



MINISTRY FOR FOREIGN
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Aid For Trade Needs Assessment Armenia

Trade and Human Development

M A Y 2 0 1 1

United Nations Development Programme



**Aid For Trade Needs Assessment
Armenia**

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ABBREVIATIONS

AA	Accreditation Agency
ADA	Armenian Development Agency
AMD	Armenian Dram
ArmSt	Codes of RA National Standards
CBA	Central Bank of Armenia
CEN	The European Committee for Standardization
CEN	European Committee on Standardization
CIS	Commonwealth of Independent States
CJSC	Closed Joint Stock Company
CU	Customs Union
DCFTA	Deep and Comprehensive Free Trade Agreement
DFID	UK Department for International Development
EAF	European Accreditation Framework
EDRC	Economic Development and Research Center
EU	European Union
EurAsEC	Eurasian Economic Community
EXIM Bank	Export-Import Bank
FDIs	Foreign Direct Investments
FTAs	Free Trade Agreements
GDP	Gross Domestic Product
GOST	Inter-State Standard (Russian acronym)
GSP	Generalized System of Preferences
GSP+	Generalized System of Preferences Extended
HACCP	The Hazard Analysis and Critical Control Point
HDI	Human Development Index
ILAC	International Laboratory Accreditation Cooperation
ILCS	Armenia Integrated Living Conditions Survey
IMF	International Monetary Fund
ISO	International Organization for Standardization
JICA	Japan International Cooperation Agency

LLC	Limited Liability Company
LPI	Logistics Performance Index
Ltd	Limited Company
NGO	Non-Governmental Organization
NSS	National Statistical Service
OJSC	Open Joint Stock Company
OSCE	Organization for Security and Co-operation in Europe
OSHAS	Occupational Health and Safety Advisory Services
R&D	Research and Development
RA	Republic of Armenia
SARM	The Armenian National Institute of Standards
SDP	Sustainable Development Program
SME	Small and Medium Enterprise
SME DNC	Small and Medium Enterprises' Development National Center
SU	Soviet Union
SWOT	Strengths, Weaknesses, Opportunities and Threats
UK DFID	United Kingdom Department for International Development
UN	United Nations
UNDP	United Nations Development Program
USA	United State of America
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WB	World Bank
WTO	World Trade Organization
VAT	Value Added Tax
VIN	Vehicle Identification Number

PREFACE

The Aid for Trade agenda is one of the most important development-related outcomes of the 2005 WTO Ministerial Conference in Hong Kong. It targets developing countries through strengthening their productive capacities, trade-related infrastructures and the ability to compete in regional and global markets. Trade plays an important role in development, although the relationship between trade and human development is not automatic. In order to be inclusive, trade has to be set in a human development framework. It needs to be conceived as a tool to enlarge the abilities and choices of people.

The Aid for Trade initiative covers the following categories:

- trade policies and regulations;
- trade development;
- developing productive capacities;
- trade related adjustment, and;
- other trade-related needs.

UNDP's regional Aid for Trade project 'Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western CIS', financed in the context of Finland's Wider Europe Initiative, focuses on the identification of capacity gaps and technical assistance needs both at the national and sub-regional level in Central Asia, South Caucasus and Western CIS and support economic development in the areas located along the selected transport corridors, helping small entrepreneurs to gain from new trade opportunities.

The Wider Europe Initiative is Finland's harmonised regional development framework. The initiative targets the following themes: security, trade and development, information society development, energy and the environment and social sustainability. The framework includes three regional co-operation programmes - in Eastern Europe (Belarus, Moldova and Ukraine), the South Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).

The Needs Assessments produced under the Aid for Trade project form part of a long-term vision of developing trade capacities, which will benefit human development in the region. The recommendations presented are expected to constitute the basis for a second phase (2011 – 2013), focusing on the implementation of the recommendations developed in the national and regional Needs Assessments.

EXECUTIVE SUMMARY

Prior to the recent global financial crisis, Armenia had been experiencing steady economic growth for almost a decade – a significant development after the country's severe economic conditions that followed 1991 independence. The financial crisis, however, has curtailed that growth as it brought reductions in remittance inflows, trade, investments, and official development assistances. Indeed, the country's small domestic market, with its limited economies of scale and blockades by neighboring Turkey and Azerbaijan, has made free trade a key factor in national economic growth.

The economic growth of recent years, along with lower levels of inequality, has reduced the country's poverty levels. However, unemployment, particularly gender-related unemployment, continues to be a point of concern – especially in Armenia's rural areas. In addition, despite the country's strong background in education, planned developments in the educational system are falling behind schedule because the government is unable to make the investments necessary to modernize the sector. This is even more the case in the healthcare sector, where government expenditure is lower, resulting in healthcare being less accessible for the poor. Such challenges can be overcome by enhancing foreign trade and FDI generation – these have great potential for significantly contributing to increased domestic production and employment in Armenia, which in turn will attract new technology, skills, and knowledge. It is also important to create institutions that are able to promote the private sector and sponsor the modernization of the educational system.

The export basket of Armenia is currently quite narrow – Armenian exports and imports lack diversification both in terms of product range and in terms of destination countries. This means that the Armenian economy is vulnerable and highly influenced by economic and political changes in partner countries and the world. The slow improvement in trade, particularly in the area of exports, emphasizes the vital role that enhanced foreign trade can yet play in the country's economic development. Various factors hampering improvements in Armenia's trade were identified and highlighted, including a lack of institutions that facilitate trade, a lack of institutional capacity, a lack of relevant incentives directed at the private sector, bureaucracy, and various informal barriers to trade.

Taking into account these issues and the potential impact that enhanced foreign trade could have on economic growth and human development, Armenia's current trade policy is very much focused on liberalization of trade. The main developments in trade liberalization have mostly been in the form of different free trade agreements with various trading partners. In this regard, Armenia has made substantial progress in bringing its legislation and policies into line with WTO requirements and EU measures. However, the positive impact of FTAs on the country's economy and human development might only be small; worse, it is possible that they will have an adverse impact if additional actions are not undertaken in parallel with trade liberalization. Such complementary measures could include:

- Smoothing the implementation of signed parallel agreements;
- Mutual acceptance of standardization and licensing, with training of appropriate specialists for identical standardization and licensing procedures and provision of licenses;
- Capacity-building of civil society and relevant NGOs, enabling them to raise issues faced by the business community and assist exporters/importers and businessmen;
- Establishment of information centers qualified to distribute up-to-date information to exporters and producers for better allocation of human and natural resources;
- Capacity-building for Armenian laboratories to enable them to analyze the ingredients of exported products according to western quality standards;
- Promotion of SME operations and exports and establishment of SME associations;
- Tax holidays related to the modernization of technology, equipment, and machinery;
- Establishment of a system that promotes start-up businesses.

Moreover, in light of the rising degrees of trade liberalization, it is important to safeguard the interests of Armenia's domestic industry. Thus, additional steps need to be taken in order to improve the effectiveness of trade protection mechanisms and guide how regulation of such safeguard measures should be amended.

Taking into account Armenia's priorities and the (capacity) gaps identified, various assistance needs were highlighted and respective policy recommendations were made in order that the contribution of trade to Armenia's human development might be improved. The main recommendation was that the Armenian Government should improve the Sustainable Development Program (revised PRSP). This must be accomplished in a way that addresses the needs to promote trade, develop knowledge-intensive sectors, and increase productivity in labor-intensive sectors. The following are some of the suggested measures and policy directions that would enhance the role of trade in human development:

- Identify and target a few sectors that will form a base for industrial development among labor intensive and knowledge intensive sectors;
- Promote the diversification of exports/imports markets and products as well as the expansion of trade arrangements, without compromising mutual acceptance of non-tariff rules and regulations;
- Assist the development of trade-related infrastructure and capacities;
- Encourage international accreditation of the country's standardization and licensing bodies and the harmonization of the Armenian legislative environment with EU requirements, while allowing for the unique characteristics of the Armenian economy and the feasibility of implementing such laws;
- Generate foreign investments in the targeted sectors based on market principles such as tax holidays, reduction of business risks, co-financing of staff training, financing the modernization of the education system, and capacity building and modernization of R&D institutes;
- Promote the private sector, particularly SME's, by all possible means, including: encouraging financial institutions to provide cheap loans for the private sector; establishing different kinds of associations, unions and other NGOs aimed at promoting private business; organizing export-oriented training sessions for the private sector in the targeted sectors;
- Create enhanced measures to ensure an equal and fair social payments system that leads to equality in society, and organize training programs that will upgrade the population's skills and knowledge in order to reduce unemployment among the most vulnerable social groups.

1. INTRODUCTION

The WTO Aid for Trade (AFT) program is aimed at enhancing the trade of developing countries by helping them to improve the trade-related skills and infrastructure needed to implement and benefit from WTO agreements. To this end, the program attempts to strengthen the implementation of evidence-based pro-poor trade development policies and programs in developing countries. The main goal of this Needs Assessment was, therefore, to identify Armenia's priorities and (capacity) gaps and offer recommendations for policy-making and technical assistance that could improve the contribution of trade to the country's human development. More specifically, the report sets out to formulate policy recommendations that will develop supply-side capacities and trade-related infrastructure so that the potential benefits of free trade, especially free trade agreements (FTAs), may be realized.

It is generally agreed that free trade, along with the necessary educational, health, and environmental conditions, can enhance income, raise employment, boost gender equality and reduce poverty. Nevertheless, the links between trade, standards of living, and human development are complex; it is difficult to pinpoint and measure them, especially as they differ from country to country. Consequently, evaluation methods also vary in different countries. This suggests that additional mechanisms and tools may be required to turn the impact of trade into sustainable economic growth.

Armenia is a landlocked country with a small economy and limited economic resources and can therefore very much benefit from foreign trade as a means of enhancing economic growth. The liberalization of foreign trade increases the foreign trade turnover, which can benefit the country by closing current gaps in knowledge, increasing the level of income, and improving standards of living. Moreover, the higher the level of a country's participation in international trade is, the greater the effective distribution of resources among the country's competitive sectors will be. This has an immediate impact on the country's own economic growth. Better distribution of resources can have a positive impact on human development indicators, while human development can also be improved more indirectly as higher levels of trade boost government resources, potentially providing for costs associated with improving education and health.

Armenia is currently engaged in various (multilateral) trade negotiations, including negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union. It is, however, very important to understand how further trade liberalization and potential FTAs will affect poverty, social welfare and human development in Armenia and how possible benefits will be distributed among the different segments of society. In order to create such an understanding, cross-functional meetings were conducted with representatives of different governmental bodies, unions and private companies to analyze the role of foreign trade in human development. Different research methods were used, including desk research and in-depth interviews. The assessment's most important outcomes, suggestions, and policy recommendations are presented in the form of an Action Matrix at the end of the report.

The Aft Needs Assessment has been conducted by national experts under the supervision of an international expert and the RA Ministry of Economy. The report has four main components: first, economic and social environments, which focuses on economic development and accomplishments in and challenges to human development; second, trade and investment policy, which has a major emphasis on policy and the structure of foreign trade and investments and their links with human development; third, trade-related infrastructure, which points to the promotion of trade, customs and trade procedures, transportation and logistics, technical regulations, and their implications for trade and human development; and fourth, the trade and human development nexus, which explores the impact foreign trade on two specific sectors of the Armenian economy. The analysis of these components is followed by conclusions and recommendations, which are presented in the final section of the report.

2. ECONOMIC AND SOCIAL ENVIRONMENTS

2.1 ECONOMIC DEVELOPMENT

Macroeconomic Snapshot. After independence, Armenia faced an extreme economic downturn – GDP fell by more than 70%, hyperinflation reached 1,885%, and the budget deficit amounted to more than 10% of the GDP. The situation deteriorated further with the blockade by Azerbaijan and Turkey (which continues to this day), a huge number of refugees forced out of Azerbaijan (more than 340,000), energy crises, high rates of emigration of skilled workers, and trade and distribution channels that disintegrated when the centrally planned economy collapsed. As a result, income and employment plummeted while levels of poverty soared to 55% of the population.

In 1995, the process of economic rehabilitation began, which was then strengthened in 1999 by government programs and foreign assistance that promoted structural reforms in the economic, institutional, social, and political spheres. By 2000, growth rates of 6% for GDP and 5% for exports were registered, while the inflation rate lowered to 6%. A major part of the privatization process was completed, which was followed by an increase in income and a decrease in poverty and emigration.

During 2000-2008, the Government of Armenia continued its reforms of the economic environment; some of the most important achievements were:

- Rehabilitation of the national and international transportation system (despite the blockade) with financial assistance from the Armenian diaspora, international organizations and the state budget;
- Becoming a member of the World Trade Organization (WTO), which entailed making appropriate changes to legislation, adopting a new Customs Code according to international requirements, and improving customs procedures;
- De-monopolization of the telecommunications system;
- Improvement of the business environment to generate additional foreign direct investments (FDIs) and promote domestic exports.

Due to such changes, in 2000-2008, the registered average annual growth rate was 11% for GDP (see Table 2.1), 40% for FDIs, and 18% for exports, while inflation fluctuated between 0.6% and 7%. The increase in exports was followed by an intensification of the trade deficit, as it reached US\$ 3,342 million in 2008, which was 340% more than in 1999. At the same time, the GDP level was still far from the level of that before independence (constituting less than 50% of real GDP in 1989)¹.

In 2008, the double-digit growth in GDP was already declining, dropping to 6.8% as a result of the conflict between Georgia and Russia in August of that year. This was followed by a fall of 14.4% in 2009, attributed to the global financial crisis. In 2010, the economy started to recover, registering a 2.8% growth in GDP during the last nine months, mainly due to increases in industrial production (9.7%) and construction (2.8%). Agricultural production, however, decreased by 17.8% due to adverse climatic conditions.

