Index report 2013/14.

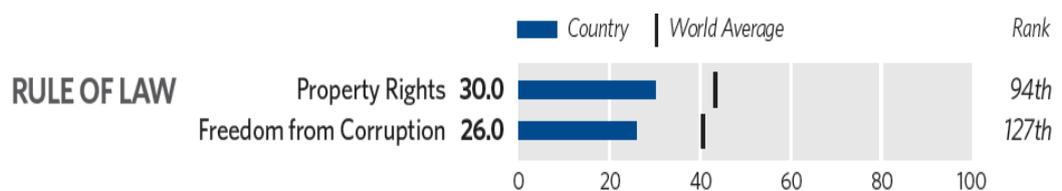
FIGURE A⁶



■ Very serious ■ Somewhat serious ■ Not too serious ■ Not at all serious □ DK&refuse to answer

Apparently, corruption is a great obstacle for the 1st pillar and its performance. However, another figure could give us more details for this particular situation. As you will be able to see corrupt practices and bribes in education, health care, court decisions and tax services, hamper the smooth operation of governance, therefore of a country. Bureaucracy and clientelism are increasing. Moreover, according to the international economic freedom index the country ranks in low positions for 2013, especially for the rule of law⁷.

On the other hand, the latest years EU and IMF provided financial assistance, at least 32 million dollars for institutional building⁸. The comprehensive institution building was during the period 2011 until 2013. For sure improvements took place with the enforcement of that program, although more must be done.



⁶ Corruption survey of households (2010):

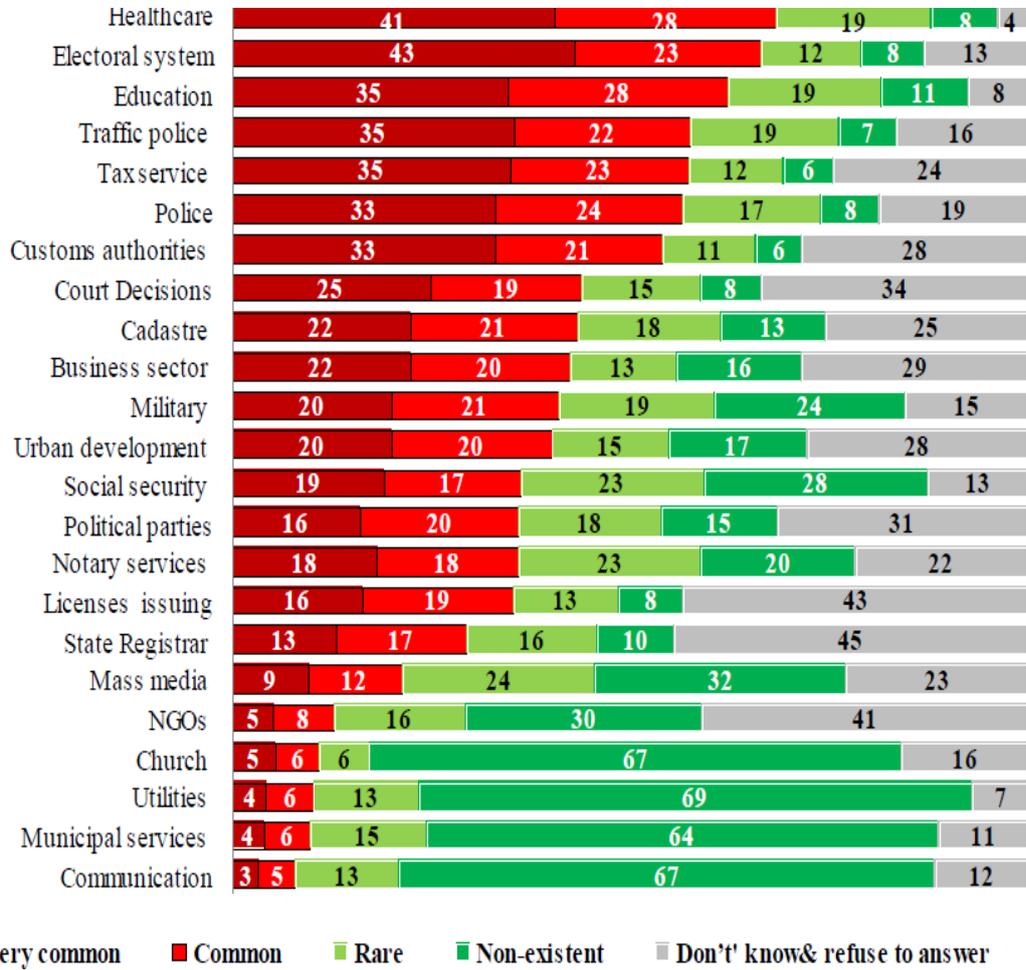
⁷ International Economic Freedom.

⁸ The Comprehensive Institution Building Programme in Armenia (16/12/2011).

FIGURE B

Perceived levels of corruption in sectors and services in 2010

(% of respondents)⁹



⁹ Corruption survey of households (2010):

With regard to the 2nd pillar, the infrastructure, Armenia has a poor performance with the 80th position and score 3.8. A good condition of infrastructure and their continuous technological development are key priorities in our globalized world. The publication of infrastructure 2013 from ULI, do not include Armenia in new strategies of this field, which is giving us the fact that we refer in a country of low expectations¹⁰. Transportation is developed but not as the West. A possible reason for that could be the low budget of the government that has in its disposal. Furthermore, in telecommunications and internet the situation cannot reach the developed countries but a substantial factor for the citizens is that a big proportion of the citizens lives under the poverty line, 35,8 % according to 2010 estimates¹¹. The most significant is that important infrastructure, as the energy sector, belong to Russia or managed by Russia.

The 3rd pillar is the microeconomic environment which ranks in the 64th position with a score 3.9. The latest years Armenia was in such a position that accepted large loans, as from Russia IMF but as from other international institutions. Nowadays the government's external debt is more than 6 billion dollars. The global financial crisis in 2009 influenced the country substantially, mostly because of its dependence in other countries. The currency depreciation of the 2011 and the big increase of unemployment, does not fully recover yet¹². As you will be able to see in the figure of the next page Armenia's inflation rate had a lot of fluctuations in the small period of two years. Consequently, incidents like these, create an instability of the microeconomic environment, with feelings of uncertainty.

¹⁰ Global Priorities, Global Insights ULI urban land institute 2013.

¹¹ http://www.indexmundi.com/armenia/population_below_poverty_line.html.

¹² http://www.indexmundi.com/armenia/economy_profile.html

FIGURE C



Moving to the fourth pillar, we observe an even lower ranking in health and primary education, with a score 5.5, Armenia is located in the 85th position of the global index. A possible causation for poor levels of health and primary education in our era could be the high corruption. After a lot of scientific research, we do not only have false distribution of money when there is corruption, but governments use to spend a large amount of money in military equipment¹³. The strategic position of Armenia and its isolation of its neighbors could be a reason for such actions.

Higher education and training is the fifth pillar with a score 4.2 and a ranking in 77th position. Logically, do not investing in primary education can lead only in low levels in higher education. However, the educational system has improved through these years but substantial changes need. Assumptions also prevailed about corruption as an obstacle that the system is not transparent. Furthermore, high levels of unemployment drive citizens to leave the country for study and working abroad.

¹³ According to the article: the effectiveness of government spending on education and health care in developing and transition economies .

With regard to the efficiency enhancers pillars, we are moving to the sixth pillar, the goods market efficiency that ranks 58th with a score 4.3. This performance could consider as a good one. Probably, the easiness of starting a business, regarding procedures and time is a key component for the countries good performance.

The seventh pillar is labors market efficiency, which also has a good or even better performance, ranked in the 50th position with a score 4.5. Key components here are the flexibility in hiring and firing practices. However, an obstacle could be the difficulty of country's capacity to retain talent¹⁴.

The eighth pillar is financial market development and ranks 76th with a score 3.9. This sector is quite underdeveloped comparing with the West even if the position is not very low. Causes for that might come from previous years, because Armenia as a post-communist country, had difficulties to adopt unknown mechanisms so the improvements was lower. Nowadays, problems exist on taking a loan or issuing securities which is a significant financial instrument.

Moving to the ninth pillar, we refer to technological readiness which comes in the 72nd position with a score 3.9. Armenia improves day by day in technology but always West models appear for comparison. Nevertheless, there is a big difficulty in firms to absorb new technologies. Therefore, we highlight that there is a strong interrelation among the pillars. Concretely, poor levels in education influence the workforce being unable to cope with technology.

¹⁴ Global Competitiveness Index report 2013/14.

The tenth pillar refers to the market size and ranks 117th with a score 2.7, and as it is said before is one of the worst performances of Armenia. It is already said that the isolation of the neighboring countries is an open wood for exports and in general for the economy. Automatically, the possible market deteriorates in the domestic one which is very small and the low levels of technology cannot cope with developed countries in order to compete. Furthermore, the poor living standards influence consumption in the domestic market, from the point of view that a big proportion of the country lives in poverty.

Finally, we are moving in the last two pillars of innovation. The eleventh pillar is the business sophistication which ranks 87th with a score 3.8. The latest years, businesses have improved in Armenia with big industries in pharmaceutical and in the chemical sector. However, there is no sophistication only adoption of formulas.

Concluding with innovation, another bad performance of Armenia, with a ranking in 103rd position and score 3. As it is said above there are no innovation programs but this is due to the high cost of R&D programs and scientific projects. Consequently without such actions they cannot succeed innovations.

ARMENIA
&
THE BLACK SEA REGION

Equally important is to analyze Armenia among the countries of its region. Looking carefully the neighboring countries performances, can lead us in issues that hamper the whole region and not only our case study. Moreover, it would be easier for us to understand our country's position in the Black Sea region, how much easier is for the country to attract foreigners among the other countries and which are the weaken pillars that has to emphasize in order to improve them.

In order to succeed such outcomes there is need to study data from previous years. Certainly, what really matters is the current position of the country however the obstacles always have its roots from the past. Being more specific, problems of the past just continuous to exist or create the current difficulties. Consequently, it is worthwhile to explore the data in order to find the appropriate solution. The following table refers to data from the year 2005/06, including all the Black Sea region countries. Unfortunately, data for Armenia are available from that date, even if most of the Black-Sea region countries have data available from 2000 or 2001. For that reason the table adjusted in the needs of Armenia, in order to have more comparable scores for a more valid comparison. In the above table we will be able to see only the scores of each country every year.

