

Report: Armenian Economy and International Trade Potential

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The current report presents an overview of the Armenian economic and trade potential. The report will follow in five sections; country profile, rankings, principle import and export products and trade partners, bilateral trade relations with main trade partners, FDI in Armenia, the final section presents the main state bodies of Armenia that deal with trade or provide statistical data.

1-Armenia: Country profile

Geography

Armenia is situated in the South Caucasus region of Western Asia, in the middle of Europe and Asia. It has five neighboring states: Iran in the South, the de facto Republic of Nagorno Karabakh in the South East, Azerbaijan in the East, Georgia in the North and Turkey in the West. Armenia is a landlocked country. The country endures a blockade by neighboring Azerbaijan and Turkey, being at a war with the first since the late 1980s and not having established diplomatic relations with Turkey. The accessible ports are those of Georgia and Iran. The easiest markets are the neighboring countries, the closed borders and regional conflicts have denied Armenia this advantage. Another negative aspect is the sea transportation limitations and high costs in the accessible Black Sea ports. The main international trade problems of Armenia are the trade balance deficit and the raw-materials export.

Trade Routes

The Armenian geography and the absence of own sea ports complicates foreign trade with non-neighboring countries, having a complex of regional issues. The main port for Armenian export is Poti in Georgia. However, because there are no ocean container carriers in the Black sea ports, the sea freight is more expensive (the cost of freight from Poti to Marseille is 700- 800 USD per container, and from Beirut to Marseille is 100 USD). The trade with distant neighbors is also complicated by the cultural differences.¹

Figure 1 The land transportation data according to the World Bank Doing Business report²

Border	Bagratashen-Sadakhlo border crossing	Bagratashen-Sadakhlo border crossing
Distance (km)	211	211
Domestic transport time (hours)	5	5
Domestic transport cost (USD)	371	371

¹ that source of Armenian economist

² world bank webpage

2-Armenia: Principle Export and Import Products and States

The main Armenian export is presented below. As can be seen from below, the main export products mostly make up of raw material. However, it is also noted that Armenia has given the preference to lightweight products the labor for which it has, that can be shipped by air.

Figure 2 Products exported by Armenia, by the Observatory of Economic Complexity.³

1	2603	 Copper Ore	\$200,881,786.77	13%
2	2208	 Hard Liquor	\$164,578,110.68	10%
3	7108	 Gold	\$144,920,126.92	9.1%
4	7202	 Ferroalloys	\$120,229,970.42	7.6%
5	7402	 Raw Copper	\$104,167,513.12	6.5%
6	7607	 Aluminium Foil	\$81,832,822.19	5.1%
7	7102	 Diamonds	\$71,707,244.86	4.5%
8	8802	 Planes, Helicopters, and/or Spacecraft	\$68,599,115.00	4.3%
9	2402	 Rolled Tobacco	\$41,836,959.65	2.6%
10	8419	 Other Heating Machinery	\$33,674,563.53	2.1%

³ observatory webpage

The main Armenian import products are presented below.

Figure 3 Products imported by Armenia, by the Observatory of Economic Complexity⁴

1	2710	 Refined Petroleum	\$278,273,451.99	7.3%
2	1001	 Wheat	\$172,188,421.24	4.5%
3	8703	 Cars	\$165,440,341.04	4.3%
4	3004	 Packaged Medicaments	\$93,299,145.88	2.4%
5	7102	 Diamonds	\$91,929,313.01	2.4%
6	2711	 Petroleum Gas	\$80,683,379.88	2.1%
7	7108	 Gold	\$76,366,178.20	2.0%
8	8704	 Delivery Trucks	\$71,963,176.43	1.9%
9	8517	 Telephones	\$60,661,299.13	1.6%
10	7601	 Raw Aluminium	\$55,534,361.04	1.5%

The main trading partners are presented below .

Figure 4 Countries Armenia exports to, by the Observatory of Economic Complexity

1	RUS	 Russia	\$299,692,717.32	19%
2	DEU	 Germany	\$159,770,673.28	10%
3	CAN	 Canada	\$152,464,262.63	9.6%
4	YEM	 Yemen	\$151,669,850.75	9.5%
5	BLX	 Belgium-Luxembourg	\$128,919,295.46	8.1%
6	BGR	 Bulgaria	\$102,066,080.20	6.4%
7	USA	 United States	\$90,088,000.93	5.7%
8	CHE	 Switzerland	\$78,845,095.17	5.0%
9	NLD	 Netherlands	\$78,649,841.57	4.9%
10	GEO	 Georgia	\$71,926,357.47	4.5%

⁴ ibid

Figure 5 What countries Armenia import from, by the Observatory of Economic Complexity