Table 2.1. GDP Growth Rate of Armenia (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (Jan-Apr)
Real GDP growth (%)	3.3	6.0	9.6	12.9	13.9	10.1	13.9	13.4	13.7	6.8	-14.4	7.2

Source: National Statistical Service of the RA

GDP Structure. Over the last ten years there have been no significant changes within the structure

¹ The calculations were made on the basis of the Human Development Report, Armenia 1999 and the Armenian National Statistical Service.

of the GDP. Industry has the biggest share in GDP, followed by agriculture, construction, and services (for 2009, see Figure 2.1). When comparing the figures from 2009 with those from 1999, it can be seen that the only recorded changes were within the construction sector (a GDP share increase of 10.9%) and the agricultural sector (a slight decrease of GDP share from 22.5%).

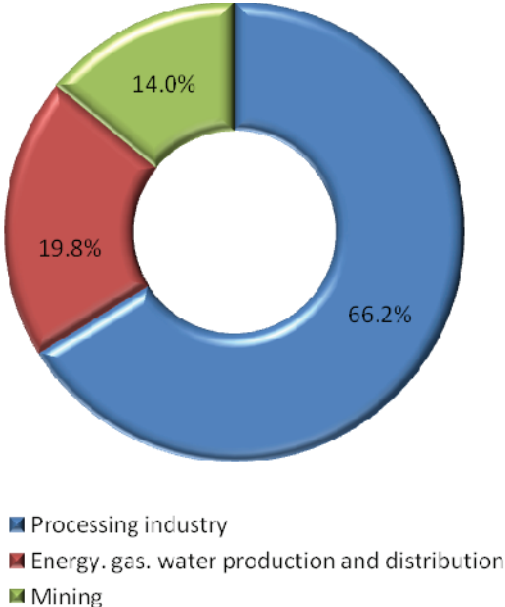
Figure 2.1. Source of GDP According to Economic Sectors



Source: National Statistical Service of the RA

The main operating branches of industry are: processing; energy, gas, and water production/distribution; and mining (see Figure 2.2). Although industrial output decreased by almost 7.8% in 2009 (there was an increase in mining (7.6%) but the other two branches decreased by 8.8% and 13.3% respectively), it still accounts for more than one fifth of the GDP. More than 11% of the Armenian population is involved in this sector of the economy, with 24% of the workforce informally employed.

Figure 2.2. Percentage Breakdown of Industrial Sectors in 2009

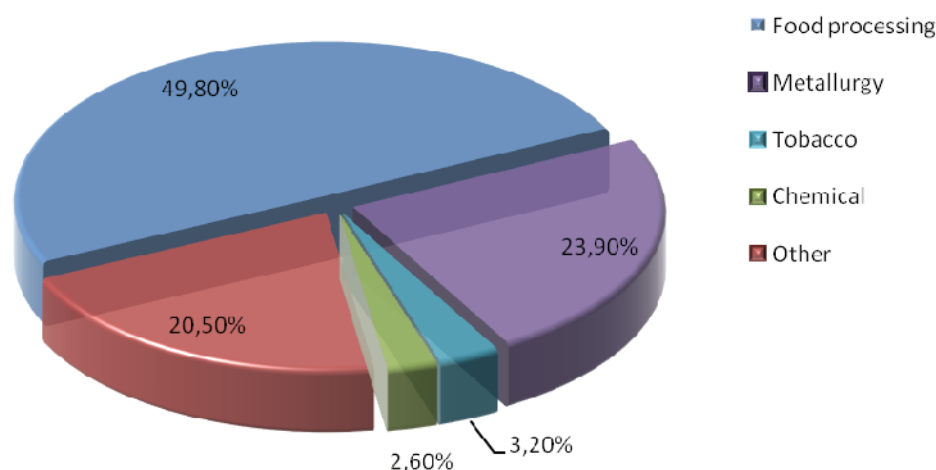


Source: National Statistical Service of the RA

Processing Industry. The bulk of the processing industry is food processing, tobacco production, metallurgy, and chemical production (see Figure 2.3). Although there was a sharp increase in the various branches of the processing industry in 2008, (with the exception of chemical production, which decreased by nearly 14.8%), the 2009 financial crisis led to a downturn in food processing, metallurgy and chemical production (by 6.2%, 2.4%, and 34.1% respectively), confirming that this

industry is particularly vulnerable to wider economic changes (i.e. from world demand).

Figure 2.3. Percentage Breakdown of Processing Industry in 2009



Source: National Statistical Service of the RA

More than 80% of the industry is concentrated in Yerevan (45%) and its nearby regions. The only other notable focus of industry is the region of Syunik (13%) because of its mines. This disproportionate concentration of production is one of the major challenges for the country, as rural areas are faced with high rates of unemployment and a low average wage.

Agricultural Sector. In contrast to industry, agriculture is mainly located in Armenia's regions (almost 98.9%). But it is characterized by low labor productivity and low wages, which leads to high rates of poverty in rural areas. This sector, comprising a sixth of the national GDP, employs more than 40% of Armenia's population, among which about 97% is informally staffed and dominated by women. Major agricultural products include grain crops, vegetables and fruits (grapes, figs, pomegranates, apricots, peaches, potatoes, and sugar beets), tobacco, cotton, specific oils (such as geranium), peppermint, and special teas.

The added value of this sector to the GDP increased by 0.3% in 2009, and there was a 0.1% decrease in the GDP share. Agriculture is the sector of the Armenian economy that is least directly affected by exogenous factors, since most consumption takes place within the domestic market.

Construction Sector. Construction accounted for much of the recent growth in Armenia's economy, with most being concentrated in Yerevan (63%). In 2008, it constituted more than 26% of the GDP, but the following year, the sector shrunk by 42.3%. In 2009, the sector comprised 18.8% of GDP, with 8.7% of the population employed, 66% informally. Despite the great contribution that the construction sector makes to Armenia's GDP, it is mainly focused in the housing and commercial real estate sectors (more than 40%, which is 20% less than in 2008), which means that its role in economic production is relatively insignificant.

Expenditure from individual investors (Armenian citizens and members of the Armenian diaspora) constitutes the major financial source of this construction. The presence of Armenian diaspora representatives in the construction sector artificially increases the price of real estate in Armenia. On the other hand, the presence of Armenians from the diaspora in the real estate sector contributes to demand in the construction market, has a positive impact on employment, and counterbalances emigration from Armenia. As the development of this sector mostly depends on remittances, the direct impact of the global financial crisis on remittance inflow led to a decline in demand in this sector and the negative impacts associated with that.

Inflation. While inflation has witnessed a substantial degree of fluctuation, it remains within manageable margins and, as of yet, has no negative impact on the economy (see Table 2.2). Neverthe-

less, many international organizations forecasted an 8% inflation rate in 2010 despite the fact that the planned target was set at 4% (it had been 3.4% in 2009).

Table 2.2. Annual Inflation Rate in Armenia, 2001-2010²

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (Jan-Apr)
Inflation Rate (%)	3.1	1.1	4.7	7.0	0.6	2.6	4.4	9	3.4	8

Source: National Statistical Service of the RA

Employment and Wage Levels. A steady increase in GDP, exports, and FDIs volume has led to a decrease in unemployment and an increase in average wage. According to official figures, the unemployment rate was 6.3%³ in 2008, but rose slightly in 2009 to 6.9%. The overall annual increase registered for average wage was more than 21%, and by 2009 the average monthly wage amounted to US\$ 280. The highest average wage was registered in the sectors of finance and real estate (US\$ 375 per month), followed by construction (US\$ 335 per month), transport (US\$ 254 per month), communication (US\$ 254 per month), and industry (US\$ 235 per month). Since Armenia's economic growth has not been accompanied by a sharp decrease in unemployment, it can be assumed that the growth is due to higher labor productivity rather than an increase in total number of jobs.

Labor Market. Armenia's labor market is regulated by the Constitution of Armenia, the Labor Code, international treaties, and various other legal acts. A positive trend in the labor market has been a reduced number of jobs in the public sector in favor of the private sector. However, the labor market still suffers from gaps in supply and demand, which is especially manifest in the disparity between the work force's professional qualifications and the needs of the labor market.

According to the International Monetary Fund (IMF), labor productivity was the major cause of increased income and poverty reduction in 2002-2006. According to the same source, for the same period, labor productivity increased by almost 60%, which is much higher than the average indicator for Europe and CIS countries.⁴ As labor productivity can increase production and raise the income of the population, its improvement must be a priority for policy makers and analysts. There are different ways to improve productivity, such as increasing the level of funding given to education and healthcare sectors, with an emphasis on service quality and the development of supporting legal and financial institutions. All these changes need to be accompanied by an increase in demand for labor through increased investments in the economy. Armenia's labor reforms also include pension reforms, which are aimed at bringing the pension system in line with international standards.

Demographics. A lower birth rate and higher rate of male emigration have had a great impact on Armenia's demographic structure. In 2009, 22% of the population was under the age of 16 (a 12% decrease since 1990), 67.9% was of working age (a 7.2% increase), and 11.9% was of retirement age (a 3.8 % increase).

Migration. After independence, the major reasons for emigration from Armenia were economic, social, political, and security-related, but after 1995 the situation improved and the outflow was mostly due to socio-economic factors. In 2004-2006, the economic growth, driven by higher industrial production, increases in exports, and increased trust in the government's economic policy, led to positive figures for net migration. However, from 2008, net migration was again negative due to the economic decline associated with regional and international instability and/or crises (in 2008 the figure for net migration stood at 23,100 people, which decreased by 19.1% in 2009). Among these, 20% of emigrants are from the lowest income decile, 38% are from the population's poorest, 6.7% are from the highest income decile, and 14.5% are from the population's richest.⁵

2 <http://www.minfin.am/up/macroid/MacroCucanish.pdf>.

3 According to the ILO, unemployment was 28.6% in Armenia in 2008 (NSS of the RA, Food security and poverty - 2010). In 2001 it was 25% according to ILO, while by official figures it was 10.3%.

4 http://planipolis.iiep.unesco.org/upload/Armenia/Armenia_2PRSP_2008.pdf.

5 <http://europeandcis.undp.org/gender/show/87B390CE-F203-1EE9-B95DF29A79F6080C>

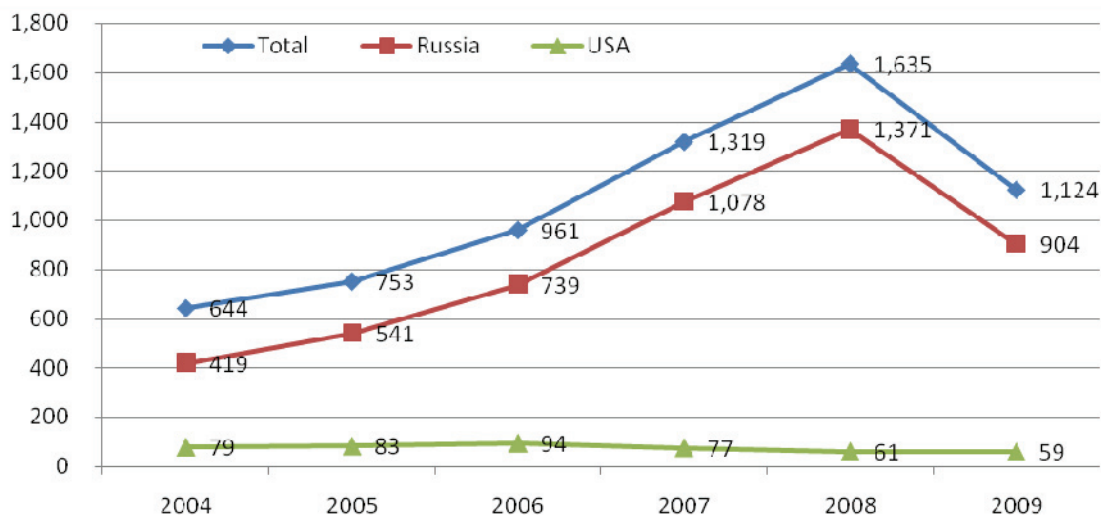
Men emigrants constituted more than 13% Armenian population (aged 18-65), while female migrants were just 1.7%.⁶ Those with higher education formed 11% of the migrants, which was 4.5 times more than respective figures for Azerbaijan and Georgia.⁷ In recent years the number of migrants from urban areas has increased, reflecting the fact that production has become increasingly located in rural areas.

The main markets and destination countries of Armenian migrants continue to be Russia, the United States, Ukraine, Georgia, Germany, Israel, Turkmenistan, Greece, Spain, and Belarus, making Armenia's economy sensitive to economic, political and social shifts in those countries. Indeed, any negative developments in the recipient countries have an immediate impact on Armenia's domestic consumption due to smaller remittances, decreased demand from abroad, and an increase in unemployment. The clearest example is the Russian Crisis of 1997-1998, which sharply cut the volume of remittances entering Armenia and led to decreased demand (from domestic and Russian markets) for "Made in Armenia" products.

While high rates of migration (e.g. in 2008 it was 450% higher than in 1999) have a negative economic and social impact (i.e. loss of human resources or, in many cases, loss of one family member, usually the father, with its obvious implications for bringing up children),⁸ there are also positive outcomes, such as remittances and the bettering of migrants' qualifications, entrepreneurial skills, and competitiveness. Moreover, over time the diaspora formed via migration becomes an external source of human resources for the home country.

Remittances. Remittances continue to be a major part of Armenia's Gross National Income, comprising 13.8% in 2008 (the Russian Federation accounts for more than 85% of the total share). Remittances are typically used to cover the family expenditure and private construction. In most cases, high remittances have a positive impact, reducing poverty and improving the living standards of families. They also boost domestic consumption, thus increasing demand for domestic production (and thus, in turn, reducing unemployment) and imports. Due to the global financial crisis, remittances dropped by almost 33.3% from 2008 to 2009 (see Figure 2.4).