A chronological review in the Black Sea region

years	2005 /06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	Av. 2005-2014
Arm.	3,44	3,75	3,76	3,73	3,71	3,76	3,89	4,02	4,10	3,79
Azer.	3,64	4,06	4,07	4,10	4,30	4,29	4,31	4,41	4,51	4,18
Bulg.	3,83	3,96	3,93	4,03	4,02	4,13	4,16	4,27	4,31	4,07
Geor.	3,25	3,73	3,83	3,86	3,81	3,86	3,95	4,07	4,15	3,83
Gre.	4,26	4,33	4,08	4,11	4,04	3,99	3,92	3,86	3,93	4,05
Mol.	3,37	3,71	3,64	3,75	-	3,86	3,89	3,94	3,94	3,76
Rom.	3,67	4,02	3,97	4,10	4,11	4,16	4,08	4,07	4,13	4,03
Rus.	3,53	4,08	4,19	4,31	4,15	4,24	4,21	4,20	4,25	4,12
Turk.	3,68	4,14	4,25	4,15	4,16	4,25	4,28	4,45	4,45	4,20
Ukr.	3,30	3,89	3,98	4,09	3,95	3,90	4,00	4,14	4,05	3,92
BS-10	3,60	3,97	3,97	4,02	4,03	4,04	4,07	4,14	4,15	3,99

**BEST
PERFORMER**

**WORST
PERFORMER**

**Good
performances**

Starting from the year 2005/06, the average score of the Black Sea region is 3.60, which is its worst performance in comparison with the following ones. The best performance of that year had Greece and the worst Georgia with a significant difference. Armenia's score for that year was 3.44 being in the three last positions of the region. Bulgaria, Turkey, Romania and Azerbaijan are the most competitive countries of that year after Greece.

The following year Armenia noted a small improvement in its score with Greece having the best performance of the region again and a rising one. However, Armenia still remains in the three less competitive countries. The total score of the region also had an improvement. The difference in that year is that the worst performance noted from Moldova even if there was a rising of the score. The other four good performances were Turkey, Russia, Azerbaijan and Romania.

In the report of 2007/08, Turkey reached the most competitive position of the country. Armenia remains stabilized and Moldova continuous to have the lowest position in the region. Our case study country falls in the 2nd less competitive country of that year. Russia, Greece, Azerbaijan and for the first time Ukraine are following good performances.

Unfortunately, in 2008/09 Armenia noted the worst performance in the region and even worse, for the next three years still keeps this performance. Russia has the best performance and next follows Greece, Romania, Azerbaijan and Ukraine with not a substantial difference among them. As for the next three years that Armenia is less competitive country of the region, Azerbaijan succeeds to rise in the first position, as the best performer of the Black Sea countries. During these years following competitive countries are Turkey, Russia and Ukraine, Greece in 2009/10 which has this year and the two previous a deterioration and Bulgaria in 2010/11 and 2011/12. Furthermore, through all these years the Black Sea region has a small but stabilized and significant improvement.

For the year 2012/13, Turkey succeeds again to have the best performance of the country with Armenia noted a recovery and Greece falling in the last position, noting the worst performance. Azerbaijan, Bulgaria, Russia and

Ukraine are the following good performances. Armenia, even if reached the 4.02 score still remains one of the least competitive countries of the region.

As far as it has to do with the current year 2013/14, Azerbaijan is again the most competitive country with Greece noting again the worst performance. Armenia in 2013 succeed to be somewhere in the middle and not one of the two less competitive countries. Turkey, Russia, Bulgaria and Georgia are the following best performances of the region.

After this chronological review in the Black Sea region, it was noticeable that a lot of changes happened in the period of nine years. First of all Greece, was the best performer in the region, the first two years of our table, and the last two became the worst. Azerbaijan succeed to prevail the most years, in difference with other countries that even if they had noted better scores they fall quickly. Concretely the best score average through the years gained by Turkey, however Azerbaijan prevails in terms of duration. In general the Black Sea region always had an improvement, even if it was small, during these years. Last but not least, Armenia during these nine years noted very low performances except of the last one. Always was in the last three positions and for four years was the worst performer of the Black Sea countries. A possible explanation could be the high levels of bureaucracy and corruption that hampers the country and create difficulties in foreigners to invest. Although, main obstacles still remain the isolation of the country from Turkey and Azerbaijan, closing opportunities of a bigger market. The conclusion is, that the most post-soviet countries seem to have problems in terms of competitiveness. Undoubtedly, Armenia was in a situation of stagnation for a long time, where stereotypes of a central planning economy were torture the country in its try to adopt new mechanisms.

EXPLORING THE PILLARS

In order to see the differences more carefully we will go through the pillars in each country of the Black Sea region, separately. This method will help us to identify the magnitude of the problematic areas. After using this method and concluding in the main problems it would be easier for us to find ways for the enhancement of competitiveness and its derivatives. The data are only from the latest report 2013/14.

PILLARS	BASIC REQUIREMENTS				EFFICIENCY ENHANCERS						INNOVATION	
	INSTITUTIONS	INFRASTRUCTURE	MACROECONOMICS	HEALTH & PRIMARY EDUCATION	HIGHER EDUCATION & TRAINING	GOODS MARKET EFFICIENCY	LABOR MARKET EFFICIENCY	FINANCIAL MARKET DEVELOPMENT	TECHNOLOGICAL READINESS	MARKET SIZE	BUSINESS SOPHISTICATION	INNOVATION
ARM	4.0	3.8	4.9	5.5	4.2	4.3	4.5	3.9	3.7	2.7	3.8	3.0
AZER	4.1	4.1	6.4	5.1	4.0	4.3	4.7	3.8	4.2	3.6	4.0	3.5
BUL	4.3	4.2	3.4	3.9	5.6	6.0	4.3	4.2	4.4	3.9	4.4	3.9
GEO	4.0	4.3	4.9	5.7	3.8	4.3	4.6	3.9	3.8	3.0	3.5	2.7
GRE	3.5	4.8	2.8	6.1	4.8	3.9	3.8	2.9	4.6	4.4	3.8	3.1
MOL	3.2	3.6	4.6	5.4	3.9	3.9	4.1	3.6	3.9	2.5	3.3	2.4
ROM	3.3	3.3	5.1	5.5	4.4	3.9	4.0	4.0	4.1	4.4	3.6	3.3
RUS	3.3	4.6	5.9	5.7	4.7	3.8	4.3	3.4	4.0	5.8	3.6	3.1
TUR	4.1	4.5	4.6	5.9	4.3	4.5	3.7	4.4	4.1	5.3	4.4	3.5
UKR	3.0	4.1	4.2	5.8	4.7	3.8	4.2	3.5	3.3	4.6	3.7	3.0
BS-10	3.68	4,13	4.68	5.46	4.44	3.81	4.22	3.76	4.01	4.02	3.81	3.15

Best
performance

Worst
performance

Regarding the first pillar of institutions best performances are coming from Turkey and Azerbaijan. Although, with a negligible difference, Armenia follows and Georgia also, having the same score. Most of the countries of the Black Sea seem to struggle with the rule of law and the institutions. On the other hand the rest of the countries just seem to be in a good way. The problem so seems to be in the region in general, from the moment that the overall score is low. Armenia for decades had problems with the establishment of the rule of law. However the biggest problem in terms of economics was the issue of property rights and still is. Possible corruption and bribery, without strong enforcement of a relevant law, creates distrust to investors.

The second pillar, the infrastructure, is in better positions than the previous years, with Greece being the best performer with a satisfying score. Romania is the worst performer and unfortunately in this pillar Armenia has one of the three worst performances. Despite that the government seems not to have as priority the building of infrastructure or it cannot afford it as it said before, an assumption is that the earthquake of 1998 was catastrophic. Our point here is that it is more difficult to start from scratch as Armenia many times tried in a small period, than just repair and evolve. The overall ranking is still satisfying but has to improve too. Transportation actually is very important as for rising living standards as for economic benefits in trade.

In the third pillar, the macroeconomic environment Greece is the worst performer with a pretty low score. Azerbaijan comes first with an excellent performance of 6.4, an enviable one. It is noticeable that the difference between the best and the worst performance is huge. Armenia here has one of the top five performances with a score 4.9. The Black Sea region here would have a very good performance, if Greece and Bulgaria did not have such weak performances. However the top five countries, including our case study, seem to have a stabilized environment, although improvement is always acceptable. The conflict of Nagorno-Karabakh creates a sense of instability in foreigners even if Azerbaijan does not seem to have such problems. Moreover the big

proportion of poverty that in reality scholars believe it's bigger, characterize a weak country.

Continuing with health and primary education Greece comes first with a very good score 6.1. On the other hand Bulgaria comes last with a score 3.9. In terms of health and education Armenia is one of the last five countries but with a good performance. Turkey, Ukraine and Russia are the next best performers. Naturally, the region here, with so many good performances has an overall good performance of 5.46. Health in Armenia remains an open wound, where most of the citizens suffer from lack of medical treatment. The problem is not new. Medicines are too expensive for someone to afford them. Naturally, problems in the sector of health have a continuation, in the sector of labor. People when facing health problems, cannot be productive.

In the higher education and training things are not so well. The best performer is Bulgaria and the worst is Georgia. Armenia here comes in the last four positions with score 4.2. Armenia tries to adopt several education programs with Athlon exchange program, being the most recent¹⁵. Efforts have started and it is very soon for the results.

In goods market efficiency best performer is Bulgaria and the worst are two, Russia and Ukraine. Armenia here has a very good performance in the region, 4.3, although further efforts are required.

Moving to labors market efficiency, best performer is Azerbaijan with Armenia following in the second best position. The worst performer is Turkey. Researchers insist that low income economies have a less productive and flexible workforce.

In the pillar of financial market efficiency, Black Sea region reveals one of its weak sectors. The best performance comes from Turkey and the worst from Greece with a pretty low score. Armenia is the fourth best performance in the

¹⁵ <http://iao.uark.edu/OpportunitiesforStudentsfromEuropeandEurasia.pdf>

region. The underdeveloped financial mechanisms are in general a characteristic of the region. Furthermore no capital is available. A possible reason might be the delay of their establishment in those countries and lack of experienced people.

In technological readiness best performer is Greece and worst Ukraine. Armenia is very weak here, as it comes, the second worst performance in the region. In the end of 90s Armenia bought and tried to adopt the new technology but it was a really bad quality. In order to have technology money are the first precondition as for the government to buy as for the citizens to purchase them.

In terms of market size first comes Russia something that it is anticipated, and Moldova With a pretty low score comes last. Armenia is the second worst performer in the region with almost no difference from Moldova. As a matter of fact, the domestic market of Moldova and Armenia is too small, especially in comparison with Russia. Undoubtedly, other factors also play a key role in the market size since in a globalized world there are a lot of exits.

