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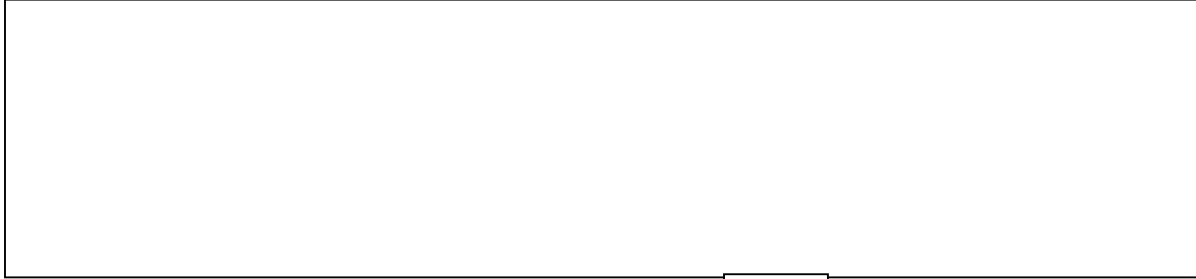
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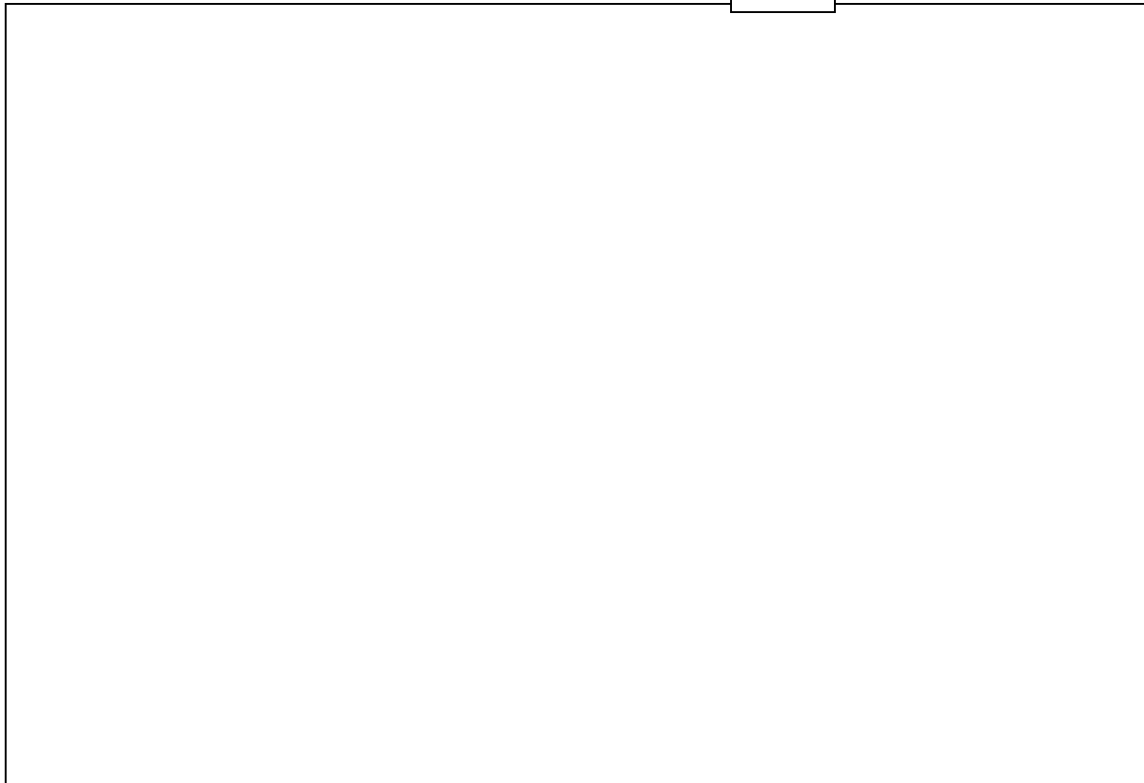
Contents



Caucasus Rising From the Ashes, Barely



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Caucasus Rising From the Ashes, Barely

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Western advice and technical assistance have helped Armenia, Azerbaijan, and Georgia out of the economic near collapse of the early 1990s. The three nevertheless remain weak and economically vulnerable to the fortunes of the region as a whole as they grapple with a range of reform issues.

- The GDPs of the three economies are still only about half of their 1990 levels—in 1993, according to official statistics, Georgia's GDP was less than one-third of its 1991 level—and industrial outputs are even more depressed.
- Nevertheless, the economies are growing; inflation is under control—it had reached 10,000 percent per year in Georgia and Armenia—and industrial output is slowly increasing, according to official statistics.

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A survey of international institution documents, [] and press accounts indicates that Armenia leads many of its former Soviet peers on the core economic reform tasks that include privatization of former state enterprises, development of a legal regime, banking-sector reform, and liberalization of foreign trade. Georgia's progress is accelerating, and Azerbaijan, although slower to embark on significant changes, now has a reform program under way. []

Official statistics overstate the decline because much economic activity moved to the gray and black markets. The unofficial Azerbaijani and Georgian economies in 1995 equaled 60 percent of their official GDPs, according to a private study, higher than in any other former Soviet republic. []

Frustration over economic conditions in Armenia and Nagorno-Karabakh could induce Karabakh extremists, envious of Azerbaijan's oil-driven economy, to attack export pipelines. []

Long Road Ahead []

Azerbaijan is among the most corrupt countries in the world, according to various sources, and the officials in charge of privatization have been called the most corrupt men in the country, []
[] Most of the Georgian cabinet recently was dismissed, ostensibly on corruption charges, but corrupt Georgian officials have been dismissed in the past only to receive new jobs.

- Large parts of all three states' economies still escape taxation despite efforts to improve collection. Georgia's tax collection rate—9 percent of GDP, according to press reports—is among the lowest in the world.

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Russia is still the number-one trading partner of Georgia and Armenia but without the dominant position it had when the Soviet Union imploded. Azerbaijan's number-one trading partner is Iran. Armenia seeks to accede to the World Trade Organization this year, Georgia by early next year. Azerbaijan is still years away. []

All three will need Western financial assistance and technical advice for at least another decade to reach a level the more advanced transitioning states have already attained. The current mix of less humanitarian aid and more technical advice is precisely what these countries need to advance economic reform. []