Figure 2.4. Remittances to Armenia 2004-2009 (in US\$ millions)



Source: National Statistical Service of the RA

Impact of the Global Financial Crisis. The global financial crisis started to have its detrimental impact on Armenia's economy by the end of 2008, and this continued throughout 2009. The interna-

6 Migration and development, UNO, 2009, Armenia, p. 19.

7 Migration and Remittances Factbook. Dilip Ratha and Zhimei Xu, Migration and Remittances Team, Development Prospects Group, World Bank. <http://www.worldbank.org/prospects/migrationandremittances>.

8 Today, the issue of emigration is one of the major challenges for the National Security of the Republic of Armenia (Decree No.37 of the President of Armenia on approving the strategy of Armenian National Security, February, 2007).

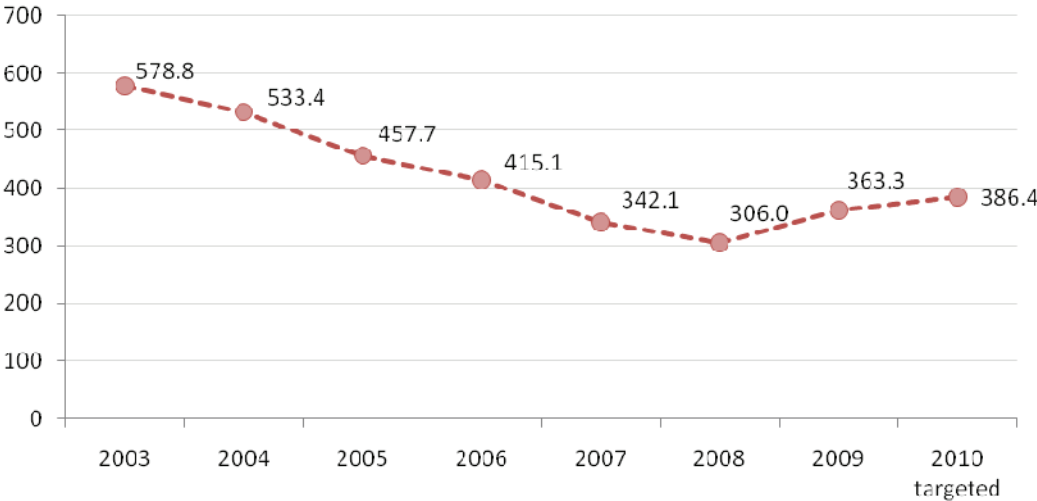
tional crisis affected the domestic economy due to lower levels of remittances, reduced trade (because of a lower demand for exports and lower prices for Armenia’s key export commodities), less investments, growing problems in the financial sector, and reductions in government assistance.

In the second half of 2009, the Government of Armenia took serious steps to overcome the consequences of the global crisis, including a reduction in taxes for small and medium enterprises (SMEs), the introduction of state guarantees to large companies operating in construction and industry, and the securing of external sources for SME loans. The situation improved at the end of 2009, along with increases in world production, foreign demand, and prices of mineral resources.

Export levels dropped in 2008 and 2009 (a fall of 8.26% and 33.99% respectively) and, in 2009, FDIs also decreased (by 25%). In addition, the current account deficit increased almost 15.5% of GDP in 2009 despite a large drop in imports due to decreased domestic demand. At the same time, the fiscal deficit widened to more than 7% of GDP, due to high levels of government spending to support domestic demand.

To mitigate the effects of this decline in output, the Government of Armenia reverted to a fully floating exchange rate in 2009, which de facto led to the depreciation of the Armenian dram against the Euro and the US dollar (see Figure 2.5), bringing an end to its steady appreciation of the previous five years. This move protected the currency market by improving Armenia’s competitiveness in the world market without threatening financial stability. In order to meet growing financing needs, the Government reached an agreement with the IMF for a stand-by arrangement and also secured additional funding from other multilateral and bilateral donors.

Figure 2.5. Dynamics of USD-AMD Exchange Rate⁹



Source: National Statistical Service of the RA

In 2009, Armenia’s balance of payments registered a surplus of US\$ 323 million in contrast to the US\$ 214 million deficit of 2008. The main reason for this, according to the RA National Statistical Service, was foreign credit (see Table 2.3). Despite this surplus, the current account had a substantial deficit of almost US\$ 1.4 billion, which was mainly covered by FDIs. Increasing external loans remain a particular concern for the Government, as their negative impact will only be revealed in the long term. In 2008, the deficit in trade of services reached US\$ 3 million due to the double-digit growth of imported services (particularly transport and insurance services, the costs of which sharply increased as a result of the Georgia-Russian conflict).

9 <http://www.minfin.am/up/macroid/Macrocanish.pdf>.

Table 2.3. Balance of Payments (in US\$ millions)

	1999	2008	2009
Current Account	-306.94	-1,381.82	-1,368.89
Goods	-473.97	-2,663.53	-2,081.28
Services	-62.03	-327.11	-268.12
Income	54.94	471.19	166.59
Current transfers	174.10	1,137.63	813.92
Capital and Financial Account	294.45	1,369.29	1,349.55
Capital account	12.55	148.88	89.10
Financial account	281.90	1,220.41	1,260.44
Reserve assets	-20.63	233.52	-600.28
Net errors and omissions	12.49	12.53	19.34

Source: National Statistical Service of the RA

Monetary Policy. Armenia has also benefited from the Government's and the Central Bank's sound and rational fiscal and monetary policies. Price stability is the main goal of monetary policy in Armenia. Priority is also given to developing and implementing monetary policy tools such as short-term adjustment of liquidity, disbursement of external financial inflows, and Government issuance and allocation of T-bills.

Within this context, during the recent global financial crisis, an expansionary monetary policy was implemented to stimulate economic activities, and in 2009 the Central Bank of Armenia lowered its refinancing interest rate to 7% (7.25% in May 2010) to contribute to the recovery of the economy.¹⁰ The money supply rose by 15.1%, allowing for increases in net foreign assets and credit into the economy. The Central Bank also increased cash liquidity through various channels, including the procurement of government securities and an increase in the maturity of its repo operations. However, these measures did not lead to the expected results due to flaws in the transmission mechanism, especially as bank lending rates remained at 14-15% due to, among other factors, high dollarization of deposits.

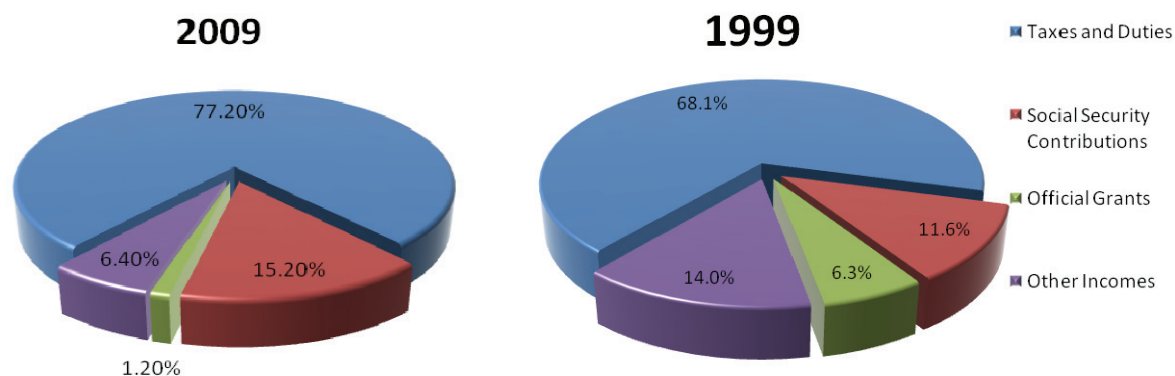
Fiscal Policy. Since independence, Armenia's fiscal policy has been aimed at enhancing the state budget by increasing contributions from the country's private sector. During the global economic and financial crisis, this fiscal policy was relaxed in order to boost aggregate domestic demand. Public spending on pensions and salaries of public servants grew by 16.3%, while other social expenditures remained relatively unchanged.

Tax receipts fell because of lower economic activity during the financial crisis, leading to a rise in fiscal deficit from 0.7% of GDP in 2008 to 4.7% in 2009. The deficit was mostly paid off via external resources (loans and grants), allowing a buildup of Government deposits in the banking system. These resources – mainly provided by the World Bank, the Asian Development Bank, the EU, and the Russian Government – helped the Armenian Government to manage a 15% tax revenue decrease so that it would not significantly cut its expenditure. It is planned that fiscal policy will be increasingly tightened in 2010 in order to secure debt servicing. Fiscal policy is also supporting economic recovery with expenditure plans that focus on the implementation of wide-ranging anti-crisis activities, an increase in foreign-financed capital spending, and the protection of public spending.

Over the last ten years, the major source of income for the state budget has been from taxes and duties, and this contribution has increased proportionally (see Figure 2.6). The major state budget expenditures in 2009 were on social security and national security (internal and external), followed by state services, education, and health.

¹⁰ In Russia it is 7.75%, in Azerbaijan 8%, in Georgia 6.25%, and in Norway 2%, according to www.cbrates.com.

Figure 2.6. Sources of Income for the RA State Budget in 1999 and 2009 (%)



Source: National Statistical Service of the RA

In 1999, Armenia's foreign debt amounted to about US\$ 870 million, most of which was directed to the Government of Armenia and the Central Bank. By 2009, it had reached over US\$ 2,966 billion (of which 13.8% was directed to the Armenian Government and 30% to the Central Bank).

Although the tax/duty-to-state budget ratio climbed, real income from it continues to remain low because of widespread tax evasion, weakness in tax administration, and heavy reliance on indirect taxes.

Structural Problems in the Economy. The economy of Armenia does not operate to its full capacity and, as a result, its real production potential is not realized. The two major causes of this are the informal economy and the monopolistic and oligopolistic structure of several sectors.

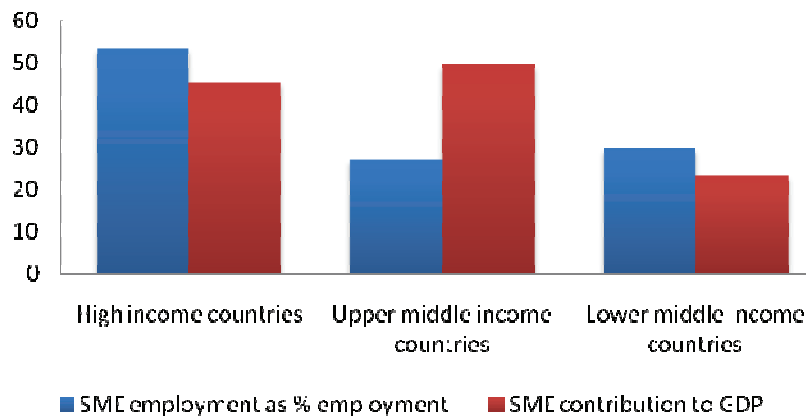
According to various sources, the informal economy comprises between 30% and 50% of Armenia's national economy. This makes it one of the key challenges that the Armenian Government needs to address, especially since this part of the economy currently employs around 50% of the population.¹¹

Regarding the monopolistic structure of the economy, in 2008 the State Commission for the Protection of Economic Competition revealed that 60 companies occupy "dominant positions" in Armenia. The sectors of the economy that are most monopolized are: importation and distribution of natural gas (controlled by the Russian monopolist Gazprom); Armenia's railway network (controlled by the Russian-owned South Caucasus Railway); importation and distribution of oil and kerosene (controlled by several Armenian businessmen); and various basic foodstuffs (particularly rice, sugar, wheat, cooking oil, and butter, which again are controlled by several Armenian businessmen). The Armenian government took several serious steps to try and de-monopolize these sectors but no significant results were achieved.

Since a strong SME sector can weaken monopolistic powers that control prices and create unfair conditions for domestic consumers, it is vital that SMEs are given a substantial role in the Armenian economy. Moreover, the greater the role of SMEs in the country is, the easier it will be for the economy to adapt to new challenges without a huge deterioration in living conditions. The development of SMEs also leads to job creation, revenue generation, and increases the country's overall competitiveness. As Figure 2.7 shows, the contribution of SMEs to a national economy is very significant; it has a considerable impact on employment, one of the keys for human development.

11 See <http://perc.ituc-csi.org/spip.php?article418>

Figure 2.7. SME Contribution to GDP and Employment (%)¹²



Source: UNDP, 2007

Although official figures show that in 2009 SMEs added 42.5% value to GDP and had a 17.7% share in Armenia's exports, researches by private consulting companies such as HayConsult Co. suggest figures half that size. This emphasizes that the role of SMEs is being diminished by an unfavorable business environment (particularly the way in which rules and legislation are applied, the high taxes on a very small market, and high customs duties on imports). To increase the role of SMEs in the economy, particularly in exports, the Armenian Government should take the following action:

- Ease tax legislation as much as possible;
- Create a system for SMEs to unite as various bodies in order to decrease export and import costs;
- Supply information about different target markets as simply as possible;
- Create a system for obtaining bank loans as quickly as possible with reasonable interest rates;
- Create a leasing system for SMEs;
- Promote and create conditions that facilitate the establishment of start-ups.

It is also important to promote the upgrading of SME technology and human capital through greater exposure and access to information, new business practices, and more advanced technologies as well as through SMEs participation in global value chains.

Another serious issue for economic policy developers is the disparity in development among Armenia's different economic sectors. The fast rate at which the construction sector is developing, for example, could create 'Dutch disease' type challenges for the Armenian economy, with all the associated negative consequences for human development that it would soon bring.