In business sophistication, Bulgaria and Turkey have the best performances and Moldova the worst. Armenia is one of the top four countries, although is still weak, as the whole region, in that sector.

Lastly, in innovation, the Black Sea region reveals its Achilles heel. The most vulnerable pillar in the region is innovation by disclosing to us, the lack of money. Until now Armenia was and is only in apposition to adopt and not innovate.

It is distinguishable that every pillar is strongly affects another, most of them, or all the pillars. For instance, the sector of health influences the sector of labor force. As a country in transition Armenia has a long way to reach a satisfying level. In the region has its own strong characteristics but in a globalized world this is not enough. Armenia lacks of transparent procedures and this create problem in all kind of sectors.

ARMENIA & OTHER REGIONS

Years	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/ 14	Av. 2006- 2014
Arm.	3,4	3,7	3,8	3,7	3,7	3,8	3,9	4,0	4,1	3,8
EU28	4,2	4,6	4,4	4,5	4,4	4,3	4,4	4,4	4,7	4,4
USA	5,8	5,6	5,7	5,7	5,6	5,4	5,5	5,5	5,5	5,6
China	4,1	4,2	4,6	4,7	4,7	4,8	4,7	4,8	4,8	4,6
Bal-12	3,6	4,0	3,1	4,0	4,0	4,1	4,1	4,1	4,1	3,9
BS-10	3,6	4,0	4,0	4,0	4,0	4,0	4,1	4,1	4,1	3,9

Obviously, Armenia it's not in a position to compete whole regions, because the comparison would be unequal. However we can compare the Black Sea region with the rest. Armenia can only be compared with its own region and the Balkans, however there are almost no differences in the scores.¹⁶ As it is obvious USA are coming first during the whole period of nine years with a significant difference. Our case study country notes slight improvement but a continuous one, through the years. The Balkans and the Black Sea region are almost in the same performance only in 2007/08 we observe a small precedence of the Black Sea. EU and China are also big players, with the second having a better performance. The remark here is that Armenia, the Balkans and the Black Sea need a lot of effort to reach the standards of the other regions. Certainly, political and geopolitical regions always were an obstacle in BS-10 and BAL-13 that kept them behind. Let's focus in the ranking of the current year in order to see the differences in terms of performances.

¹⁶Data selected from the GCI index report and Dr. Harry Papapanagos presentations (the scores have processed in order to have uniformity e.g. 3.97 became 4.0)

COUNTRIES	RANK	SCORE
Azerbaijan	39	4,51
Turkey	44	4,45
Bulgaria	57	4,31
Russia	64	4,25
Georgia	72	4,15
Romania	76	4,13
Armenia	79	4,10
Ukraine	84	4,05
Moldova	89	3,94
Greece	91	3,93
BS-10	80-81	4,10
BAL-12	80-81	4,10*
EU-28	30-31¹⁷	4,69*
USA	5	5,48
China	29	4,84

The estimations for a competitiveness environment became in comparison among 148 countries this year. This phrase indicates that the last country in the index, has 147 possibilities less for someone to invest in it by causing a serious problem in its economy and its potential growth.

To begin with the Black Sea region Armenia has a satisfying performance, by coming in the 39th position. Even Turkey's performance is pretty well. In contrast with the rest countries of the region that have almost low position or very low as Greece in the 91st position. Armenia, ranked 79th, where its something lower than the

¹⁷ The BS-10 BAL-12 and EU are positions that chose according with their final score comparing with their close ones.

“base”. Nevertheless, considering that is a transition economy and not a developed one, the performance is very well. However in real terms, investors have 78 countries in their mind that seem more profitable and more accessible to them. Rough estimations rank BS-10 and BAL-13 between 80th and 81st positions as accessible regions but not guarantee of profit. By the same token EU 28 now rank in the 30th or 31st position as a total, but this is not so valid since EU apart from many different countries with different characteristics. Consequently these three regions cannot compare with USA and China even if their population and extend is big. China is a very good destination for investments as it is consider a very competitiveness environment in the 29th position. Last but not at all least USA is one of the most competitive environments in the 5th position, the best performer of our table and one of the top five globally. The following index will help to see the differences of the last two years among the best performers and Armenia¹⁸.

years	2012/13	2013/14	AVERAGE
ARMENIA	4,02	4,1	4,06
EU-28	4,37	4,69	4,53
USA	5,5	5,48	5,49
CHINA	4,8	4,84	4,82

Undoubtedly, we cannot compare, just make comments for the changes. Armenia does not have any significant difference from the previous year, just a slight rise. On the other hand in a very tumultuous period of the Eurozone, there is noted an improvement important for the stormy period of euro crises. USA remains stable in its performance, preserving it in very good scores. Similarly China remains stable in its very good scores but far behind USA. In more detail we can see the exploit the situation in the pillars among the regions. The data providing are only for the current year 2013/14.

¹⁸ The data selected from GCI reports.

The regions & the pillars

PILLARS	BASIC REQUIREMENTS				EFFICIENCY ENHANCERS						INNOVATION	
	INSTITUTIONS	INFRASTRUCTURE	MACROECONOMICS	HEALTH & PRIMARY EDUCATION	HIGHER EDUCATION & TRAINING	GOODS MARKET EFFICIENCY	LABOR MARKET EFFICIENCY	FINANCIAL MARKET DEVELOPMENT	TECHNOLOGICAL READINESS	MARKET SIZE	BUSINESS SOPHISTICATION	INNOVATION
BS-10	3.6	4.1	4.6	5.4	4.4	3.8	4.2	3.7	4.0	4.0	3.8	3.1
BAL12	3.4	3.7	4.1	5.4	4.1	3.8	3.7	3.4	3.8	3.3	3.4	2.9
EU28	4.5	5.1	4.8	6.3	5.1	4.6	4.4	4.3	5.2	4	4.6	4
USA	4.6	5.8	4.0	6.1	5.8	4.9	5.4	5.3	5.7	6.9	5.5	5.4
China	4.2	4.5	6.3	6.1	4.2	4.3	4.6	4.3	3.4	6.9	4.3	3.9

BEST PERFORMER

WORST PERFORMER

At a glance in this table¹⁹, the Balkans region has the biggest problems, while in some occasions it is pretty close with the Black Sea region. Best performer is certainly USA, except the macroeconomics having the worst performance with Balkans, and in health and primary education coming with a negligible difference after EU28.

First of all none of the regions has an excellent performance in institutions, although Black Sea and Balkans are the weakened ones. Corruption is a usual

¹⁹ For EU and the BAL the outcomes have rounded for the uniformity of the table and we have BAL 12 because there is no score in the reports for Kosovo.

phenomenon in BS-10 and BAL-12 (or even 13), so usual that it seems that it is part of their life, their DNA. The comment aims to the point that corruption creates lack of enforcement and political will.

In infrastructure the difference between the BS and BAL is huge, by notifying to us the difference of development. The condition of infrastructure, betray the real economy.

The macroeconomic environment scores seem to be very close among the countries, in addition with China revealing a very stable microeconomic environment to investors.

In health and primary education BS and BAL lacks significantly in comparison with EU and USA, by creating further problems in labor force and technological readiness and further in business sophistication and innovation. This situation keeps the two regions in stagnation, with no competitive features. However China has the lowest performance in technological readiness by revealing problems in its educational system.

Financial markets revealing different problems among them. In EU the crises create problems, while on the other hand BS and BAL have underdeveloped financial markets.

In goods market efficiency, both the Balkans and BS are weak. Definitely, the small markets of each country, the deteriorating ability of consumers to purchase goods and the underdeveloped law systems, in comparison with developed countries, are the causes for the low performance. Although, according with the data, the difference does not seem to be so significant. The developed states or strong economies like China also facing problems in this area.

The market size also is very different. The power actually of the consumers in the domestic market is different. In this pillar key role is the fact that pensions, salaries and the magnitude of support that the state provides in its citizens, are very different from the West. Moreover, the ability to enter with your product to another market is very difficult that's why both BS and BAL13 cannot compete USA, EU and China.

SECTION 3

Easy of Doing Business Index

The Easy of Doing Business Index had its first publication from the World Bank in 2004. The purpose of its creation is the enhancement of business activity. Concretely, each report focuses in giving a detailed picture to the reader, of the situation in the business environment in every country. It examines small and medium size companies. Actually, measures the level of efficiency, accessibility, the simplicity of the regulations and the procedures that are required in order to enter in a particular business environment. Certainly, the desirable level is the optimum that means, transparent transactions, and an accessible environment with good and simple rules that implement efficiently. The EDB index gives useful information for firms and investors. A good ranking in the index increases also the possibilities for more foreigners to invest.

However, the index does not include all the aspects that are necessary in order to comprehend exactly the situation in the business environment. For instance corruption, strength of institutions, the quality of infrastructure or the skills of the workforce are some of these aspects that are not measure in that index. Although, there are other indexes that include such elements as the Global Competitiveness index, we saw above. It should be mentioned also that there is the perspective that Global Competitiveness index represents the necessary conditions for a competitive environment to emerge and these conditions are complemented from the Easy of Doing Business index.

The Easy of Doing Business index evaluates ten different categories of regulation, across 185 countries around the globe the current year, and more or less the same amount of countries the previous years. Namely the pillars are to the easiness of: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying

taxes, trading across borders and resolving insolvency. This index includes only rankings of the countries, where close to the first performance countries have a very good and accessible business environment, while the opposite indicates a difficult or problematic business environment. In brief we can see what every pillar measures.

- Starting a business: measuring all the necessary steps, like licenses and other procedures that have to be complete such as verifications or notifications, in order to start its operation legally any small or medium size company. In the evaluation, time and cost are also measured. Undoubtedly, all under transparent and legal procedures.
- Dealing with construction permits: measures the number of procedures, time and cost that are necessary in order to submit the necessary documents, for the construction of a warehouse. Only under transparent procedures and under normal circumstances.
- Getting electricity: refers to the number of procedures, time and cost of a company to get electricity connection. In this pillar quality of electricity supply also matters under the assumption that company located in a big city where electricity is easier accessible.
- Registering property: measures all the procedures, time and cost that an entrepreneur is obliged legally and efficiently to do, in order to register property in ownership.
- Getting credit: refers to credit institutions and the information that can give in order to make credit accessible and lenders avoid the risk. There are three indicators that measure the sharing of credit information (public registry coverage, private bureau coverage, depth of credit information index).

- Protecting investors: measures the level of protection that a country provides to its investors especially in judicial issues. Three indices constructed for that purpose: the extent of disclosure index, the ease of shareholder suits index and the extent of director liability index.