1	RUS	 Russia	\$585,698,228.36	15%
2	CHN	 China	\$385,139,922.60	10%
3	GEO	 Georgia	\$246,434,568.59	6.5%
4	TUR	 Turkey	\$210,403,574.18	5.5%
5	IRN	 Iran	\$200,906,258.41	5.3%
6	UKR	 Ukraine	\$196,585,738.62	5.2%
7	DEU	 Germany	\$182,629,598.39	4.8%
8	ITA	 Italy	\$172,294,297.85	4.5%
9	USA	 United States	\$124,385,402.48	3.3%
10	CHE	 Switzerland	\$93,244,282.74	2.4%

3-Armenia: Numbers and Rankings

According to the Index of economic freedom of 2017, Armenia ranks 33rd in the world and 19th in the region with an economic freedom status of mostly free. Armenia is a member of the World Trade Organization. The Government has recently introduced conditions and laws favourable to foreign investment and, because of its economic dynamism, the country has earned the nickname 'The Caucasian Tiger'.⁵ The 2016 [Doing Business](#) report places Armenia 38th (out of 190 economies) mainly due to improvements in trading across borders, dealing with construction permits and enforcing contracts.

According to analysis conducted by the Heritage Foundation/The Wall Street Journal, Armenia has the most liberal investment and trade regime among CIS countries

⁵ Santander rio

Since 1995, the “Wall Street Journal” and Heritage foundation has been conducting an annual in-depth examination of the factors that contribute most directly to economic freedom and prosperity (the Index of Economic Freedom). Following factors are analyzed to determine the overall economic freedom: trade, fiscal burden, government intervention in the economy, monetary policy, black market, banking and finance, foreign investments, regulation, etc. (Table 1). In this survey Armenia is ranked as “mostly free”. According to the review *Government Intervention in the Economy* described as stable (moderate level). *Trade policy* evaluated as stable (very low protection): most imports are free of prohibitions, quotas or licensing. *Capital Flows and Foreign Investment* described as stable (low barriers). Armenia offers equal official treatment to foreign investors, who have the same right to establish business as citizens of Armenia in most sectors of economy. Privatization is proceeding and it is open to foreigners. According to IMF, Armenia has no restrictions or controls on the holding of foreign exchange accounts, invisible transactions, current transfers, repatriation of profits, or outward and inward direct investments by either residents or non-residents.

A serious achievement is that Economic Courts were separated and now are specializing in adjudicating on economic cases. What is more, Armenia is a signatory to the International Convention on Investment Disputes and a member of the International Center for the Settlement of Investment Disputes (ICSID).

4-Armenia and the EU

EU-Armenia bilateral trade relations are currently regulated by a Partnership and Cooperation Agreement. The Association Agreement negotiations did not end with success, because the Armenian government decided to join the Custom’s Union, now the Eurasian

Economic Union. Armenia's number one trade partner is the European Union and accounts for ca. 29.7% of Armenia's total trade. The EU is Armenia's biggest export and import market with respective 39.4 % and 26.5 % in exports and imports. Main Armenian exports are manufactured goods, crude materials, miscellaneous manufactured articles, and beverages and tobacco. Main Armenian imports are machinery and transport equipment, manufactured goods, miscellaneous manufactured articles and chemicals.⁶

The need to diversify the trade products with these countries is also required in order to increase the trade potential. Now those are mainly a few raw material products. The Armenian export to these markets is also characterized as exceeding the potential of the named product groups, which does not provide for the stability or the growth of the Armenian international trade. Another option is to diversify the export destinations, since as seen from the above presented figures 4. and 5. the main European trade partners are Germany, Belgium, Italy and the Netherlands.

Despite Armenian membership in the Eurasian Economic Union, the relations with the European Union continue to develop. On 21st of March, Deputy Managing Director in the European External Action Service and Trade lead negotiator Petros Sourmelis, Head of Unit in the European Commission and Deputy Foreign Minister and Trade lead negotiator Garegin Melkonian, First Deputy Minister of Economic Development and Investments initialed the EU-Armenia Comprehensive and Enhanced Partnership Agreement. It is expected that the comprehensive and Enhanced Partnership Agreement will create a basis for deepening the

⁶ EU webpage <http://ec.europa.eu/trade/policy/countries-and-regions/countries/armenia/>

political and the economic relations, specifically in energy, transport, environment, new possibilities in trade relations and investments.

5-Armenia and Russia

Single country number one trade partner, in the same economic union, still working on it, no immediate results, EURASIAN ECONOMIC UNION FROM THE OFFICIAL WEBPAGE OF MINECONOMY

Russia is Armenia's number one single state trade partner both in terms of exports and imports. However, the export to Russian market is considered to be exceeding its potential. Therefore, it is necessary to diversify the export to improve the [trade potential].