Summary. Before the recent global economic and financial crisis, the Armenian economy was growing steadily due to growth in industrial output, FDIs, exports, and increases in income. However, the crisis led to a slowdown in remittance flows and reductions in trade, investment, and official development assistance, all of which resulted in a dramatic decline in every economic indicator. At the same time, the economy has inherited some of the most negative aspects of the Soviet system – the monopolistic mindsets of businessmen and the monopolistic structure of the economy. It also faces some serious deficiencies – a lack of knowledge about international markets and trade procedures and a lack of skills to promote and manage SMEs from both public and private sectors. Given Armenia's small market, its low economies of scale, and the blockade by Turkey and Azerbaijan that raises transportation costs, free trade could play a key role in Armenia's economic growth. If economic growth is characterized by qualitative changes, indicators of human development will undoubtedly rise; favorable conditions for the full realization of human resource potential will be created and this will contribute to reduced poverty, increased employment, greater gender equality, and

12 The Role of Governments in Promoting ICT Access and Use by SMEs Considerations for Public Policy, UNDP, 2007.

an overall increase in the country's income. Nevertheless, this connection between trade and human development is complex and imperceptible in the short run. Indeed, approaches to this nexus vary from country to country, which indicates a given country may need additional mechanisms and tools in order to turn the benefits of trade into qualitative economic growth.

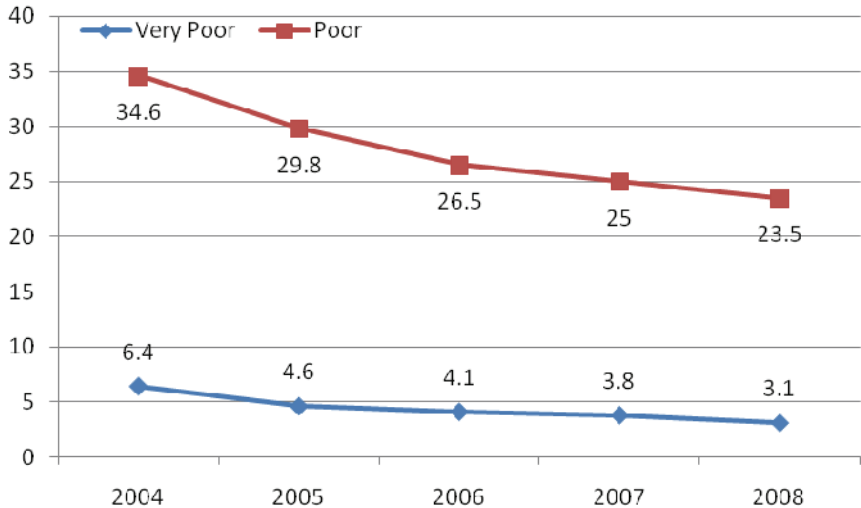
2.2 HUMAN DEVELOPMENT: ACHIEVEMENTS AND CHALLENGES

Poverty and Inequality. Poverty level is a multi-dimensional indicator and can be measured both by quantitative and qualitative methods. Following the Soviet era, Armenia became one of the poorest countries in the region due to a deterioration of its economic structure (according to 1999 data, more than 55% of people fell below the poverty line, and 23% below the extreme poverty line¹³). With economic growth, the poverty indicators in Armenia started to improve.

The extreme poverty line, sometimes referred to as the food poverty line, is used to determine a population's exceptionally poor border. The line represents the amount of consumption needed in order to satisfy basic food needs. To express this amount in monetary terms, a national average for caloric requirement is determined and the cost of one calorie is estimated. The consumption aggregate is then estimated based on the RA NSS Integrated Living Conditions Survey (ILCS). It consists of two components: (i) the value of food and non-food consumption, including consumption from home production as well as aid received from humanitarian organizations and other sources; and (ii) the rental value of durable goods. The extreme food poverty line in 2008 amounted to 17,232 AMD. The general poverty line, also called the complete poverty line, is calculated by adding a non-food allowance to the food poverty line, as individuals should be able to cover not only basic food needs but also essential or minimum non-food needs. The complete poverty line for 2008 equaled 25,188 AMD.

Currently, the NSS uses a qualitative approach for poverty estimates (the personal judgment of individuals regarding the state of their own welfare), which tends to be lower than the poverty estimates obtained by using 'consumption per adult'. For example, in 2008, the level of poverty was 17% according to NSS self-assessment surveys but 23.5% according to calculations for consumption per adult (see Figure 2.8).

Figure 2.8. Poverty Level over 2004-2008 (%)¹⁴



Source: National Statistical Service of the RA

In 2009, the GDP per capita¹⁵ in Armenia was US\$ 4,966, compared to US\$ 5,793.7 in 2008 (ex-

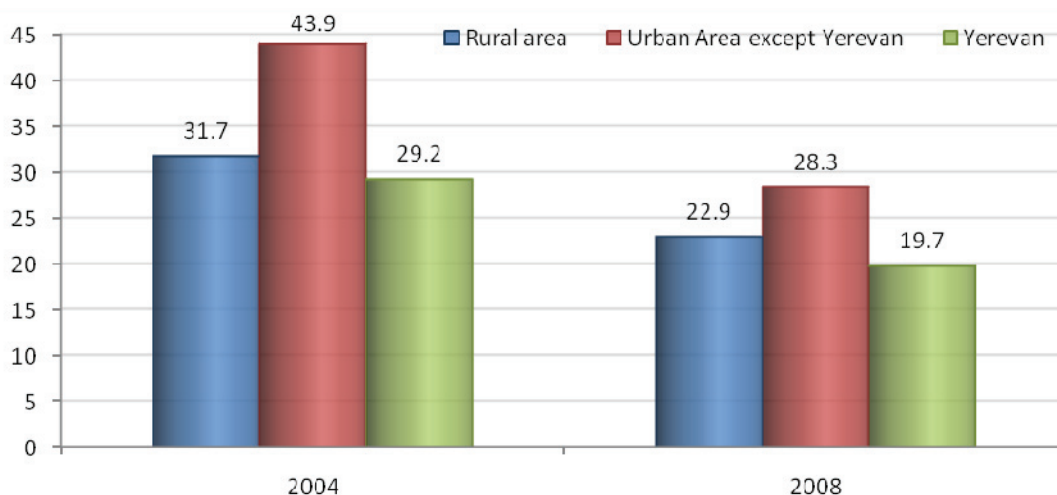
13 Social Snapshot and Poverty In Armenia.

14 Publications of Statistical services of Armenia.

15 Adjusted according to purchasing-power-parity (PPP). Source: World Economic Outlook Database, April 2010.

change rate for 2009 was 363.28 AMD to 1 US \$, while for 2008 it was 305.97 AMD), which represented a 14.3% decrease. Today, according to World Bank estimates, Armenia is considered to be a lower middle-income country, similar to other Eastern European and Central Asian countries such as Georgia, Ukraine, and Uzbekistan. Since high value added production and business is concentrated in Yerevan, the capital, poverty is much higher in rural areas and Armenia's other towns (see Figure 2.9).

Figure 2.9. Poverty in Rural and Urban Areas (%)



Source: National Statistical Service of the RA

Poverty is linked to inequality. While Armenia's inequality index is relatively low compared to other CIS countries and Georgia (in 2008, the Gini coefficient of income inequality was 0.39 in Armenia, while in Azerbaijan and Georgia it was 0.365 and 0.405 respectively), it is still significantly higher than in Eastern European countries (Bulgaria - 0.292, Ukraine - 0.285, Slovakia - 0.258)¹⁶ (see Figure 2.10).

Figure 2.10. Gini Coefficient of Income Inequality in Armenia



Source: UNU Wider, World Income Inequality database

One of the most important indicators for gauging poverty and inequality levels is growth in real consumption (this had risen by 35.8% from 2004 to 2008) as a result of steady economic growth (56.6% over 2004-2008), since it implies reduced poverty, greater equality of income, and increased remittances.

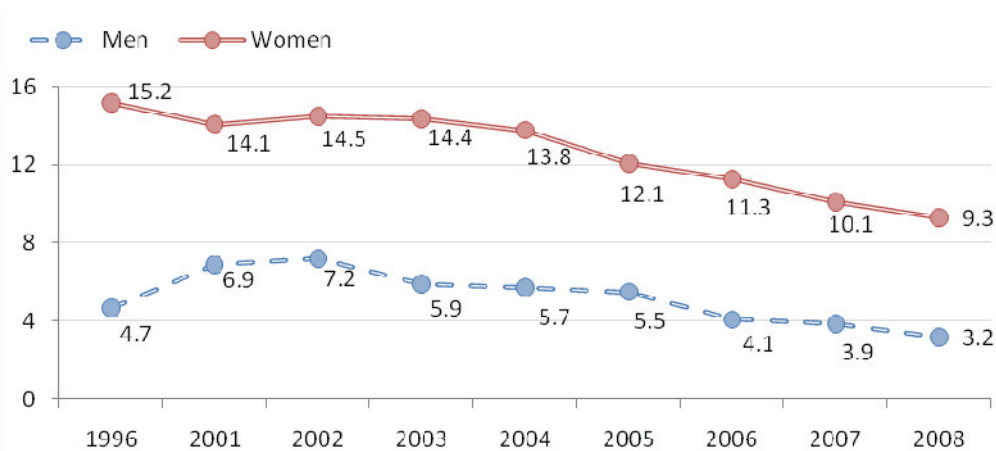
¹⁶ UNDP, Human development report 2009, available <http://hdrstats.undp.org/en/indicators/161.html>.

Gender Issues. According to Armenian legislation, women and men have equal rights in all spheres of economic and political life. In reality, gender representation is closely tied to traditional societal structures; since women are more occupied, or prefer to be occupied, by domestic concerns, they still play only a minor role in public life. Nevertheless, women are free to pursue greater participation in the country's social and political life.

The heads of families are mostly men (68.3%), although this is starting to change as women have a growing role in society and business. In rural areas, women head 34.7% of families, while in urban areas this figure is 8.7% less.

Women are more frequently unemployed than men (see Figure 2.11), a situation which is likely to continue due to women being more involved in domestic life. This deprives them of gaining work experience and professional training, thus lowering their competitive advantage. It also affects the level of pension they will receive at retirement age.

Figure 2.11. Unemployment Rates for Men and Women (percentage of economically active citizens)



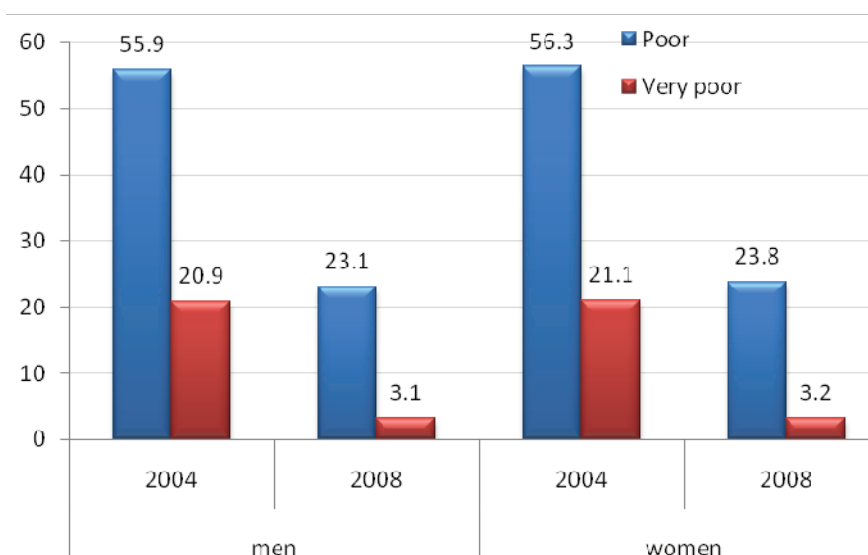
Source: National Statistical Service of the RA

The fact that unemployment rates among women are higher for urban areas is mainly due to the absence of production facilities in those areas and women's employment in the agricultural sector in rural regions (which is seasonal). In addition, educated women involved in small-scale trade and entrepreneurship often prefer to move to rural areas, where there are more opportunities for start-up businesses.

In the last parliamentary elections, the number of women in parliament climbed to 9.2%, reflecting the 15% quota that was introduced to increase the number of women in party lists. While women are not barred from the political arena, there are fewer active female leaders in politics than in business. According to 2008 NSS data, women comprise 0% of heads of urban local authorities, 2.6% of heads of rural local authorities (23 out of 866), 4.3% of elected members of urban local authority councils (24 out of 552) and 8.6% of elected rural local authority councils (398 out of 4,638). Moreover, Armenia ranks 85th among 182 countries in the 2007 gender development index (higher than in Azerbaijan, Georgia, and Ukraine, but lower than in Russia, Belarus, and Kazakhstan).¹⁷ Gender variances among the poor and very poor are not very high – around 1-2% (see Figure 2.12). This is due to the fact that family bonds are still strong.

17 <http://www.scribd.com/doc/24378544/Gender-related-development-index-2009>

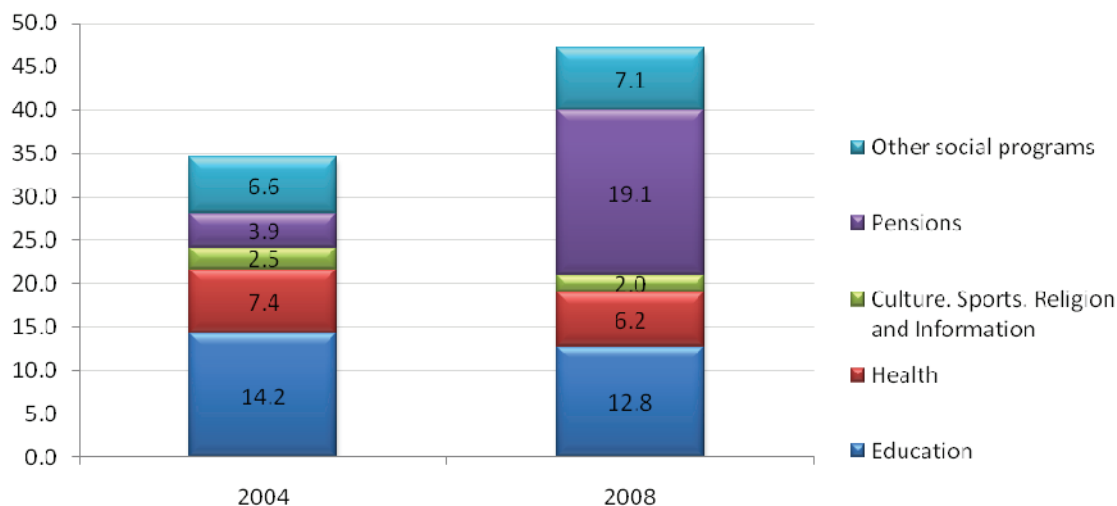
Figure 2.12. Gender Breakdown of Poverty Levels for 2004 and 2008 (%)



Source: National Statistical Service of the RA

Social Expenditure. The social expenditure of the Government of Armenia has been increasing over the years and is considered to be very high, even compared to developed countries' expenditure levels. In developed countries social expenditure ranges from 15% to 30% of total expenditure in the state budget, while in Armenia it exceeds 40% (see Figure 2.13). However, if absolute values are considered, then social expenditure in Armenia is relatively low. Moreover, in developed countries social expenditure from the private sector tends to be quite high compared to the approximate 0% figure for Armenia.