- Paying taxes: refers to the obligatory amount of taxes, the method which these taxes have to be submitted, the time and their cost for an entrepreneur.

- Trading across borders: for a more competitive market this pillar measures the easiness of trading. Concretely, is referring to the amount and type of documents that someone needs in order to import or export, the time and cost, which gives characteristics of competitiveness.

- Enforcing contracts: measures the number of procedures, time and cost in issues of commercial dispute, among seller and buyer, by revealing the efficiency of the judicial system.

- Resolving insolvency: “examines how easily lenders can gain the recovery of their investment from the borrower without violent procedures”. Actually the time, the cost and the outcome of insolvency proceedings.

- ❖ Employing workers: the EDB index also examines but does not evaluates the flexibility of employing workers. Specifically how easy is according to the necessary procedures, to employ a workforce or even to fire them.

As it has to do with the practical issues of EDB index, the team consists of academic advisors necessary qualified for this particular research. In order to compare all the above issues or “pillars” this academic team creates a questionnaire. The

questionnaire aims to compare the number of procedures, time and cost of a business case, under the assumption of the creation of a legal small or medium size company in every country which includes in the report. The next step is the analysis of local regulations in every country with the assistance of lawyers, business consultants, local experts, government officials and in general professionals that are useful for this kind of research. That team always keeps a frequent contact with the concerned country either with visits or conference calls, for more valid outcomes.

However the most important in the methodology is to understand the distance to frontier. Although before mentioning this method the performance of each country is an outcome of a very simple method. The ranking of each pillar includes the several indicators comes from their evaluation, like time cost or number of procedures. For instance “a country that ranks in three indicators 6th 16th, and 39th percentiles, ranks 20th in this particular pillar”. As for the distance to frontier, we are referring in the optimum level that has been achieved by any economy, since 2005 because this year has been characterized as a baseline. That means that the score is the most efficient or the best score achieved. The distance to frontier is measured 0 to 100 where closer to 0 means worst performance and closer to 100 means the frontier. The main point here is to see the changes, especially after reforms, in an economy, concretely if the distance to frontier becomes bigger or smaller. If the distance to frontier becomes smaller and smaller through the years, that means that this country highlights a continuous improvement.

All these pillars are interrelated the one can create a fertile ground for the other. The Easy of Doing Business index has as a main target in the improvement of the regulations, because a country with good rules promotes economic growth. Good rules make a country more accessible and creates more opportunities as for profits as for living standards. The combination of all these, strengthens the economy of a country and creates a more stable environment.

Armenia will give us the opportunity to explore the EDB index, but we will also explore its business environment the current year, through the years and compare it among the countries of its region or other countries. The data that are available, are giving information first of all for the levels of accessibility in the business environment, especially for foreigners. Continuously, highlights the weaken parts in each procedure that is required for a business and the strong parts, where businessmen can compare and choose the most profitable and suitable for them business environment, i.e. in our case if Armenia has these characteristics. Moreover its ranking in the global map, how far away is from the “optimum level” and how the reforms during these years improved its business environment or create more obstacles. In the end we can connect the information given by the GCI index and create a more comprehensive view of the situation that prevails.

Armenia

Armenia ranked 32	Ranking out of 185
Starting a business	11
Dealing with construction permits	46
Getting electricity	101
Registering property	4
Getting credit	40
Protecting investors	25
Paying taxes	108
Trading across borders	107
Enforcing contracts	91
Resolving insolvency	63

As it is obvious in this table, Armenia, succeed a very good position for the current year, ranked 32nd among 185 countries. Undoubtedly is not one of the best performers. Although is an enviable position, for such a small country, considering also that is a country in transition. In the global ranking of EDB now Armenia is a better choice for investors among 153 countries. Obviously is an important goal to achieve.

As long as for the pillars, we can see analytically their performance. In detail which pillars are effective ones and which are not, only for the current year.

In starting a business pillar, Armenia ranked 11th. The procedures that are required for starting a business like licenses are only three, the cost reaches the 2.5% of the income per capita and the time that it takes are 8 days.

Dealing with construction permits has a poorer performance than the previous years, standing in the 46th position. The number of the necessary procedures is seventeen with the cost reaching the 50.1% of the income per capita. The time that it takes to conclude these procedures are 77.

As for getting electricity supplies, Armenia has a bad performance, by showing to us the problematic areas in this step. The global ranking puts Armenia in the 101st position. Even if the obligatory procedures are five, the cost is 107.3% of the income per capita and the time to complete takes 242

days. However in the report is highlighted a positive reform in the field of electricity supply.

In registering property Armenia has a very good performance coming 4th in the global ranking of the EDB index. The necessary procedures are three with a cost just 0.2% of the income per capita. In order to complete all the procedures that are necessary, the calculated time is 7 days.

In the pillar measuring the easiness of getting credit, Armenia shows weaknesses by coming 40th in the global ranking. Referring to the relevant indexes, firstly in the strength of legal rights, and secondly in the depth of credit information, with an evaluation 0-10 and 0-6 respectively, Armenia score's 6 in both indexes. Moreover, the public registry coverage reaches the 20.5% of adults and the private bureau coverage reaches the 56.0% of adults.

In the field of protecting investors, Armenia ranked 25th with the note of positive reforms taking place. The four indexes that are measuring the capabilities of Armenia in the pillar of protecting investors have an evaluation from 0-10. According to this, Armenia had a score six in the indexes of extend of disclosure and extend of director liability, while in the ease of shareholder suits evaluated with an 8 and further in the strength of investor protection noted a 6.7 score.

In paying taxes Armenia had a low rank, which placed in the 108th position. The number of payments per year, are thirteen and the total tax rate is the 38.8% of profit. As for the time measuring in hours per year are 380.

In the issue of trading across borders, Armenia highlights a low performance, ranked in the 107th position. In terms of export in Armenia, the obligatory number of documents that someone has to prepare, are five, and the time that it takes to export are 13 days. For all these the cost that he will be charged, in US dollars, is 1.815 per container. On the other side, in terms of imports, the number of documents that someone needs, are eight and the time that it takes in order to import are 18 days. As for the cost to import, reaches to 2.165 US dollars per container.

In the field of enforcing contracts, Armenia neither here notes a good performance, with a low ranking in the 91st position. In more detail, the

number of procedures here, that are necessary, are forty nine and the time that it takes are 440 days. As for the cost, is evaluated 19.0% of claim.

Finally, in the last pillar of resolving insolvency, our case study country ranked 63rd, not a good performance. Concretely, the time that it takes, in order to resolve insolvency, are 1.9 years, and the cost is 4% of estate. As for the recovery rate is 41.2 cents on the dollar.

How Armenia stands in the Black Sea region

The table that follows will give us the comparative advantage, to see how Armenia stands among the other countries of its region. The difficult part here is that we cannot have a valid ranking for the Black Sea region, because the evaluation refers only in each country separately. Consequently an average it is not valid in order to compare.

COUNTRIES	EDB RANKING 2013
Armenia	32
Azerbaijan	67
Bulgaria	66
Georgia	9
Greece	78
Moldova	83
Romania	72
Russia	112
Turkey	71
Ukraine	137

At a glance, we observe that the best performance in the region, conquered by Georgia, by ranking in the 9th position. Georgia not only has the best performance in the BS-10 region, but is among the top 10 countries globally for doing business.

Continuously, the second best performance in the region, noted by our case study country Armenia. Even if the difference from Georgia is notable, Armenia is the second best choice in the BS region, placed 32nd in EDB index.

While we are moving forward, the countries performance's becoming very low. The third position belongs to Bulgaria, coming 66th, more than a double ranking and a huge gap, between the first and the third country. Azerbaijan follows right afterwards in the next position of 67.

The next followers being the 6th, 7th and 8th better performances, are Turkey, Romania and Greece ranked 71st, 72nd and 78th respectively, without having a big differences among them.

As for the last positions in the Black Sea region, the 9th and 10th, noted by Russia and Ukraine respectively, revealing the very weak performances of their business environment globally.

A chronological review in the Black Sea region

Years countries	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Armenia	46	39	44	43	48	55	32
Greece	95	100	96	109	109	100	78
Azerbaijan	97	96	33	38	54	66	67
Bulgaria	54	46	45	44	51	59	66
Georgia	35	18	15	11	12	16	9
Moldova	90	92	103	94	90	81	83
Romania	55	48	47	55	56	72	72
Russia	112	106	120	120	123	120	112
Turkey	65	57	59	73	65	71	71
Ukraine	139	139	145	142	145	152	137
BS-10*	79	74	71	73	75	79	73

**WORST
PERFORMANCE**

**BEST
PERFORMANCE**

In the table of the previous page, we can compare the business climate among the countries of BS-10 region, during the period 2006/07 to 2012/13. The comparison takes place during this period, because the rankings are

available, refer to these years only. Although, seven years are enough, in order to discover the main characteristics of the BS business environment.

Firstly, the better ranking and the worst ranking, for all these years belongs only to two countries. Georgia possesses the best ranking in the whole region, with a continuous improvement all these years, except the previous one. Georgia lost 4 positions in 2012 but the current year had its best performance, going up 7 positions in the ranking. On the other side Ukraine has the worst business climate all these years and one of the worst globally, as its ranking is very low. The worst ranking was in 2012 but in 2013 had an improvement of 15 positions.

As for Armenia has the second best business climate in the region all the years, except 2008/9. Although came third. It might be relevant that during that period, Armenia faced a depression and a devaluation of its national currency, dram. It would also be a reason that at that time the current global financial crisis was starting. Through these years the changes in the rankings was not dramatic. Although, Armenia might come 3rd in 2008/09 among the countries of the Black Sea region, but in 2012, had its worst performance, with a ranking 55, globally. Obviously Armenia the current year highlighted its best position by gaining 23 positions, comparing with the previous year. It is acceptable, that for such a small country, which faces issues in transition in many areas, the 32nd position, is considering very satisfying.

As for the other countries it is already be said their ranking. The only issue here is to see if they were in the same positions the previous years, if they improved or fall and which are these countries that highlighted differences.

- ✓ Azerbaijan: in 2008/09, improved by 64 positions although, a stable loss drove the country to worse it's ranking by then to 34 positions.

- ✓ Romania: from 2006/07 to 2012/13, lost more or less 17 positions.

- ✓ Bulgaria: since 2006/07 to 2012/13, lost more or less 12 positions.

- ✓ Turkey: during the whole period was not stable at all. Noted a lot of fluctuations and end in a lower ranking, losing 6 positions in 2013 comparing the 2006/07 period.

- ✓ Greece: improved by 17 positions comparing the year 2006/07 and although that had low rankings improved in 2013 from the previous year, 22 positions.