6-Armenian-Argentine Economic relations

An agreement on "Mutual Promotion and Protection of Investments between the Republic of Armenia and the Republic of Argentina" has been first signed in 1994, then reaffirmed in 2004 and 2015. Armenian Embassy was opened in 1993. On March 17, 2009, the President of the Argentine Republic Cristina Fernandez de Kirchner signed a decree on establishing an Embassy in Yerevan. The latter could be considered as an increase in interest by the Argentine side toward Armenia. The rising economic ties have been noted by the Armenian President whose estimation of the Argentine investments in Armenia are at \$400 million (notably the Eurnekian-owned Armenia - International Airports company, managing Armenia's Zvartnots airport).

Concurrences in the imported/exported goods

As seen from the Appendix A, the top 20 export and import goods of both countries do not create great possibilities of direct commerce, with only one named group being imported by one and

exported by the other. However, if the given top twenty presents a good starting point for the analysis of one states economic needs and strengths, it cannot reflect the state of bilateral relations with only one given state and neither the potential of development, since that list is reflecting the long historic ties with neighboring states that are affected by the spillover effect and geographic proximity.

The principle commodity circulation, according to the scarce resources of the Armenian Embassy webpage are per below:

Main exported goods (from Armenia): **Knitted fabric, clothing**

Main imported goods (to Armenia): **Meat, sugar, tobacco** ⁷

The potential of import of hard beverages from Armenia

The export of beverages is second largest export group for Armenia.

-It has the Wine making tradition and strong know-how

-Solid experience in brandy manufacturing

-Government support to farmers to improve quality and productivity

-Growing production, sales and exports. ⁸

All the above mentioned speak for a good export potential.

7-Foreign Direct Investment in Armenia

Armenia has an ‘open door’ investment policy that was adopted by the Law ‘On foreign investments’ in 1994 and other relevant provision. Among the favorable investment conditions are:

⁷ Embassy of the Republic of Armenia to the Argentina <http://argentina.mfa.am/en/bilateral-ar/>

⁸ DFA pamphlet

- Favorable investment legislation;
- Investment guarantees;
- Government active involvement in economic and structural reforms;
- Fast growing economy;
- Easy access to CIS and Middle East Markets;
- Well educated, skilled and easily trainable workforce;
- No restrictions on staff recruitment;
- Profit tax exemptions for companies engaged in agricultural production;
- 100% ownership permission for foreigners;
- No restrictions on remittances;
- Stable banking system and local currency;
- Competitive energy cost;
- Worldwide Diaspora
- Membership in the World Trade Organization
- liberal trade regime, no quotas and licenses on imports;
- No export duties & VAT refund on goods and services exported;
- Free conversion of foreign exchange;
- Free repatriation of profit;
- Political & economic stability
- linked to the business environment came into force.
- equal treatment for foreigners;
- No limitation on foreign ownership;

- Freedom to repatriate profits;
- Limited State intervention and deregulation.

Profitable Sectors for Investment

- High-tech electronics production
- Mining and Metallurgy
- Financial intermediation (Banking services)
- Business services
- Health and Education services
- Computer software engineering
- Food production and packaging
- Tourism
- Renewable energy
- Chemical industry
- Light industry

On a bilateral level, a facilitating factor is signed treaties on the ‘Reciprocal Promotion and Protection of Investments’ with a number of states.⁹

Russia, Greece, Cyprus and Germany are the four major investors in Armenia. The main sectors targeted by investment are energy, telecommunications, metallurgy, hotel services and air transportation. Significant investments are also made by the members of the Armenian diaspora

⁹ that file with no name

(nearly 6 million people).¹⁰

Among the negative factors hindering foreign investment are

- The small investment market of Armenia
- High transport costs and the scarcity of trade routes
- Corruption, nepotism
- Earthquakes
- Poverty and political instability¹¹

Useful bodies and sources

[The Development Fund of Armenia](#) is a government organization, whose mission is to **increase** export of Armenian products and is also the main source of information for the economic situation-export and stuff-by being a government body and having a wide access to information and power. The DFA Board of Trustees, the highest management body of the Foundation, composed of fourteen members. The Prime minister of Armenia is the ex officio President and a Member of the Board, while the Head of the Financial-Economical Department of the Government Staff of Armenia is also an ex officio Member of the Board. One representative is also appointed from the Ministry of Foreign Affairs. So, it is also possible to make contacts thru the Embassy of Armenia in Argentina.

[The High level Business Support Council](#), chaired by Prime Minister is a structure close to business community. The Business Support Council consists of 50 representatives of Government and business community and it is a structure, which addresses problems of business community and accelerates the improvement of business climate.

Others:

[Ministry of Economic Development and Investments of Armenia](#)

¹⁰ Santander rio

¹¹ Snatander rio

National Statistical Service of the Republic of Armenia

The Chamber of Commerce of Armenia