Figure 2.13. Social Expenditure as a proportion of the State Budget in 2004 and 2008 (%)



Source: National Statistical Service of the RA

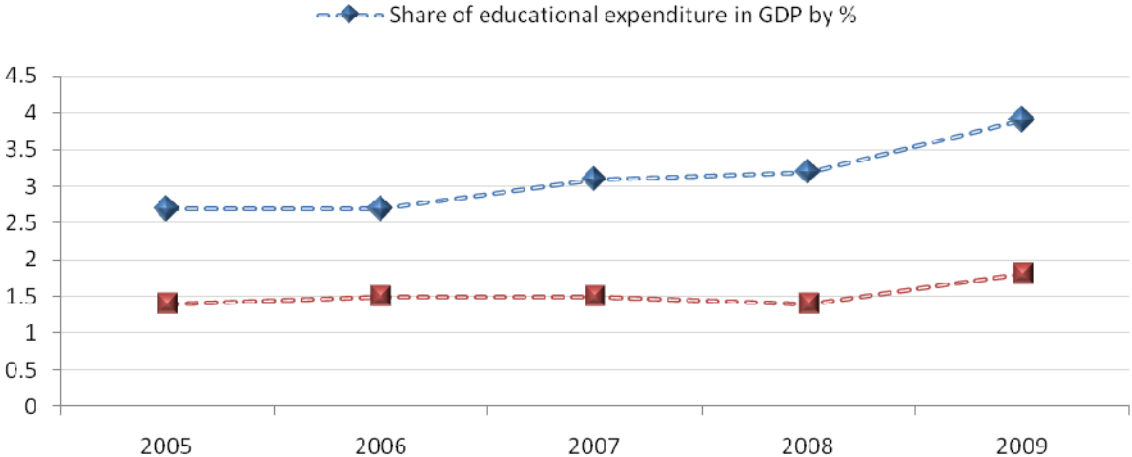
Education. Although state expenditure on education is very low (just 3.9% of GDP in 2009, see Figure 2.11), education continues to be one of the foremost values in Armenian society. Today, there are 18 state universities, 8 foreign-managed universities (American University, French University, European University, and 5 Russian universities), and various private universities (90 universities in total with 12 branches). In 2008-2009 there were 114,399 students engaged in higher education, among which 53.5% were women.

Besides state financing, there are several international programs operating in Armenia that provide students, researchers, and public employees with study or training opportunities abroad. The Arme-

nian diaspora plays an active role as well – many top students receive scholarships to study at some of the world’s most prestigious universities.

Basic education is compulsory, and today Armenia’s literacy rate is nearly 99.5%. Recently, the Armenian education system entered the European Commission’s Bologna Process, making education even more widely available to the population. Nevertheless, educational institutions lack modern equipment. In some rural areas there are schools that do not even have an old PC.

Figure 2.14. Share of Expenditure on Education and Health Care in GDP (%)



Source: National Statistical Service of the RA

One way of tackling the challenges faced by the education sector is to enhance foreign trade and FDIs generation since they can bring new technology, skills, and knowledge. Another important action the Government can take is to form institutions that promote the private sector and private sector investments in the modernization of the country’s educational system.

Moreover, Armenia’s economic development strategy must stem from increased productivity, with a major emphasis on rural areas. That is only possible if there is a simultaneous improvement of existing capacity, the education system, and the country’s infrastructure, and that demands investments in R&D.

Healthcare. State expenditure in the healthcare field is even lower than that in the education sector (see Figures 2.13 and 2.14 above). The use of health services by the population is extremely low (only 25% of the population uses these services), and this is especially the case in urban areas and among the poor.

The majority of the Armenian population (51.9%) prefers to visit state hospitals (as they are free of charge) and drug stores (self-healthcare is almost 43%); only 5.1% go to private hospitals. This shows that only a small segment of the population can afford to pay for medical services.

In 2008, 13% of the population’s personal expenditure went on health services, which shows that health services are very expensive. To tackle the high costs of health services, the government devised a program that would cover the medical expenses of poor families; in 2008, 20% of the population benefited from this program.

Summary. With economic growth, Armenia’s poverty indicators have started to improve, and poverty has been further reduced by declining levels of inequality. High unemployment is, however, a serious challenge. Female unemployment has dropped faster than for men, but gender-related unemployment is still an issue, which is especially the case in rural areas. Moreover, these issues will be compounded in the medium term by Armenia’s currently low birthrate (fertility rate is now 1.4,

which is below the population's natural reproduction rate of 2.1)¹⁸ and high male emigration rate. This will create serious problems for the labor market.

Furthermore, education in Armenia continues to remain a point of concern. Despite the country's strong background in education, the Government is unable to make investments necessary for the sector's modernization. This is even more the case for the healthcare sector, where Government expenditure is even lower; thus, healthcare is less accessible for the poor.

Such challenges could be overcome by enhancing foreign trade and FDI generation since these can increase domestic production and employment and attract new technology, skills, and knowledge. Policy makers must also consider the strategic importance of transferring businesses from the capital to other regions of the country, especially to border zones, and the Government must create institutions that are able to promote the private sector and sponsor the modernization of the educational system.

Moreover, Armenia's economic development strategy must stem from increased productivity, with a major emphasis on rural areas. That is only possible if there is a simultaneous improvement of existing capacity, the education system, and the country's infrastructure, and that demands investments in R&D. Thus, the positive impact of trade and FDIs can be enhanced if these two external tools are harnessed for the transfer of new technology, equipment, skills, and knowledge into the economy.

3. TRADE AND INVESTMENT POLICY

3.1 REVIEW OF FOREIGN TRADE

Export Trends. Armenian exports grew substantially from 1999, but until that point there had been serious decline due to the following factors:

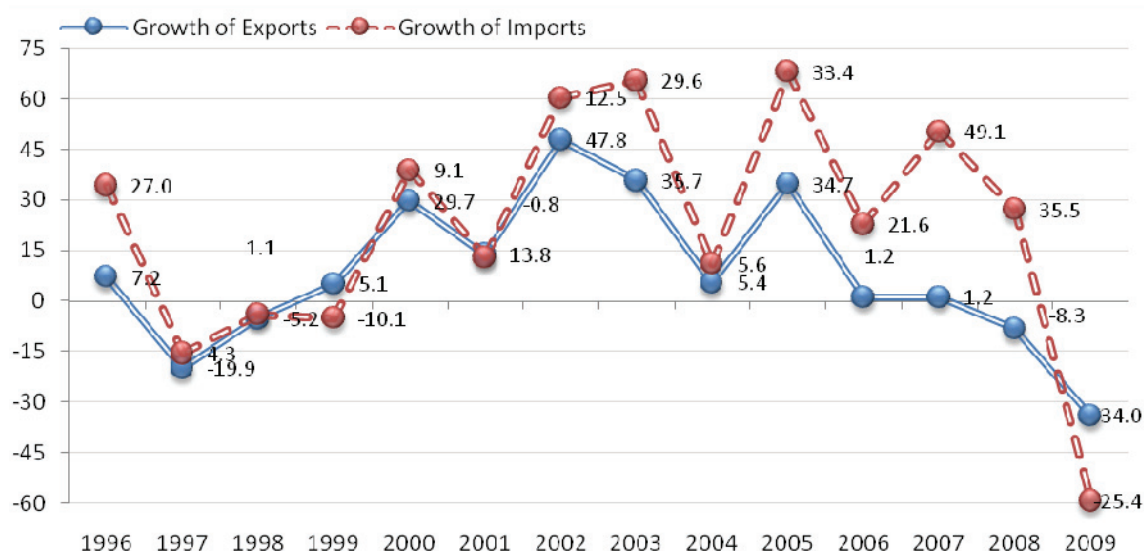
- Many state-owned companies ceased operating since the markets and previously centrally defined links with former soviet republics disappeared;
- Privatization of Armenia's major state-owned companies (most had been privatized by 2000)¹⁹;
- Limited transportation routes – Armenia had lost traditional lines of transportation, while new ones were still in the first stage of development, and blockades by Turkey on one side and Azerbaijan on the other further restricted trade;
- The private sector was only in the initial stages of formation;
- Armenia's energy crisis, which started after 1991 independence and lasted until 1999.

The export growth rate declined again at the beginning of 2008 due to the conflict between Russia and Georgia and the global financial crisis (see Figure 3.1). In the first five months of 2010, however, positive trends in exports and imports emerged: there was a 64.2% and a 28.5% increase in exports and imports, respectively. Currently, according to WTO statistics, Armenia ranks 145th in terms of merchandise exports.

18 http://planipolis.iiep.unesco.org/upload/Armenia/Armenia_UNDAF_2010-2015.pdf

19 By 2000, 83% of the 1,533 medium-sized and large enterprises and 90% of the 6,829 small enterprises had been privatized (source: www.fdi.net).

Figure 3.1. Growth Rates of Armenia's Exports and Imports for 1996-2009 (%)



Source: National Statistical Service of the RA

The major countries importing Armenian goods and services have not changed substantially in the last 15 years (for details, see Appendix 1). These countries include Russia, Germany, the United States, Georgia, Bulgaria, Netherlands, Belgium, Iran, Italy, Ukraine, Switzerland, Canada, and China (export dynamics to the top seven trade partners is presented in Figure 3.2). The only changes that took place were mostly in terms of the relative amounts these countries imported. So, for example, since 2007 Russia has been the leading importer of Armenian goods, overtaking Germany, which had occupied this position in 2005-2006. Earlier, in 1998-2000, Belgium was the chief importer, which was largely due to exports of jewelry and polished precious stones. The top seven exported products between 1996-2009 were textiles, machinery/electrical products, foodstuffs, mineral products, precious stones, metals, and non-precious metals or products made from them (for details, see Table 3.1 and Appendix 2).

Table 3.1. Armenia's Top Six Exported Product Groups for 1996 and 2000-2009 (% of total exports)

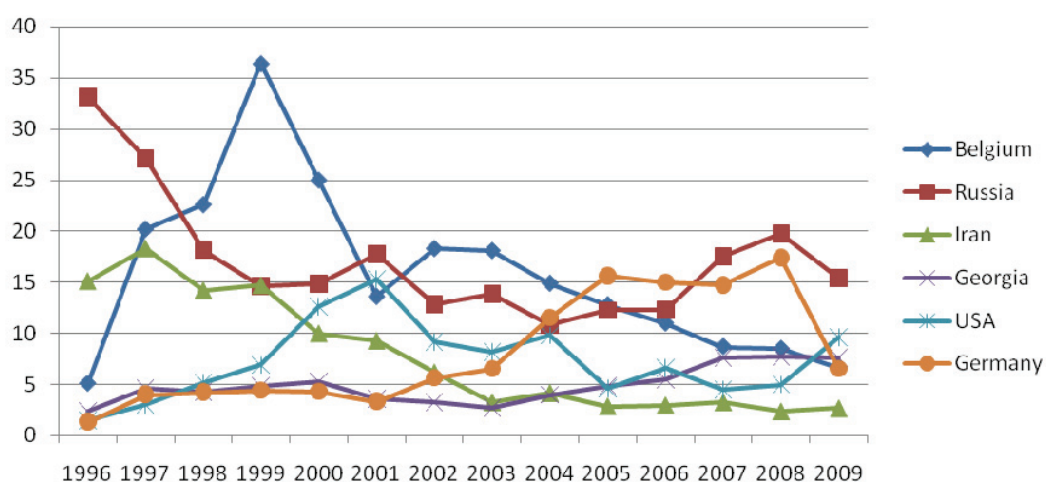
	1996	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Textiles	3.3	4.4	7.1	5.7	4.6	6.1	3.8	3.6	3.1	3.8	2.1
Machinery/ Electrical	11.8	10.3	12.7	4.2	2.9	3.0	2.9	2.1	3.4	3.8	3.0
Foodstuffs	4.0	9.1	14	10.8	10.5	9.6	9.9	9.6	12.5	15.9	14.0
Mineral Products	6.6	12.4	11.1	8.3	7.3	13.8	9.6	13.9	15.1	16.3	20.5
Precious Stones/Metals	48.3	40.4	35.9	51.1	51.2	41.4	34.5	30.6	18.1	16.4	14.8
Non-Precious Metals or Products Made from Them	16.1	14.7	8.3	8.9	13.2	19.0	33.1	28.5	33.9	32.8	32.5

Source: National Statistical Service of the RA

Major exports in textile products comprised articles of apparel and clothing accessories (non-knitted or crocheted). Machinery/electrical products included boilers, machinery and mechanical appliances, computers, electrical machinery/equipment and parts, telecommunications equipment, and audiovisual recorders. Major exported foodstuffs included beverages, spirits, and vinegar, which were mainly exported to Georgia, Iran, Russia, and Ukraine. Exported mineral products were mostly made up of ores, slag, and ash, which were mainly exported to Switzerland, Iran, Spain, Bulgaria, China, and Georgia. Exported precious stones and metals included pearls, stones, precious metals, faux jewelry, and coins, which usually went to the markets of Belgium, Canada, Russia, and the United States. Exported non-precious metals were iron and steel, copper and aluminum along with articles made from them. These were mainly shipped to Germany, Netherlands, Austria, and the

United States (for details, see Appendix 3 and 4).