- ✓ Moldova: did not note an improvement, instead of that was worsening, except the last two years that comparing 2006/07 and 2013, improved by 7 positions

- ✓ Russia: is the 2nd worst performance in the region of business climate. The rankings were and are very low, in general. There were some changes in rankings, more in worsening than improving but in 2013 end with the same ranking like in 2006/07.

The comparative advantage through the pillars

2013

countries	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Arm	11	46	101	4	40	25	108	107	91	63
Azer	18	177	175	9	53	25	76	169	25	95
Bulg	57	123	128	68	40	49	91	93	86	93
Geor	7	3	50	1	4	19	33	38	30	81
Gre	146	31	59	150	83	117	56	62	87	50
Mold	92	168	161	16	40	82	109	142	26	91
Rom	68	129	168	72	12	49	136	72	60	102
Rus	101	178	184	46	104	117	64	162	11	53
Turk	72	142	68	42	83	70	80	78	40	124
Ukr	50	183	166	149	23	117	165	145	42	157
BS-10*	62	118	126	55	48	67	91	106	49	91

Best performance

Worst performance

Good performances

Bad performances

As it was obvious, Georgia has the expected results, is the best performer in almost all the pillars. The two exceptions are referring to the last two pillars. The enforcing contracts and resolving insolvency, where taken from Russia and Greece, respectively. However, we will examine each pillar separately.

Starting a business: Georgia and Armenia, are having very good performances. Concretely for Armenia, as it is already comment, the procedures are only three and the time that it takes are only 8 days. As for the rest countries are out of competition, only Azerbaijan ranked in a good position. All the other countries noted low positions, starting with Ukraine in that ranked 50th and ending with the 146th position, a very low one, with Greece. Concretely, it could be a separation Ukraine, Bulgaria and Romania in weak rankings and further Turkey. Subsequently, follows Moldova, Russia and Greece in very low and anticompetitive performances. In general starting a business in the BS as a whole, it is conceder difficult or very difficult as the majority of the countries note low performances. Usually, the most common problem in this pillar is bureaucracy.

Dealing with construction permits: in this pillar the performance of the region is very weak having some of the latest position in the index. Only three exceptions noted, Georgia is coming first with an excellent performance, 3rd in the global ranking and follows Greece 31st and Armenia 46th. Armenia's performance is not even below the middle, although needs reforms in that part, mostly because creates an obstacle in the decision for someone to invest. The main problem is that it is a time consuming procedure and costly. Corruption was and is a big issue in Armenia, and we will refer in this many times and in many different areas. The point here is that there a lot of accusations of lack of transparency or bribery issues. Consequently, if an investor believes that it will be necessary to bribe, even in public services, this belief creates insecurity (the figure in 13 p. shows all the corrupt agencies). As for the other countries rankings begin 126th position and end in 183rd, Ukraine. Undoubtedly the region faces serious problems in this pillar. In order each country to improve its ranking, the issue might demand a regional cooperation and that's because countries strongly influences their neighboring countries.

Getting electricity: also this pillar faces the same problems with the previous one, very low performances. The best performance in the region has Georgia in the 50th position, which also needs reforms. Our case study Armenia has the 4th best performance in the region but with a very weak ranking in the 101st position. The main problem in Armenia was weak in electricity supply the previous years. Assumptions that the earthquake of 1989 was catastrophic and a neighboring blockade from Azerbaijan drove the country's weakening in that pillar.. Another reason is the old infrastructure, almost from the era of the Soviet Union. Probably, the rest countries might have the same problem. This assumption might give a probable answer for the high cost and the significant time period that it needs to conclude the operations. Moreover the plethora of the BS countries lack from good infrastructure. Although, reasons differ from country to country. The point is that neither Armenia, nor especially the most of BS-10 countries are attractive to investors, because of complexities in electricity.

Registering property: the region here has a better performance. It is notable that Georgia comes first, ranked 1st in the position globally and Armenia second, ranked 4th. Azerbaijan follows 9th and it is worth to say that these positions show excellent performances. The rest ranking of the countries starting with the best performance to worst is as follows, Moldova, Turkey, Russia, Bulgaria, Romania, and Greece. It should be mention also that, Armenia and the previous years noted very good performances in that pillar.

Getting credit: the rankings in that pillar differ a lot. In general performances do not look so bad except Russia in the last position, 104th and might also Turkey, 83rd. All the other countries vary from 12th to 50th position and of course Georgia coming first with a ranking four. Armenia is in the 40th position. What should be mentioned here is that financial institutions are weak and not well structured, not only in Armenia but usually in the most post-soviet countries. Moreover there are no well-organized mechanisms, like an electronic database.

Protecting investors: in this pillar the worst performances, with the same ranking, are Greece, Russia, and Ukraine. On the other side, the best performance is from Georgia, ranked 19th and Armenia and Azerbaijan

follows with the same ranking, the 25th position. The region in general needs efforts to improve, especially the three last countries. Although, Armenia should not stop trying, this year and previous years the rankings in this pillar always had an improvement, because of the successful reforms.

Paying taxes: sets Armenia in a very low position. The best performance in the region comes again from Georgia ranked 33rd this year. Our case study country had the 108th position the current year, which is the third worst position in the whole region after Ukraine and Romania. According to the report, the costs of tax compliance in Armenia, which published from the World Bank in 2009, refers to a problematic and complex tax system. In order to compare refers in “the small” New Zealand. The comparison reveals that Armenia needs more than the double time to spend for tax compliance, even for micro-sized businesses. Furthermore, issues like the visit in the tax authority are time consuming and should be avoided. Although, another issue is that, in efforts to avoid the tax authority and submit the necessary documents electronically, the system stopped to respond and failed. Consequently, the particular problem coexists and until now, instead of new reforms, the pillar noted just a slight improvement and not always. So, according to the above reasons Armenia has one of the worst rankings in BS region.

Trading across borders: in this pillar also the region has low performances. Although is not unexpected that Georgia came first, with a very good performance, the 38th position. Most of the countries note extremely problematic trade considering their rankings. Armenia may not be one of the latest but its ranking is 107th, very low. The last position in the region is from Azerbaijan coming 169th, and this has to be interrelated with Armenia. As it is well-known the relations among the two countries are under a serious problems, therefore the borders are closed among them. The impact of that situation could not avoid the field of trade for both of them. Specifically for Armenia, the country geographically, does not have a lot of opportunities in terms of trade as it is landlocked country. Consequently, imagine the magnitude of the problem when Armenia is isolated from its two neighboring countries, Azerbaijan and Turkey. On the other side Turkey has a lot of exits

and the advantage of the Mediterranean Sea does not put the country in the same position with the other two. Moreover, it will sound as a cliché but corruption is also a problem and in this pillar. First of all, the control mechanisms are very weak and corrupted, there not few phenomena like human or drug trafficking, involving bribe incidents for several reasons. Another issue is the long and costly procedures of trade in Armenia, as it is already said in a previous paragraph. The reasons for such delays and big costs are mostly bureaucratic and wrongly organized. Specifically, there is need of a plethora of agencies to visit in order to export or import and because in order to correct them the most procedures are interrelated, solution should be done from the root of the problem. Obviously such changes demand careful decisions, time and cost very much.

Enforcing contracts: in this pillar Georgia loses the first position in the region and Russia succeeds with the ranking of the 11th position to come first. Azerbaijan follows, then Moldova in the 26th position, and Georgia ranked fourth in the region, in the 30th position. In general the rankings of the Black Sea countries are not so weak. Undoubtedly further reforms are necessary. As for our case study, Armenia, unfortunately has the lowest ranking and comes last in the whole region with a rank 91st. the corruption in judiciary influences the pillar seriously. In particular the lack of independence in the court system cannot guarantee results that are reliable. The incidents of bribery, can not only delay the procedure but also makes dreaded the decision as biased. Concretely, the problem in Armenia is the significant period of time that it takes in order to complete the procedure. The number of procedures are 49 and is considering enough to demand a reform. As economic freedom index comment on its report, Armenia is still underdeveloped in terms of the judiciary, the problem are remains of the post-Soviet legacy.

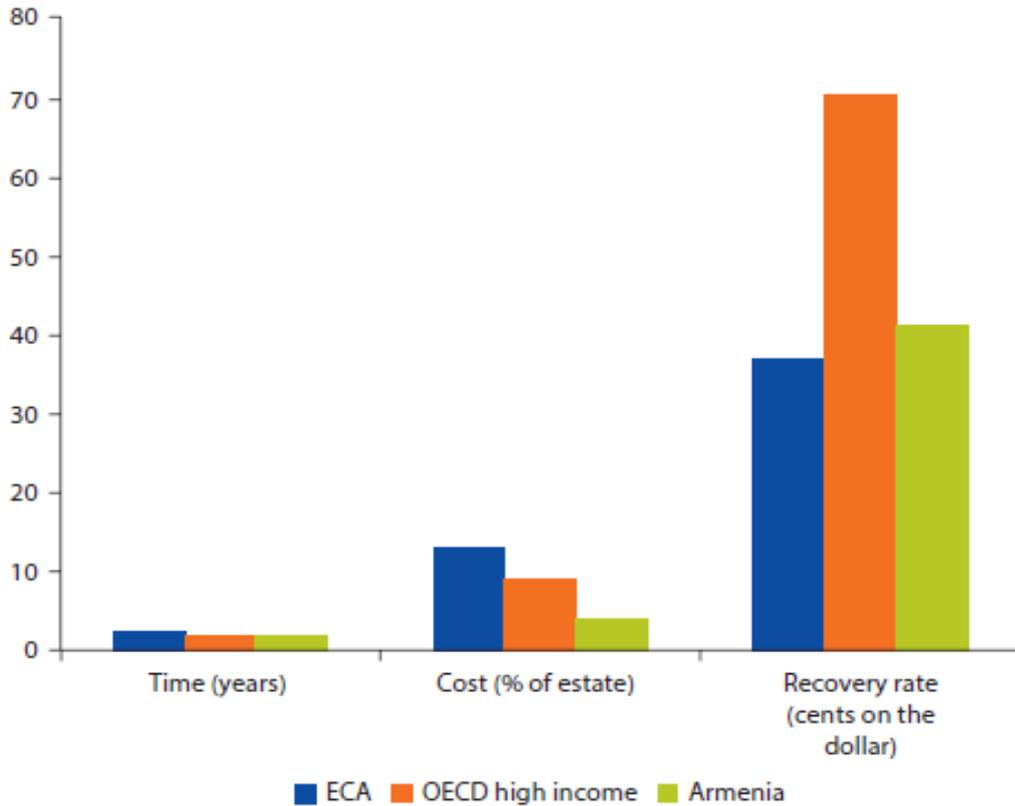
Resolving insolvency: in this pillar the best three performances noted from Greece, Russia and Armenia with the exact order from the first performance to the third, respectively. Despite those three countries the majority has very low rankings. According to this pillar the region seems to be weak, also in that issue. Our case study ranked 63rd and even if it's not one of its worst positions and is coming third among the other countries of the region, still needs

reforms to improve. As the book of resolving insolvency in Armenia refers to, "debt recovery in Armenia, on average, takes 1.9 years, not far behind the Organization for Economic Co-operation and Development (OECD) average of 1.7 years, and the cost of recovery is, on average, 4 percent of the bankruptcy estate, compared with the OECD average of 9 percent. However, the recovery rate in Armenia is 41.2 percent, lower than the OECD average of 70.6 percent". The figure below refers to the above statements. In detail, the cause of the bad performance in this pillar is the Armenian law on bankruptcy, where could be characterized as problematic. In particular according to this law, in circumstances of insolvency, the obligations and payments of the debtor, are more than its assets or is not in a position to pay overdue obligations²⁰. Consequently, further reforms are necessary in Armenia in order to provide them appropriate tools and support in businesses.

²⁰ <http://www.ebrd.com/downloads/sector/legal/armenia.pdf>.

FIGURE D

Resolving Insolvency Indicator, Armenia



Source: World Bank 2013.

Note: ECA = Europe and Central Asia; OECD = Organisation for Economic Co-operation and Development.

Armenia, despite the low performances is a good choice for someone to invest. The country has made a lot of improvements during the years, according with the reports, although further have to be done. Focusing mainly in the problems of the pillars, the main key reasons are: the big corruption and the complexity of laws and procedures. In more detail for the business environment, according with the analysis of the pillars above are: the inefficient government bureaucracy, the access to financing, the tax regulation, the inadequately educated workforce, the tax rates and inadequate supply of infrastructure²¹.

²¹ According to the conclusions of each report.

REFORMS FROM 2004/05 TO 2012/13

Armenia	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2004/05				√						
2005/06					√					
2006/07	√	√		√	√					
2007/08		√							√	
2008/09	√		√				×	√		
2009/10					×					
2010/11	√			√	√		√			√
2011/12					√	√				
2012/13			√			√				

According to the above table, it would be interesting to comment the reforms, especially the positive ones that Armenia made through the years, with a brief chronology that begins from 2005 and ends today. This review will help us to see the level of improvement in Armenia and how much willing is the country for continuous development.

Starting with the year 2005, Armenia is one of the countries that is most ease to register property, in the 109th position. In the next year report 2006 Armenia is considering even more than USA, one of the countries that it's easy to register property. Moreover is one of the ten countries globally that has the lowest cost in proportion of property value. On the other hand, that year Armenia was among the countries that in paying taxes need the most time to comply, 1,120 hours per year. It was among the Latin and the African countries. The 2007 report includes Armenia among the countries that made positive reforms the previous year. The positive reforms made in the pillars: starting a business, dealing with construction permits, registering property and getting credit. It is noteworthy to say that Armenia was among the countries that made a popular reform among the period 2005/06 for simplifying approval procedures. Specifically the reform was about reducing number of licenses and permits. Furthermore, in registering property, Armenia was among the most popular reforms for combined and eliminating procedures, and it was among the ten countries that need least time for property registration, 4 days. Another significant reform that proved positive was the credit information reform. What actually approved was the enforcement of collateral out of court possible, with an exception if the debtors default. In order to close with the positive reforms of 2005/06 and the report of 2007, Armenia characterized as one of the countries with the fastest procedures in enforcing contracts, 185 days.

The report of 2008 ranks Armenia among the 200 best reformers that made business easier during the period 2006/07 in, getting credit, trading across borders and resolving insolvency. In particular, in getting credit the positive reform was the improvement of their credit information system. In trading across border the successful reform of 2006/07 was the introduction or the improvement of electronic data interchange system. As for closing a business Armenia introduced or shortened time limits on bankruptcy procedures.

In the report of 2009, Armenia made business easier in terms of dealing with construction permits and enforcing contracts. The report refers to Armenia as one of the best performers, in dealing with construction permits, for reducing the procedures, time and cost, in the period 2007/08. Furthermore in the same

period Armenia made a successful report for reduced fees. In terms of enforcing contracts Armenia introduced the reform of increased procedural efficiency in trial court.

In 2010 report, Armenia ranked among the countries with positive reports in the period 2008/09, for starting a business, getting credit and trading across borders. It should be mentioned here that Armenia in 2009, ranked on starting a business 65th and in 2010 ranked 21st. The reform that helped the country in that improvement was the simplification of registration formalities and the abolishment or the reduction of minimum capital requirement. It is also noteworthy to mention that Armenia ranked among the countries with the slowest tax system, needing 958 hours per year. In trading across borders the country made a successful reform in improving customs administration and reducing number of trade documents, during the period 2008/09. Concluding with the report of 2010, Armenia ranked among the countries with a serious difficulty to get electricity, a pillar that afflicts the country even now.

The report of 2011, in the beginning refers to the best reformers of the last 5 years and Armenia ranked in the 25th position. Unfortunately, Armenia neither this year succeed to make any positive reforms in getting electricity, which still for 2011 is considering as a long procedure. On the other hand the country is one of the top 10 that improved the most in trading across borders. What actually did and improved so much during the period 2009/10 were the new reforms for improving customs administration and the introduction or improvement of risk-based inspections. An equally significant step but not a reform was the “good practice” of Armenia, in the case of enforcing contracts, to use active case management.

In the report of 2012, Armenia referred in three areas for improvement among the period of 2010/11, in starting a business, dealing with construction permits, getting credit, paying taxes and resolving insolvency. Armenia made starting a business easier by establishing a one-stop shop that merged the procedures for name reservation, business registration and obtaining a tax identification number and by allowing for online company registration. In dealing with construction permits, the country eliminated the requirement to obtain an environmental impact assessment for small projects. As it has to do

with getting credit, Armenia introduced the reform of the requirement to collect and distribute information from utility companies. Furthermore, as it has to do with the issue of paying taxes, Armenia improved it by “reducing number of payments for social security contributions and corporate income, property and land taxes and by introducing mandatory electronic filing and payment for major taxes”. Concluding for 2012 and period 2010/11, Armenia improved the issue of resolving insolvency by “the amendment on its bankruptcy law, to clarify procedures for appointing insolvency administrators, reduce the processing time for bankruptcy proceedings and regulate asset sales by auction”.

The report of 2013 refers to improvements, during the period of 2011/12 in the pillars of getting electricity and protecting investors. The reform in getting electricity was about streamlining procedures and reducing connection fees. As for the reform for protecting investors, introduced greater disclosure in transactions and made easier to sue directors when transactions are prejudicial²².

To conclude a lot of reforms and efforts have been done from the side of Armenia. Undoubtedly, the country improved its performances in many areas, although there is always space for more. It should be mentioned that in general Armenia, all these years, had an excellent performance in registering property and despite several problems the issue of electricity supply was always an open wound.

²²The reforms are according to all 10 reports, of the Easy of Doing Business Index (from 2004-2013).

Armenia in comparison with other countries & regions

COUNTRIES	EDB RANKING 2013
Armenia	32
Azerbaijan	67
Bulgaria	66
Georgia	9
Greece	78
Moldova	83
Romania	72
Russia	112
Turkey	71
Ukraine	137
USA	4
CHINA	91
EU 28 ²³	41/42
BAL-13 ²⁴	96

In order to conceptualize the magnitude of Armenia's capabilities we have to compare the country with other countries and not only from those that belong in the same region. It would be advisable also to compare the country with super powers around the globe, as USA, EU and China but also with the neighboring Balkans. That kind of comparison will provide to us the facts to discover, if Armenia can compete those countries, or if it has the potentials to reach in a satisfying level. Undoubtedly, is very difficult for any country to reach giants as EU and USA, especially for such a small country. Although, all these success stories always are, an example to follow.

As it is already said Armenia has the 2nd best performance in its region. The good news are that comparing with China Armenia has a far better performance in the global ranking, which is very positive for the country and how the outside world is seeing it. On the other hand the bad news are that comparing with USA the difference is big and substantial. As for the EU, it is not possible to make an

average ranking, it is not valid, although it made for table reasons. Moreover, it is difficult to compare EU and Armenia because EU consists from many different countries, especially economically. In particular there are not few the countries that have much higher ranking than Armenia and other, like Greece, that have much lower ranking.

²³ The rank is not valid. It made for comparison purposes to fill the table, it's an assumption.

²⁴ The rank is not valid. It made for comparison purposes to fill the table, it's an assumption

A comparison through the years

ranking	2006	2007	2008	2009	2010	2011	2012	2013
Armenia	46	34	39	44	43	48	55	32
USA	3	3	3	3	4	5	4	4
CHINA	91	93	83	83	89	79	91	91

As the above table shows to us, examining all the previous years, Armenia comes second, after USA and third China. Armenia gained and lost positions among these years, but finally in 2013 succeed it's best performance. USA has no substantial differences with losing one position in 2013 from 2006. On the other hand China has a substantial difference from both countries. After 2007 started in improving itself, but today in 2013, has the same ranking with the year 2006.

In order to make the comparison in a more appropriate manner, in the next page one table has designed which provides all the necessary countries, gathered, for more visible comparisons. In particular, the tables are two, one that provides to us rankings, in each pillar, from the EU-28, USA, China and Armenia, and another one which compares Armenia and the BAL-13 countries. In the first table, have noted, with green colors the top five countries and with red colors the worst performances of each pillar. Similarly, in the second table the reader can easily recognize best and worst performances, only that in the second table the noted countries are two from each category.