Figure 3.2. Dynamics of Armenian Exports to Top Six Markets (% of total exports)



Source: National Statistical Service of the RA

Import Trends. Since 1996, imports to Armenia have tended to increase as well – the only exceptions being 2009, 2001, and 1999, which can be accounted for regional and world crises. The main countries from where Armenia imports goods are Russia, China, Ukraine, Germany, Turkey, Iran, the United States, and Italy (for details, see Appendix 5). Armenia heavily relies on imports of food, raw materials, and energy products. The major products imported to Armenia during the last 15 years have been vegetable products, chemicals and products of allied industries, precious stones and metals, foodstuffs, non-precious metals and products made from them, means of transportation, machinery/electrical products, and mineral products (for details, see Table 3.2 and Appendix 6). The small scope of imports to Armenia can be explained by the relatively low income of its population.

Table 3.2. Top 8 Product Groups of Armenian Imports for 1996 and 2000-2009 (% of total imports)

	1996	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Precision Stones/Metals	15.2	12.8	12.2	21.6	26	21.6	19.3	14.3	9.1	6.9	3.2
Vegetable Products	4.5	11.2	9.7	7.5	5.9	8.1	5.5	5.1	5.7	5.3	6.0
Chemicals and Allied Industries	6.7	9.3	7.4	6.4	6.1	6.3	6.6	6.9	6.7	6.1	7.6
Foodstuffs	9.8	7.9	8.8	8	7.3	8.3	8.1	7.5	7.8	7.9	8.0
Non-Precious Metals or Products Made from Them	0.9	2.8	10.1	5.6	6	4.5	5.2	7.5	10.4	9.5	11.3
Means of Transportation	1.4	2.6	3.0	4.0	6.1	6.9	8.4	9.0	12.9	13	7.3
Machinery/ Electrical	9.4	13.3	4.1	10.5	10.5	10	12.9	13.9	13.1	14.6	18.9
Mineral Products	21.8	20.3	21.4	17.4	14	15.5	16.5	16.7	15.8	15	16.3

Source: National Statistical Service of the RA

Foreign Trade in Services. According to WTO statistics, Armenia ranks 129th in world exports and imports of commercial services, with 35% of its total labor force employed in this sector. In 2008, growth was registered in all types of services exported from Armenia (transportation by 3%, travel by 8%, and other commercial services by 26%); however, figures are now half what they were for 2000–2008. Importation of services continues to grow – the only exception being the import of foreign services via tourism, which has decreased three-fold. The importation of transportation and other commercial services increased by 11% and by 7% correspondingly.

In addition, in 2009 there was more than an 18% decrease in the deficit of the balance of trade in services (although in absolute terms it remains quite high – see Table 2.3). The export of services

also added 5.3% value to Armenia's GDP in 2008.

Sectors Dependent on Foreign Trade. In general, the sectors of an economy that are most sensitive to changes in foreign trade patterns are those that are resource intensive (i.e. labor and natural resources), and it is these sectors that are the major driving force of developing countries' economies. At the same time, knowledge intensive sectors are largely dominated by the non-tariff barriers of developed countries, making it difficult for developing countries to export such products/services to developed countries. As a consequence, developing countries continue to be dependent on labor and natural resource intensive sectors. The problem is that these sectors are not only vulnerable to fluctuations in foreign trade but are also characterized by low productivity and low wages; their impact on human development is limited compared to the kind of impact capital and knowledge intensive sectors can have.

The statistics above show that Armenia is no exception to the rule – agricultural products and mineral resources are its major exports (sectors that are particularly sensitive to foreign trade patterns). However, it was not always this way – one of Armenia's most developed sectors during the Soviet era was the chemical industry. Unfortunately, after independence, the sector fell into ruins as former distribution channels dissolved; Armenian chemical companies were unable to adjust to such vast structural changes, which left leaving them uncompetitive in the world market. Today, with a qualified, educated labor force and a traditionally strong education system, chemical products could become Armenia's core export output again (if there is also a strong government strategy to promote this). Moreover, the chemical sector could play a strategic role in Armenia's exports since it generally produces high-value, small-volume products – key product qualities for a country that is exporting via limited transportation lines.

Summary. Although Armenian exports and imports lack diversification, making the Armenian economy vulnerable to and highly influenced by economic and political changes in partner countries and the world, its current economic profile emphasizes that foreign trade plays a vital role in the country's economic development.

Despite the key role of foreign trade, its full potential and capacity is yet to be realized and utilized. The main reasons for this are:

- A lack of institutions that support and facilitate trade, such as EXIM banks, information centers, and developed leasing systems;
- Low levels of knowledge on how to export to the CIS and EU;
- Few incentives for the private sector to export products, bureaucracy within and outside the country, and other informal barriers to trade;
- No formal system that enables SMEs to jointly export in order to reduce transportation costs.

3.2 CURRENT TRADE REGIME

Overview of Trade Policy. The Armenian trade regime is characterized by liberalized rules and regulations with a simple two-band import tariff (at 0% and 10%) without any import/export quotas. There are no taxes on exports (although the Customs Code provides for an export tax) nor quantitative trade restrictions. Imports, exports, and domestic production licenses are required only for health, security, and environmental reasons. There are no limits on hard currency flow. There are presently no free trade zones or other special economic zones in Armenia, but there are plans to establish free trade zones (e.g. at Zvartnots International Airport, planned for next year).

The Customs Code (in force since 2001) stipulates customs procedures and complies with WTO Rules (for details, see www.customs.am), while the State Revenue Committee is responsible for customs procedures. Armexpertiza²⁰ is responsible for issuing four different types of certificates of

²⁰ Armexpertiza is a body that examines goods to be exported from Armenia and issues relevant certification of origin.

origin for exports. The four types relate to the destinations of the exports (one for all destinations, one for CIS countries governed by the CIS Resolution of November 2000, one for CIS countries not governed by the regulation, and one for countries that provide GSP preferences on Armenian exports).²¹

Currently, Armenia has the following customs payments: customs duties, customs fees, value added tax, excise tax, presumptive payments, road payments, and environmental payments. Valuation at customs is based on the transaction value of the product. In 2003, the administrative fee for customs processing was changed from a 0.3% ad valorem fee to a flat fee of 3500 AMD and a specific weight-related fee of 1000 AMD per ton for freight inspection.

All goods exported from Armenia are subject to customs declarations at the regional customs offices closest to the exporter's location, excluding goods exported via Yerevan International Airport, which must be declared at the airport customs office. There are no registration requirements for exporters, and exports incur payment of customs service fees. This is done in the same way as for imports, except that there are no minimum prices for exports. Indirect taxes are zero-rated on all exports, and imports entering Armenia under the following regimes are exempt from tariff duties: temporary imports for processing, temporary imports, imports into free-trade zones, and imports that will be (re)exported within one year.

According to the World Bank's Doing Business Project 2010, Armenia ranked 102 in export administration, marking an improvement of almost 34 positions compared to the previous year's rankings. According to this source, there were real improvements in all aspects of Armenia's foreign trade procedures: the average administrative time period has been reduced from 30 days to 17 days, the number of required documents has fallen from 6 to 5, and the average cost for a standard container dropped from US\$ 1,746 to US\$ 1,731 (see Table 3.3).²²

Table 3.3. Comparative Analysis of Armenia's Export Administration Indicators

Indicator	Armenia	Azerbaijan	Georgia	Eastern Europe and Central Asia	OECD Average
Documents required for an export (number)	5	9	4	6.5	4.3
Time taken to export (days)	17	46	10	26.8	10.5
Export cost (US\$ per container)	1,731	2,980	1,270	1,581.8	1,089.7
Documents required for an import (number)	7	14	4	7.8	4.9
Time taken to import (days)	20	50	13	28.4	11.0
Import cost (US\$ per container)	2,096	3,480	1,250	1,773.5	1,145.9

Source: Doing Business 2010 Report

There are no public or private institutions, structures, or systems that provide export finance, insurance, or guarantees. Generally, the larger banks finance the exports of Armenian companies mostly due to their cooperation with international financing organizations such as the European Bank for Reconstruction and Development, the International Finance Corporation, and the International Bank for Reconstruction and Development. The only Government agency involved in promoting exports is the Armenian Development Agency, which assists exporters in finding markets for their products through market studies and organizing international conferences, business forums, trade fairs, and exhibitions.

WTO Commitments. On December 26, 2002, the National Assembly of the Republic of Armenia ratified the Protocol of Armenia's Accession to the WTO (signed in Geneva on December 10, 2002)

For details see www.expertiza.am.

21 See www.expertiza.am/eng/?s=3.

22 World Bank and IFC (2010).

with Decision No.322-2, “On Ratification of the Protocol of Accession of the Republic of Armenia to the WTO and Joining the Marrakech Agreement on Establishing the WTO”. The Republic of Armenia thus committed itself to ensuring continued guarantees on the irreversibility of structural and legal reforms that develop a free market and liberalized economic competition.

Armenia’s commitments to the WTO are found in various documents: the Multilateral-Mandatory Trade Agreement, the Working Party Report under the Membership Protocol, the schedule for concessions and commitments on goods and the service sector, the list of goods subject to mandatory certification of adequacy, the list of goods with a zero customs duties rate for imports and goods not subject to excise tax as well as ‘information on export subsidies and local support’ which is annexed in the latter. These commitments include:

- **Privatization.** In particular, to submit annual reports to WTO members on developments relating to the domestic privatization program.
- **Price and Tariff Policy.** In particular, to include publishing prices of goods that are subject to public regulation, as well as any changes in these prices; to apply anti-dumping or safeguard measures, and bring domestic normative legal acts in line with agreements taken under the WTO framework.
- **Protection of Economic Activities in Courts and out of Courts.** In particular, to ensure the possibility of legal protection for economic activity taking place in Armenian customs territory, in accordance with the WTO agreement; to ensure a legal framework exists that allows recourse to independent bodies on matters related to WTO-regulation.
- **Foreign and Domestic Trade, Transit Transportation.** In particular, to amend domestic legislative and normative acts that relate to trade so that they conform with commitments taken under the WTO Agreement; to bring applied sanitary and phyto-sanitary requirements into line with the WTO agreement and other agreements under WTO; to establish a monitoring system to identify and control diseases of plants and animals; to bring domestic legal and normative acts on export licensing and export supervision into line with agreements made under the WTO framework; to apply export-promoting measures and ensure that the domestic legal and normative acts on transit transportation correspond with agreements made under WTO framework.
- **Customs, Tax, Criminal Law and Information on Legislation.** In particular, to make any increases in rates of custom duties within the framework of the Annex to the Working Party Report on the Schedule for Concessions and Commitments for Goods; to refrain from applying currency duty or applying fees for customs clearance, in line with commitments made under the WTO Agreement; to ensure that the Customs Code conforms with the 1994 General Agreement on Trade and Tariffs; to harmonize domestic legal and normative acts on rules of origin with agreements made under the WTO framework; to ensure the possibility of recourse to administrative or court proceedings in disputes arising from pre-shipment inspection and to ensure the relevant outcome is enforced for exporters and importers from WTO member countries; to review application of VAT in area of domestic agricultural production, regularly notifying the General Council about tax exemption levels and coverage; to take measures to equalize excise duties applied to various alcoholic beverages; to remove all tax discrimination, with any exceptions being those prescribed in the 1994 General Agreement on Trade and Tariffs; to bring the Criminal Code into force from the year of Armenia’s accession to the WTO; after accession to the WTO, to publish all acts related to cooperation with the WTO in its Official Bulletin.
- **Licensing and Certification.** In particular, to refrain from imposing constraints on imports (i.e. licensing requirements) if those are not required by agreements made under the WTO; to recognize and apply certification documents issued by authorized bodies of exporting countries that are internationally recognized.
- **Investment Promotion Policy and State Enterprise Management.** In particular, starting from the date of WTO accession, to immediately implement (with no transition stage) the

requirements of the WTO agreement on investment resources related to trade; to conform domestic legal and normative acts regulating the activities of state-owned enterprises with special or exceptional privileges to the 1994 General Agreement on Trade and Tariffs and Agreements on Services.

- **Economic Policy, Industry, Financing and Public Procurement.** In particular, to ensure that any free trade zones created within the territory of Armenia are regulated according to the framework of WTO agreements; after WTO accession, to submit notifications of free trade zones and customs union agreements, and to harmonize the use of subsidies in industry with WTO agreements.
- **Post WTO Accession.** After its accession to the WTO, Armenia continued initiatives that developed the market economy, free economic competition, and equal judicial protection for all forms of property. It also created legislative foundations and reliable bases of information for the integration of Armenia into the world economy. Laws and legal documents drafted, adopted or amended in line with the requirements of Armenia's Accession to WTO are provided in Appendix 7.

Trade Agreements with Countries of the Former Soviet Union. The Republic of Armenia, besides being a member of the Commonwealth of Independent States (CIS), has signed free trade agreements (FTAs) with **Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, and Ukraine.** The agreements effectively treat all merchandise imported from those countries as duty-free, apart from trade-in services, investments, or Government procurement.

In addition to FTAs, Armenia has also signed several other agreements with former soviet republics, including agreements on the promotion and protection of investments (**Belarus, Georgia, Kyrgyzstan, Russia, Tajikistan, and Ukraine**) and the avoidance of double taxation with respect to taxes on income and on capital (**Belarus, Georgia, Russia, Turkmenistan, and Ukraine**).