EU, USA, China & Armenia pillars ranking 2013

countries	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Armenia	11	46	101	4	40	25	108	107	91	63
Austria	134	75	24	34	23	100	77	26	7	12
Belgium	44	57	82	176	70	19	75	29	18	7
Bulgaria	57	123	128	68	40	49	91	93	86	93
Cyprus	37	80	98	99	53	32	31	18	108	25
Croatia	80	143	56	104	40	139	42	105	52	97
Czech R.	140	74	143	27	53	100	120	68	79	34
Denmark	33	8	14	6	23	32	13	4	34	10
Estonia	47	35	52	14	40	70	50	7	31	72
Finland	49	34	21	24	40	70	23	6	9	5
France	27	52	42	146	53	82	53	27	8	43
Germany	106	14	2	81	23	100	72	13	15	19
Greece	146	31	59	150	83	117	56	62	87	50
Hungary	54	55	109	43	53	128	118	73	16	70
Ireland	10	106	95	53	12	6	6	28	63	9
Italy	84	103	107	39	104	49	131	55	160	31
Latvia	59	113	83	31	4	70	52	16	24	33
Lithuania	107	48	75	5	53	70	60	24	14	40
Luxemburg	93	33	63	134	159	128	14	32	1	52
Malta	150	167	111	80	176	70	27	34	121	67
Netherlands	67	89	67	49	53	117	29	12	32	6
Poland	124	161	137	62	4	49	114	50	56	37
Portugal	31	78	35	30	104	49	77	17	22	23
Romania	68	129	168	72	12	49	136	72	60	102
Slovakia	83	46	100	8	23	117	100	98	69	38
Slovenia	30	61	31	83	104	17	63	57	56	42
Spain	136	38	70	57	53	100	34	39	64	20
Sweden	54	25	9	35	40	32	38	8	27	22
UK	19	20	62	73	1	10	16	14	21	8
USA	13	17	19	25	4	6	69	22	6	16
China	151	181	114	44	70	100	122	68	19	82

Pillars ranking BAL-13 Armenia 2013

countries	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Armenia	11	46	101	4	40	25	108	107	91	63
Albania	62	185	154	121	23	17	160	79	85	66
B-H	162	163	158	93	70	100	128	103	120	83
Bulgaria	57	123	128	68	40	49	91	93	86	93
Croatia	80	143	56	104	40	139	42	105	52	97
FYROM	5	65	101	50	23	19	24	76	59	60
Greece	146	31	59	150	83	117	56	62	87	50
Kosovo	126	144	116	76	23	100	44	124	138	87
Moldova	92	168	161	16	40	82	109	142	26	91
Montenegro	58	176	69	117	4	32	81	42	135	44
Romania	68	129	168	72	12	49	136	72	60	102
Serbia	42	179	76	41	40	82	149	94	103	103
Slovenia	30	61	31	83	104	17	63	57	56	42
Turkey	72	142	68	42	83	70	80	78	40	124

Comparison

Firstly we will start with the comparison of EU, USA, China and Armenia. As it is already said, specific countries have highlighted colorfully and the reason is that it would be very tiring to compare all these countries separately and we could miss the central point of this essay.

- **In starting a business:** best performance has Ireland and second best performance has our case study country. Armenia succeeds to leave behind USA, coming third. The other two best performers are UK and France. On the other hand, worst performer is China, Malta follows next is Greece. The last two worst performers are Czech Republic and Spain.
- **In dealing with construction permits:** unfortunately, Armenia is not among the top five countries, with a rank 46th, although is not bad but further attention should be paid. The best performances, with the exact order are Denmark, Germany, USA, UK and Sweden. The worst performances are China, Malta, Poland, Croatia and Romania.
- **In getting electricity:** Armenia makes obvious its problems in getting in electricity and has the 9th worst performance among all these countries. The five best performances are Germany, Sweden, Denmark, USA and Finland. The five worst performances are Romania, Czech, Poland, Bulgaria and China.
- **In registering property:** Armenia has the best performance among all the countries. After Armenia follows, Lithuania, Denmark, Slovakia and Estonia. The worst performers are Belgium, Greece, France Luxemburg and Croatia. Undoubtedly Armenia has left behind important countries.
- **In getting credit:** Armenia here has just a good performance but further have to be done. As for the best performances are UK, USA, Latvia, Poland, Ireland and Romania. The worst performers are Malta, Luxemburg, Italy, Portugal and Slovenia.
- **In protecting investors:** Armenia ranked 25th but is not such a competitive ranking to be one of the top five countries. Proceeding to

the five best performances we have USA, Ireland, UK, Slovenia and Belgium. The worst five performances are Croatia, Hungary, Luxemburg, Netherlands and Slovenia.

- **In paying taxes:** Armenia is the 7th worst performance in the table. In a following chapter we will become more detailed in the difficulties of Armenia. As for the best five performances are Ireland, Denmark, Luxemburg, UK and Finland.
- **In trading across borders:** Armenia is the worst performer among EU, China and USA. Croatia, Slovakia Bulgaria and Romania are following. On the other hand the best performers are Denmark, Finland, Estonia, Sweden and Netherlands.
- **In enforcing contracts:** Italy, Malta, Cyprus and Armenia are the worst performers with Greece following 5th. In contrary the best performers are Luxemburg, USA, Austria, France and Finland.
- **In resolving insolvency:** best performers are Finland, Netherlands, Belgium, Sweden and Ireland. On the other hand the countries with the worst performances are Romania, Croatia, Bulgaria, China and Estonia.

Concluding this table, as it has to do with Armenia we realized that was among the best performers in two pillars. It is noteworthy to mention that in registering property pillar came first. On the other side, came two times among the worst performances. In particular in the trading across borders pillar was the worst performer of all. In order to comment the rest performances were either good, either bad. What really comes as conclusion is that Armenia does not remain unnoticed around the globe. As it has to do with, the countries that distinguish as good performers are for sure USA, UK, Finland and Denmark and as for bad performers are China, Malta, Romania and Croatia.

In a comparison with the thirteen Balkan countries, it was expectable that Armenia would kept the first performance we saw in the previous table, but came first in another pillar too. In detail (the countries present with an exact order):

- **In starting a business:** Armenia and FYROM are the two best performers, while Bosnia-Herzegovina and Greece are the worst performances in the region, comparing with Armenia too.
- **In dealing with construction permits:** best performers are first Greece and second Armenia. On the other hand worst performances are Albania and Serbia.
- **In getting electricity:** Slovenia and Croatia are having the best performances, while Romania and Moldova are the worst performances. Armenia is the seventh worst performance in tis pillar.
- **In registering property:** Armenia has the best performance with Moldova following with significant difference. The worst performances noted by Greece and Albania.
- **In getting credit:** best performers are Montenegro and Romania while Slovenia and Turkey are the worst performers. As it has to do with Armenia has the same ranking 6th with Serbia, Moldova, Croatia and Bulgaria.
- **In protecting investors:** Slovenia and Albania are the best and then Armenia follows. As for the worst performers are Croatia and Greece.
- **In paying taxes:** best performers are FYROM and Croatia, while the worst performers are Albania and Serbia. As for Armenia is the 6th worst performance in the table.
- **In trading across borders:** worst performers are Moldova and Kosovo and best Montenegro and Slovenia. Armenia is the third worst performance.
- **In enforcing contracts:** Moldova and Turkey are the best performers, while Kosovo and Montenegro are the best performers. Armenia is the 5th worst performance in the region.

- **In resolving insolvency:** Slovenia and Montenegro are the best performers, while Serbia and Turkey are the worst. In this pillar Armenia is the 5th best performer.

Armenia, also in this table, noted very good and bad performances or very bad performances. However most of them were very good, having in two pillars the first position. The country seems very dynamic in the BAL-13 region. As for the other countries Montenegro and Slovenia seem very powerful, while Greece and Albania the most weak.

Comparing number & time of procedures for 2013

Pillars Average Countries	Starting a business (procedures)	Dealing with construction permits (procedures)	Registering property (procedures)	Paying taxes (payments per year)	Documents to export	Documents to import	Enforcing contracts (procedures)
Armenia	3	17	3	13	5	8	49
EU-28 ²⁵	6	14	5	13	5	6	32
BAL-13	6	15	7	31	6	9	38
USA	6	15	4	11	4	5	32
China	13	28	4	7	8	5	37

pillars Average countries	Starting a business (days)	Dealing with construction permits (days)	Registering property (days)	Paying taxes (hours per year)	Time to export (days)	Time to import (days)	Resolving insolvency (years)
Armenia	8	77	7	380	13	18	1.9
EU-28	6	14	5	194	11	11	2
BAL-13	14	205 ²⁶	38	263	17	15	2.5
USA	6	27	12	175	6	5	1.5
China	33	270	29	338	21	24	1.7

²⁵ For the EU and BAL-13, the numbers have been rounded for the uniformity of the table, source EDB report.

²⁶ The average refers to 12 countries because Albania has no practice in this pillar.

In the above two tables are much clearer, where each economy is inferior due to its way of functioning. These pillars will give us a more detailed picture for the results we have already examined in previous chapters, and gives us the etiology for the rankings. In particular, the above tables explain how long and costly are the procedures in every country or region to enter in a particular business environment.

Starting with the number of procedures:

In starting a business: Armenia has the less number of procedures, even among the EU28 in average and USA. The Balkans, are far behind, while China has the biggest number of procedures.

In dealing with construction permits: EU28 have the best performance, USA have almost the double procedures and far behind stands Armenia. Nevertheless, the Balkans and China are having a huge number of procedures with China having the worst performance.

In registering property: the less number of procedures belongs to Armenia, which with small difference leaves behind the USA and EU28. The worst performance here belongs to the Balkans.

In enforcing contracts: Armenia reveals its weak part in this pillar, having the biggest number of procedures. The best performance belongs both to EU28 and USA, by having the same number.

Number of documents:

To export: the less number of documents has USA with 4, although the EU28, the Balkans and Armenia are following with a small difference, 5, 6, and 5, respectively. The biggest number of documents belongs to China, with a number 8.

To import: USA and China are having the least documents, with the same number of 5. The worst performer among them, are the Balkans, with a 9 number of documents and Armenia follows with 8.

Payments per year:

In paying taxes: China has the least payments, 7, with enough difference from the other countries, while the Balkans have the most, 31. Armenia has the same payments with the EU28.

Time

In days:

In starting a business: both the USA and EU28 are the fastest countries in order to start a business, 6 days need, while China is the most time consuming country with 33 days. In Armenia someone needs 8 days, while in the Balkans 14.

In dealing with construction permits: China is the most time consuming country, which has the extremely huge number of 270 days. The Balkans are very close to this number, while the “easiest country” is the EU28. Armenia is the third, among five, most consuming country with 77 days.

In registering property: EU28 is the best performer with the least days, 5, and Armenia follows right after, with 7 days, leaving behind USA. The Balkans are the worst performer with 38 days.

To export: exports are easier and faster for USA, EU coming next and Armenia is coming third less time consuming country. The most time consuming exports are in China 38 days.

To import: with the same order USA and China are the best and the worst performance. However Armenia has worse performance in imports coming 2nd most time consuming country.

In hours per year

In paying taxes: Armenia is the worst performer with almost the double hours from the USA which are the first.

In years:

To close a business: the least time belongs to USA, needing one year and a half, and the most belongs to the Balkans needing two and a half year. Armenia is the 3rd least time consuming country, needing almost two years.

Reforms during the period 2011/2012

countries	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Armenia			√			√				
Azerbaij.	—	—	—	—	—	—	—	—	—	—
Bulgaria	√									
Georgia			√		√		√	√	√	√
Greece		√				√				√
Moldova						√	×		×	√
Romania	√				√					
Russia		√					√			
Turkey		√							√	
Ukraine	√			√			√			
USA	—	—	—	—	—	—	—	—	—	—
China	√	√								

A review of the previous year, in terms of reforms, will provide assistance to us, on how many of these countries, of the same region including China and USA, have improved and continue their efforts.

Armenia: made substantial and positive reforms in getting electricity and protecting investors. Azerbaijan: did not made any effort. Bulgaria: made positive reforms in starting a business. Georgia: made the most positive reforms. These reforms made in getting electricity, getting credit, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Greece: made positive reforms in dealing with construction permits, protecting investors and resolving insolvency. Moldova: made positive reforms in protecting investors and resolving insolvency. On the other hand Moldova made unsuccessful efforts in paying taxes and enforcing contracts. Romania: made positive reforms in starting a business and getting credit. Russia: improved in the pillars of dealing with construction permits and paying taxes. Turkey: also had positive changes in dealing with construction permits and enforcing contracts. Ukraine: made positive efforts in starting a business, registering property and paying taxes. Adversely USA did not made any efforts for changes. To conclude China improved during the last period in starting a business and dealing with construction permits, where we noticed above that are pillars that suffers the most.

SECTION 4

Criticism

The two global indexes that analyzed until now are widely used from academics and scholars for further research. Their main target is economic growth, prosperity, higher living standards, lessons that should be learned globally and continuous development without borders. Furthermore, for the reason that are quite understandable, as it has to do with the methodology and type of evaluation, have an even wider spectrum of interested people that concern. In particular concern entrepreneurs and country experts. From another, more formal point of view, the indexes can be used from governances in order to find the right policy to implement, IMF, from rating agencies and non-governmental organizations. Each of the indexes is plenty informative and instructive however, their combination can be even more enlightening.

Controversial validity:

In addition with the above praising comments, there is a lot of criticism as for the transparency, and the validity of the methodology. Moreover, what concerns the most scholars is that a positive change in the rankings does not necessarily mean improvement. For instance other countries may had weakened, or the positive change might have negative impacts in the feature. Concretely, Sanjaya Lall, a professor of economics of Oxford's university says: "the definitions, of Global Competitiveness report, are too broad, the approach biased and the methodology flawed. Many quantitative measures are vague, redundant or wrong. These weak theoretical and empirical foundations reduce the value of the indices for analytical or policy purposes".

As it has to do with the Easy of Doing Business index, has criticized from internal members of the World Bank, independent and non-governmental organizations. Firstly, they distinguish the meaning of positive reforms, because they do not assure that are also positive for the society. Furthermore, less procedures, does not necessarily mean that a country is more efficient and effective. It is also noteworthy to say that they are far concerned about the

proper development of an economy, when desperately countries try to succeed a higher ranking in the index. Moreover, the index is very specific in referring to SMEs companies in the largest city, consequently reforms based on that evaluation affects the whole business environment which has many different cases. According to this statement, non-governmental organizations argue that, the direction that EDB provides to countries, are not for the social good.

Despite of all these critics, in June of 2013, became known the frustration of a country. China made its critics for validity, ideological biases and that the index is not sufficiently independent. The country ranked 91st in the EDB and might felt aggrieved.

The answer

As for the answer of the EDB's team was that the index is actually based on assumptions, consequently there is no discussion either for validity or biases²⁷.

²⁷The information are according to the independent Review Panel of the Doing Business report, June 2013.

SECTION 5

Policy recommendations

Main findings of the essay: examining the case of Armenia, the follow obstacles discovered. The country suffers from serious corruption almost everywhere and from a big proportion of poverty. The infringement in the rule of law is very common and the country also faces serious problems with its neighboring countries. Furthermore, the market size is small, the microeconomic environment has charged a series of loans, the inflation rate has a lot of fluctuations and the financial markets considered underdeveloped. Subsequently, the infrastructure, need further improvement, the country has poor health standards and levels of primary education, difficulties in technological readiness poor transportation, the existence of monopolies and a big proportion of foreign owned companies. Concluding the country also suffers in trading across borders, getting electricity and paying taxes

News: EU, Armenia and Russia

What should be mentioned also, is that in September of 2013, almost a month ago, became known the policy direction or alliance that Armenia chose between, further negotiations with EU or a customs Union with Russia. In the meantime several spicy statements announced from the media.

Action plan

After a big analysis in the case of Armenia, this essay targets also in discovering policy recommendations that fit in Armenia for further improvement and overcome its problems. This essay sets following recommendations according to priority.

First of all Armenia should pay most of its attention in foreign relations. The country is very small, without having a lot of trade exits and that concludes in substantial dependence on foreign countries. Concretely, a solution or a mutual reconciliation with Turkey and Azerbaijan would be very positive for the country. In the same token, should treat the issue with Russia and EU. Undoubtedly, a very close mentality, a mutual history and a big proportion of Armenian diaspora that lives in Russia cannot easily, not taken under serious

consideration. Its decision was right for sure, but must not neglect the relations with the EU, because it could be an important ally for further economic growth and a more democratic environment.

Secondly, the eradication of corruption. Through the years several efforts made in order to eradicate corruption, although there were no substantial improvements. Armenia implemented several action plans but did not have political will. The shadow market and bribery prevails. The country must distort the trust in state. Furthermore, should make serious efforts for the deterioration of poverty, which will deteriorate the will for illegal practices.

Thirdly, the above trust would be a consequence of transparent and trustworthy institutions. The country will have a better status as in an internal level as in an external. The reconstruction of institutions will automatically improve other problems, as bureaucracy which delays several procedures. The government should also try to enhance the rule of law by being more strict in violators, especially when they are officeholders. Undoubtedly, Armenia needs the reconfiguration of its law system. What actually is the cause of illegal practices, is that Armenia has many laws and many different articles that give more opportunities for illegal procedures.

Fourthly, should pay attention in the enhancement of control mechanisms for guarantee and transparent procedures, especially in public sectors. Moreover, in trading procedures for faster trade and avoidance of human and drug trafficking.

Fifthly, should keep its government debt stable and make a proper distribution of money. A proper distribution of money will help the country to invest more in education and health.

Sixthly, should participate and adopt more programs for the reconstruction of infrastructure and transportation from the moment that the country's budget is deteriorated.

Sevently, should enhance education and cooperation with foreign educational programs and make health treatment affordable to every citizen. These actions will improve its workforce capacity and also, in terms of education will make easier the adoption of new technologies.

Eighthly, should keep in contact with the diaspora in order to invest as more as they can in the country. A relationship like this would be profitable also in cases of R&D that the diaspora can provide to Armenia, without a big cost, as they study abroad in places that can easily become members of such a program. Moreover can be the instructors, in a specific workforce and responsible for their training in a lower cost. Innovation also could be an easier issue under these circumstances.

Ninthly, should improve their financial instruments according to the West. In such efforts, good relations with the EU could be very helpful. In general the participation of the country in more democratic and efficient programs will affect positive the country.

Tenthly, the property rights should become faster without delays and in a rule of law this becomes easier.

Furthermore, a good infrastructure as it said above and good foreign policy, especially in the case of Armenia good provide the country an even more good performance of electricity supply and cheaper. Another effort should be made, especially for the business environment, to reduce the period for a company to get electricity. This could be visible with an improved electronic system and specialized workforce which will supervise the whole procedure.

In terms of taxes, which is the most important motive for entrepreneurs, should stay stable and also in low levels especially the total rate of profit. The latest statements for taxes in Armenia presented high, and their payment is direct.

Lastly, a big proportion of foreign owned companies and the existence of monopolies in Armenia are ringing the bell for more attention in the law gaps.

As for credit, should give opportunities for credit in entrepreneurs with only exception after specific period of time that their business found unprofitable. Concretely, the banks should finance entrepreneurs and help them evolve. A proportion from the revenues of the state, especially from taxes, could only devoted for financing new entrepreneurs.

Concluding in training across borders the customs union with Russia supposed to give a note of optimism in the country.

Section 6

Conclusion

The GCI and the EDB indexes were the main tools of this essay. According to them this essay had a detailed view of the competitiveness and business environment in Armenia.

The country is in transition for a lot of years, either from a post-communist regime to democratization, either from a centralized economy to modern economy standards. It had a rocky way with its neighboring countries and its economy has strongly influenced from political isolation. Moreover is in the middle of two super powers, Russia and EU which makes decision making policies even harder. . A country that has not have the power on its own and is very dependent on others, must learn to make as better deals as it is possible. Many issues have to be resolved, especially in terms of corruption and poverty.

As for the indexes, are interrelated tools that complement one another. Only the use of both of them could give us outcomes so informative. Nevertheless critiques also presented, which undermine the validity and transparency of the indexes, and insist that they mislead the reading audience.

According to the rankings the country made a significant progress through the years, although wrong based policies and regulations from the past and the weak economy, keeps the country in stagnation up to a point. The small market size, the underdeveloped regulations, institutions and financial markets keep the country behind.

Despite of the obstacles the country has, Armenia made a lot of good performances that distinguish itself globally and draw the attention, mainly in the business environment. In a comparison among USA, EU28, BAL13 and China, Armenia succeed be the first country, almost globally, in the ease of registering property, among the top five countries in starting a business and very good signs in protecting investors.

Furthermore, advices and policy recommendations have been presented in order to make Armenia more attractable. The essay has identified the strong points of Armenia, has investigate its weaknesses and provides suggestions

and solutions by concentrating as in political needs, strong foreign policies, as in economic, to use the diaspora in a lot of projects and save money by seeking from people willing to serve their country. The country desperately needs strength in the rule of law and also a law system that will have less articles in order to avoid incidents of law windows for illegal practices. It should be mentioned also that changes will not be an easy issue. Armenia should be very careful and wise in its decision and has to restore its status globally. The only way for that is the hard way, starting from the beginning and from false policies that have their roots from the past. The country needs to modernize, democratize and to be efficient. Efficiency attracts more foreigners, they want to invest. If they have the ability for an easy profit but believe that is very likely to become victims of fraud, they do not take the risk.

Consequently the country must concentrate in a well promising future and not in ephemeral victories. The capabilities of the country are too many and for someone to take the decision to invest there, is a good choice. Although this essay concentrated in further needs of the country, following the main goal of the indexes: the continuous improvement, because there is always space for that.

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