Trade Agreements with other Countries. Armenia has Generalized System of Preferences (GSP) arrangements with Canada, Japan, Norway, Switzerland, and the United States. Since January 1, 2009, it has had GSP+ status with the European Union.

Armenia is a member of the Organization of the Black Sea Economic Cooperation (BSEC) (along with Albania, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey, and Ukraine), which is a multilateral, economic initiative aimed at encouraging cooperation in the Black Sea region (for details see www.bsec-organization.org).

Armenia signed the Most Favored Nation (MFN) trade agreement with Iran in 1997²³ and an FTA with Iran is under negotiation. Furthermore, FTAs are also being negotiated with Lebanon and Egypt.

Impacts of Trade Agreements on Trade Performance. Armenia's trade policy is predominantly focused on trade with the EU and the CIS – in 2009 these regions combined represented 58.9% of imports and 64.4% of exports.

Among the countries with which Armenia has signed FTAs, Russia is the prominent trade partner and thus the benefits of the FTA with Russia are the most apparent. As mentioned above, Armenia has three major economic agreements with Russia that cover not only economic but also cultural and political aspects. However, these agreements alone fail to account for the level of close economic cooperation between these two countries; other factors include:

- Access to business information for businessmen in both countries;
- Historically close economic and political relations;

23 Foreign Ministry of Armenia, "Trade Agreement between the Government of the Republic of Armenia and the Government of the Islamic Republic of Iran." Retrieved from <http://www.armeniaforeignministry.com/doc/conventions/5-22-iran-trade-e-06-05-95-e.pdf>

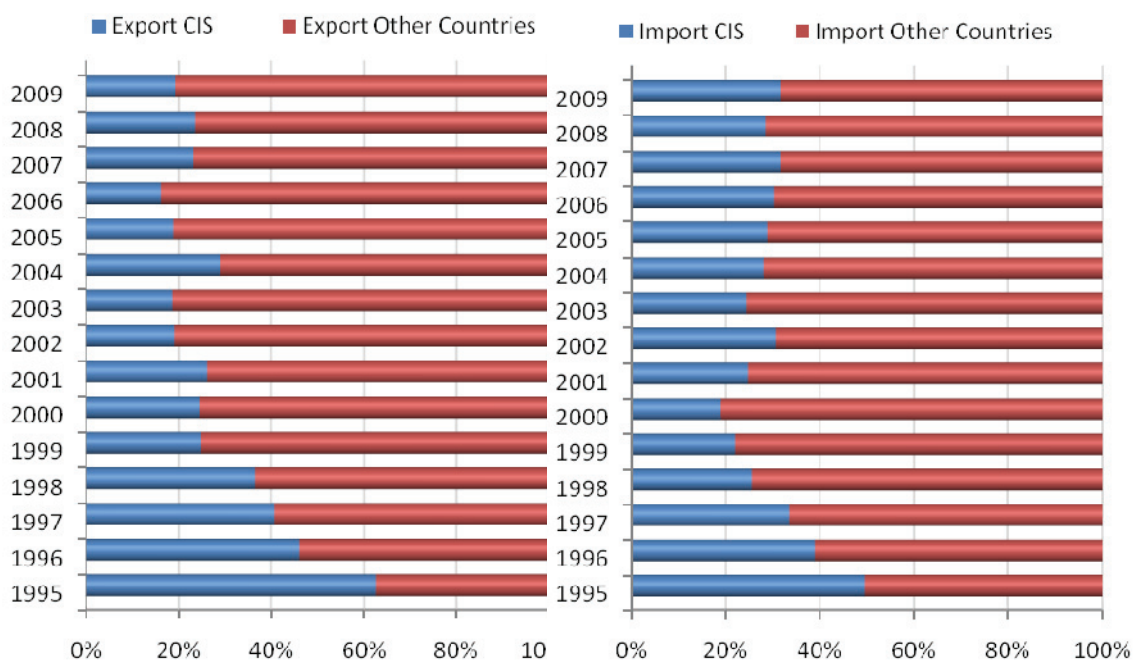
- Knowledge of language;
- Knowledge of market-specific demands and standards;
- Knowledge of business culture;
- Existence of a large diaspora as well as high immigration to Russia.

For the last 10 years, the main commodities exported to Russia have been beverages, spirits and vinegar; pearls, stones, precious metals, imitation jewelry, and coins; fruits, nuts and peels of citrus fruits/melons; prepared vegetables, fruits, and nuts; rubber; boilers, machinery, mechanical appliances, and computers; and electrical machinery/equipments and parts, telecommunications equipment, and audiovisual recorders. The main products imported from Russia to Armenia have been mineral fuels, oils, waxes, sub-bituminous coal, cereals, aluminum, iron or steel products, and other commodities. The most positive trend in the trade relations between the two countries is the increasing diversification of products being exported from Armenia to Russia.

Decreases in turnover of foreign trade between Armenia and the CIS after signing FTAs (see Figure 3.3) could be explained by several factors, such as:

- The economies of all CIS countries have been in a transition period;
- Major companies were under state control and entered the privatization process;
- The private sector was just being established;
- The rules of market had only just been introduced;
- Mutual acceptance of standardization was not reached (even though an agreement was made, it operated ineffectively);
- Non-tariff regulations persisted.

Figure 3.3. Exports and Imports to CIS and Other Countries (%)



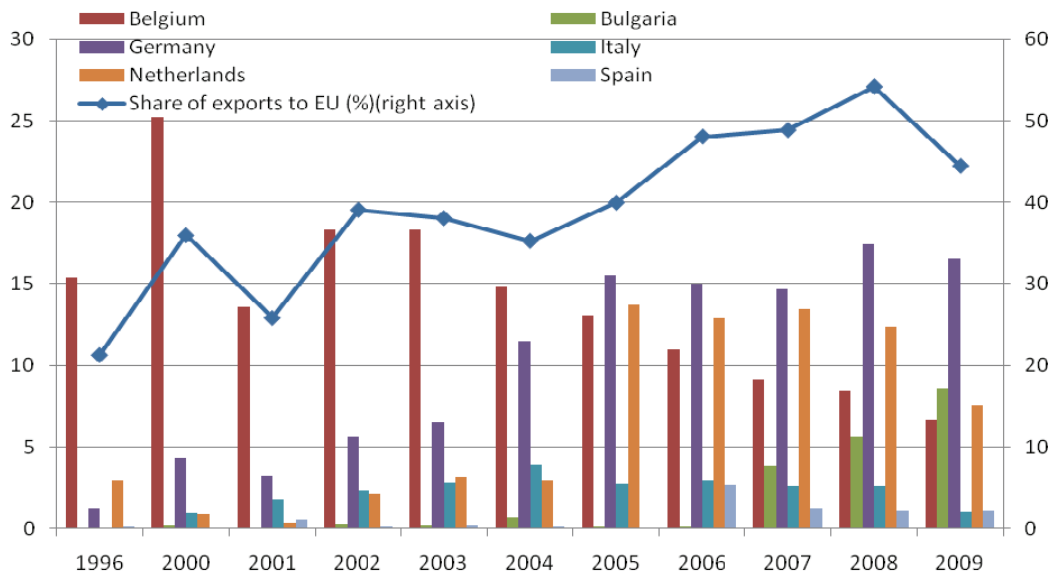
Source: National Statistical Service of the RA

Despite decreases in foreign trade turnover with CIS countries since the mid 1990s, it continues to be one of the major sources of income for Armenian producers and provides significant levels of employment in the country. One of the main reasons for continuing foreign trade with CIS countries was the FTAs signed with them, but there are other factors as well: after Armenia's independence, businessmen were well informed about CIS markets and preferred exporting products there; geographically, CIS countries are close to Armenia; Armenians in the diaspora and immigrants from

Armenia to CIS countries were more active as they had up-to-date information about political, legal, cultural, educational, and economic changes; and the Russian language was spoken and widely used in all CIS countries.

The GSP+ with the EU has had little impact on Armenia's economy and human development – exports did not increase and therefore did not lead to any significant increases in domestic production or job creation (event though both indicators were on the rise). In 2009, the EU market share of Armenia's exports was more than 44%, led by Germany (almost 16.5%) (see Figure 3.4). The main products exported to Germany are natural resources. However, with the right strategy, the Armenian Government could readily diversify exports to Germany by processing minerals in Armenia.

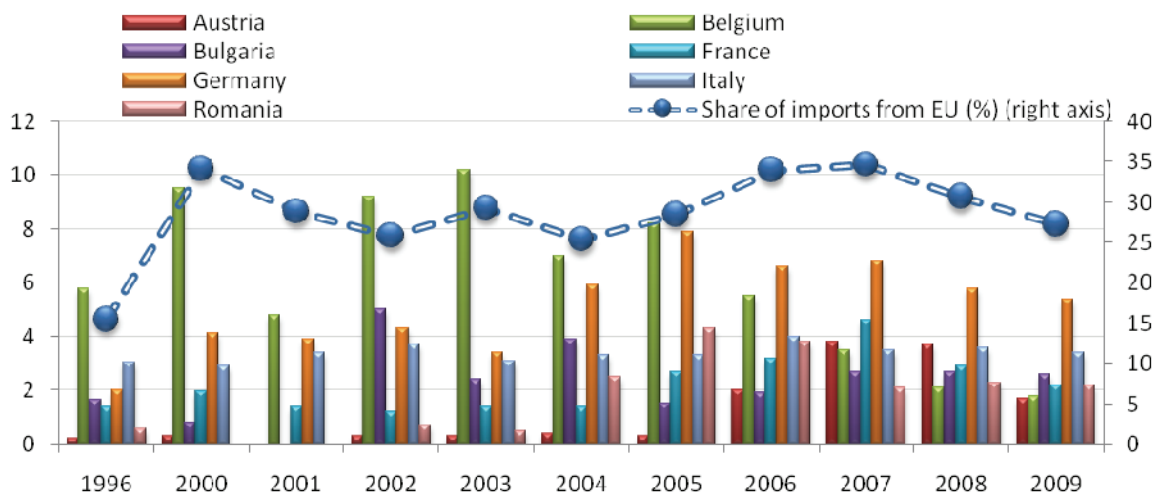
Figure 3.4. Armenia's Share of Exports to the EU with the Top 6 Recipient Countries, 1996-2009 (percentage of total exports)



Source: National Statistical Service of the RA

The dynamics of imports to Armenia is somewhat different as the major leader was, and continues to be, Russia. The share of EU imports to Armenia can be considered relatively stable, especially after 1998. In 2009, it constituted more than 27% (in comparison, CIS was about 32%) with most imports coming from Germany and Italy (for details, see Figure 3.5).

Figure 3.5. Armenia's Share of Imports from the EU (as a whole) and from EU Countries in 1996-2009 (percentage of total imports)



Source: National Statistical Service of the RA

The main products imported from the EU in 2009 were vehicles, machinery and equipment, precious stones and jewelry, nuclear reactors, fuels, and oils. If 2009 imports from the EU are compared to those of 2000, a positive trend is seen – there is a diversification of imported products (18 major products in 2009 compared to 6 in 2000) and an increased share in imports to Armenia (see Appendix 5).

Summary. It could be stated that the positive impacts of FTAs on the economy and human development are generally small. Moreover, the negative effects may worsen if additional actions are not undertaken. Such steps should include:

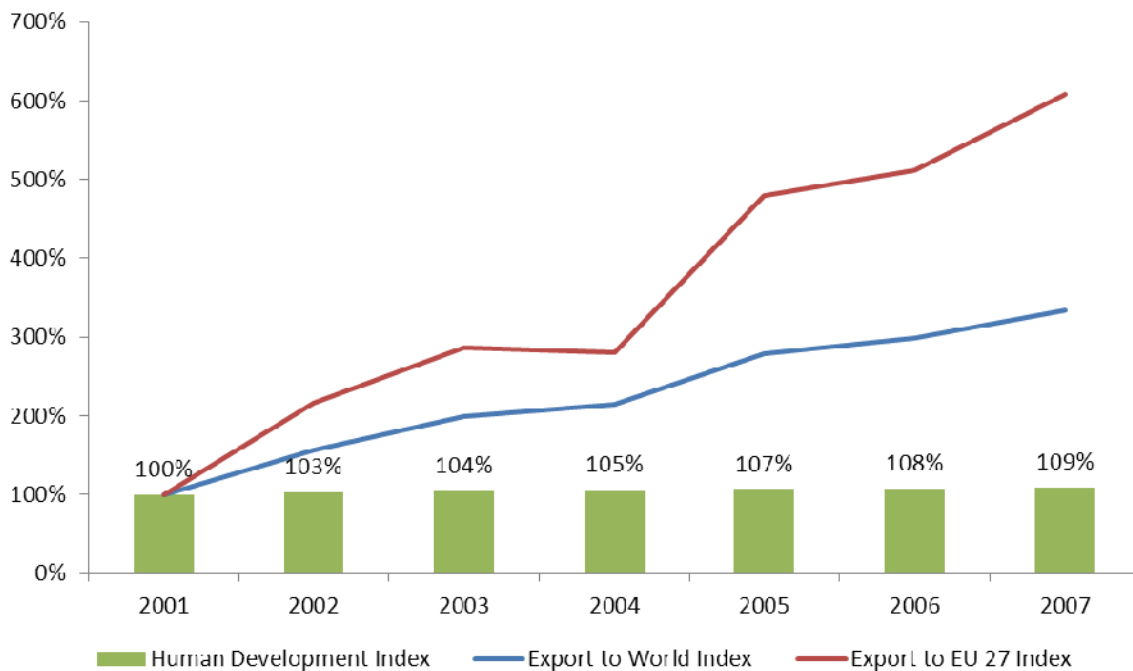
- Smooth the implementation of signed parallel agreements. This will remove informal trade barriers and have a direct impact on foreign trade turnover between signature countries, leading to increased domestic production and improved consumer choices of products and services in both countries. At the same time, it will shift competition and investments from the countries' less productive sectors to more productive ones.
- Promote the mutual acceptance of standardization and licensing, with training for appropriate specialists to ensure identical standardization and licensing procedures and provision of licenses. This will make entrance into the market easier and facilitate new technology, information, and knowledge exchanges, key contributions toward Armenia's human development process.
- Develop relevant NGOs by addressing the specific needs of exporters/importers and businessmen.
- Establish information centers that will be qualified to distribute up-to-date information to exporters and producers so that there is better allocation of human and natural resources. This will lead to a rise in the country's overall productivity, a keystone of human development for the robust Government Poverty Reduction Strategy.
- Create the capacity needed for Armenian laboratories to competently analyze the ingredients of products to be exported, according to western quality standards. Currently, Armenian production companies are not aware whether their goods meet necessary requirements due to the lack of modern testing facilities. This step will bolster Armenian exports and increase domestic production, creating new jobs and transferring knowledge and skills. At the same time, it will enable international accreditation of Armenia's export/import laboratories and standardization bodies.
- Promote SMEs operations and exports and the establishment of SMEs associations. This would have an immediate impact on employment.
- Develop the country's sense of business etiquette, thus facilitating communication between Armenia and other countries and leading to an environment more conducive to business.
- Introduce tax holidays that are related to the modernization of technology, equipment, and machinery, regardless of the size of the company. This will increase overall productivity and improve the quality of outputs, which, in turn, will lead to rises in the country's production, employment, and income as well as improvements in the population's skills, professionalism, knowledge, and quality of human resources.
- Establish a system to promote new start-up businesses. This will have a direct, positive impact on Armenia's employment level and make the Armenian economy more flexible to changes in regional and global markets.

3.3 FORTHCOMING TRADE POLICY ISSUES: DEVELOPMENTS IN ARMENIA'S TRADE POLICY

As mentioned above, economic theory provides overwhelming evidence that free trade offers a significantly better life and substantially more socio-economic opportunities to individuals in both developing and developed countries.²⁴ It is argued that free trade among countries channels resources to relatively more efficient industries. As a result, world output is augmented, the gains from trade are shared to varying degrees among countries, world per-capita income rises, and invariably social welfare improves at both domestic and world levels. It has also emerged that as trade among countries has become more integrated, the incidence of poverty has declined (although not always in terms of absolute poverty).²⁵ Moreover, there is strong empirical evidence that trade-inspired growth raises the per-capita income of developing countries (Grossman 2003), and enhanced per-capita income can subsequently contribute to a country's (human) development.

However, recent works in development economics stress that human development should be measured in terms broader than merely per-capita income, and the United Nations Development Program's (UNDP) Human Development Index (HDI) seeks to do this. Studies using such measures do show evidence of a positive correlation of trade between increased trade and increases in social welfare.²⁶ As illustrated in the following figure, this has also been the case in Armenia, where the HDI improved alongside trade during the previous decade. Nevertheless, Armenia's HDI has improved relatively slowly and this should certainly be a point of concern for policy developers.

Figure 3.6. Trade and Human Development Index (with 2001 as baseline)



Source: UNDP, *Human Development Report 2004-2010*, available at: www.hdr.undp.org and Trade Map, *International trade center*, available at: www.trademap.org

In addition to the slow progress of human development, a major concern of Armenian policy makers is the sluggish growth in national exports. The main reason for this slow growth is that external savings have been the main driving force behind Armenia's considerable economic growth over 1995-2008. In particular, high remittances received from abroad and investments in development

²⁴ See Davis (2005), Griswold (2003), Coughlin (2002), Krugman (1997), McCulloch (1997), Mussa (1997), and Kenen (1994).

²⁵ See Chen & Ravallion (2000), Chen & Ravallion (2004), Sala-i-Martin (2002), and Bhalla (2003).

²⁶ See Davis (2005).

programs and infrastructures contributed to the country's vast economic growth. The large inflow of remittances boosted consumer spending and allowed Armenia to cover its considerable deficits in trade and the State current account – deficits which then deepened due to the global financial crisis. One of the reasons why the trade deficit was hit so hard by the crisis is that, despite considerable economic growth, there had been little increase in exports over the previous decade.

Taking into account the factors mentioned – the slow growth of Armenia's trade (without heavy reliance on external savings), small improvements in the HDI, and the potentially positive impact of trade liberalization on human development – Armenia's legislature has been making trade liberalization and the country's integration into the global economy an urgent priority. The efforts of Armenian policy makers have primarily been focused in two main directions: strengthening Armenia's ties with the EU; and maintaining and developing its economic cooperation with CIS countries.

Impact of DCFTA on Human Development. With the assistance of the European Union under the Partnership and Cooperation Agreement between Armenia and the European Union (signed in 1996), the European Neighborhood Policy Action Plan (adopted in November 2006), the Country Strategy Paper 2007-2013 and the National Indicative Program, Armenia has undertaken a comprehensive reform of much of its legislation, institutions and policy implementation in order to bring them into line with EU standards. The objective of much of the reform is to improve trade and economic ties with the EU to the point where Armenia can establish a Deep and Comprehensive Free Trade Agreement (DCFTA) with the Union.²⁷

Activities aimed at eventually signing a Free Trade Agreement with the EU started in 2007 under the framework of the European Neighborhood Policy, part of the Armenia-EU Program of Activities. The European Commission then funded a study to determine the viability of signing Armenia-EU and Georgia-EU FTAs. Based on the study findings and following discussions, it was deemed appropriate to start negotiations (with Armenia, Georgia and Moldova) on a DCFTA instead of just an ordinary FTA .

As the name reveals, a DCFTA is more than a simple free trade agreement. It is comprehensive: the agreement covers a wide range of trade-related issues and institutions that are involved in organizing mutual trade (i.e. the EU intends to have equal partners in trade, where institutions that organize foreign trade act on the same level). It is also deep: the agreement aims to eliminate any hidden obstacles to trade via an adequate level of regulatory approximation on agreed issues, such as technical regulations, standards and conformity assessment procedures (i.e. this would partially open/extend the EU economy to Armenia).

A fact-finding Mission of the European Commission to Armenia took place in February 2009. Its subsequent report outlined priority areas where Armenia needs to achieve certain progress in order to be able to start DCFTA negotiations. These priority areas are described below:

Priority Area 1: Ensuring an Internal Structure for the Implementation of Negotiations. As a result of discussions and negotiations with the EC representatives, an internal structure for EU-Armenia DCFTA negotiations was formulated. On November 3, 2009, the Armenian Prime-Minister approved this structure and procedures for bodies responsible for EU-Armenia DCFTA negotiations with Decree No.921-A "On Organizing the EU-Armenia DCFTA negotiation process". To ensure success of the EU-Armenia DCFTA negotiations, an inter-agency commission has been established. The political coordinator for DCFTA negotiations is the Minister of Economy, who has selected a Primary DCFTA Negotiator and a Technical Coordinator.

The first session of the inter-agency commission on EU-Armenia DCFTA negotiations took place on 24 March 2010. During the session, the priority areas highlighted by the EC fact-finding mission were presented along with related tasks performed, or to be performed, by the Ministry of Economy. In order to organize activities related to the priority areas more efficiently, working

27 WTO Trade Policy Review: Armenia, available at: http://www.wto.org/english/tratop_e/tp_r_e/tp328_e.htm

groups were created to deal with such issues as sanitary and phyto-sanitary measures, technical barriers to trade, and intellectual property.

Priority Area 2: Technical Barriers to Trade. In order to introduce a new quality system that reduces technical barriers to trade and conforms with EU standards, the Ministry of Economy initiated coordinated activities with the World Bank and the German Metrology Institute in July 2009. Since then, a number of activities have been carried out: an awareness seminar and numerous meetings and discussions were organized, a metrology assessment report was prepared, and a road map for infrastructure reform was developed. The road map provided a better understanding of quality infrastructure reform and served as a basis for the preparation of a strategy of quality infrastructure reforms in Armenia.

The strategy was submitted to experts at the European Commission, CEN, CENELEC, EA, and EURAMET and was also presented for public discussion. The document was uploaded to the Ministry of Economy website and round-table discussions were organized with main stakeholders, representatives of the business community, consumers, scientific organizations, and bodies of conformity assessment. The strategy was reviewed once all comments and recommendations had been received. It was then presented to the **Armenian Government for discussion and approval**, and on December 16, 2010, the Government adopted the strategy.

Priority Area 3: Sanitary and Phyto-sanitary Measures. A national food safety strategy was developed by the DCFTA working group on technical issues and an **EU Advisory Group (AG) representative**. Currently, discussions on the strategy are about to be held. After discussions with the main stakeholders, the strategy will be submitted to EC experts and will then follow the same process as for the strategy on quality infrastructure reform noted above.

Priority Area 4: Intellectual Property Rights. According to the decision of the DCFTA Inter-agency commission, a working group on intellectual property rights was formed. Draft laws on trademarks and geographical notes were prepared with the assistance of the EU AG representative. These drafts have been submitted to EC experts and adopted by the **Armenian National Assembly**. Moreover, a Strategy on Intellectual Property Rights of Armenia has also been drafted.

As such activities commenced, it became clear that it would be implausible in the short term to achieve substantial progress in these priority areas or fully comply with the relevant EU requirements and thus meet the preconditions for starting DCFTA negotiations. So, the Ministry of Economy held negotiations with representatives of the European Commission on various levels and clarified what specific progress Armenia is expected to show in the priority areas in order to be considered ready to start DCFTA negotiations. As a result, an agreement was reached which states that if Armenia takes the following steps in the priority areas, negotiations may start:

1. Strategies that meet DCFTA pre-conditions in priority areas have been developed;
2. The strategies have been submitted to EC experts;
3. The Government of Armenia has adopted the strategies;
4. Implementation of the strategies has started.

Armenia is currently working on the implementation of these reforms with significant EU support, including specific technical assistance projects and help provided by the EU Advisory Group. Once all 4 phases are completed for all priority areas, the EC will start DCFTA negotiations with Armenia.

Trade liberalization in the form of a DCFTA with the EU is expected to contribute to the economic development of Armenia. Indeed, trade liberalization is generally believed to reduce income poverty and contribute to human development since outward-oriented economies appear to have performed better in terms of economic growth and a raise in average income usually benefits all groups of people, including the poor (Bussolo and Nicita, 2005). Specifically, the DCFTA is expected to benefit Armenia by lowering import prices of investment and consumption goods that can raise consumers'

social welfare. Indeed, a Case Network report concludes that if certain requirements are met, an EU-Armenia DCFTA can contribute to Armenia's GDP growth and economic development²⁸.

However, the anticipated economic growth cannot guarantee that human development will be enhanced; the DCFTA is likely to have both winners and losers. As pointed out by Bourguignon (2003), the heterogeneity of poverty changes caused by income growth is very large from country to country²⁹. Indeed, there are examples of rapidly growing countries that experience no reduction in poverty levels or human development. In addition, trade liberalization tends to have a strong short and medium-term redistributive impact; even if reforms bring enhanced welfare overall, some poorer segments of the population may actually suffer, which would have a detrimental effect on the country's poverty level and human development index³⁰.

Furthermore, according to the report of the Case Network, a large group of Armenian products (the mining industry excluded) do not currently meet EU standards and could not therefore enter the EU market. Since many Armenian companies are too small to make the investments needed to upgrade production quality, it seems that – at least in the short run – the benefits of a DCFTA are more likely to touch only the larger companies and wealthier segments of the population.

The far reaching economic and social consequences of a DCFTA cannot be underestimated – all sectors of the Armenian economy will be affected in some respect. Such an agreement can affect a country's human development in complex ways – via changes in prices, employment, and government revenue and spending³¹. As a comprehensive analysis of the possible impact of a DCFTA on human development (involving simulation methods such as CGE models) was beyond the scope of this study, it will make assessments according to relevant international experience.

The first and most directly felt result of an EU-Armenia DCFTA will be the changes in prices of different products at the Armenian border. Consequently, commodity and factor price changes are important factors in evaluating the impact of a DCFTA on the country's human development. The scale and nature of the impact of these price changes on the poor depends on whether households are net producers or consumers of the various products of which the prices have changed, and on how strongly border prices are transmitted to the poor in the first place.

One of the main benefits of trade liberalization is often claimed to be that there is greater competition, which leads to lower prices for consumers. Indeed, enhanced (economic) access to various goods and services is important for a country's human development since people are better able to fulfill their needs. However, among different goods and services, it is prices of staple food products that are most crucial for the poor; thus, price changes in these products need to be considered when evaluating the potential impact of a DCFTA on Armenian society.

As illustrated in the following table, Armenia is a net importer of staple foods (except for potato and meat). A DCFTA would not therefore lead to increased competition in the domestic market; reduction in the prices of these products is not very likely – and the fact that Armenia's staple foods are mainly imported from non-EU countries only confirms this. Therefore, the impact of a DCFTA on the most-in-need through price changes of staple food is expected to be considerably limited. Price changes may occur, but it is the wealthier segment of society that would benefit, which will only widen the gap between rich and poor.

28 See Case Network: "The Economic Feasibility, General Economic Impact and Implications of Free Trade Agreements between the European Union and Armenia", Warsaw, 2008.

29 See Bourguignon, François. 2003. "The Growth Elasticity of Poverty Reduction". In T. Eicher and S. Turnovsky, eds., *Inequality of Growth*. Cambridge, MA: MIT Press.

30 See Bussolo, M., and A. Nicita. (2005). "Trade and Policy Reforms." In *Analyzing the Distributional Impact of Reforms: A Practitioner's Guide to Trade, Monetary and Exchange Rate Policy, Utility Provision in Agricultural Markets, Land Policy and Education*, ed. A. Coudouel and S. Paternostro, Vol. 2, World Bank, Washington D.C.

31 Winters, L.A. (2001): "Trade and Poverty: Is there a Connection", WTO.

Table 3.4. Armenia's Staple Food Imports and Exports in 2009 (US\$ thousands)

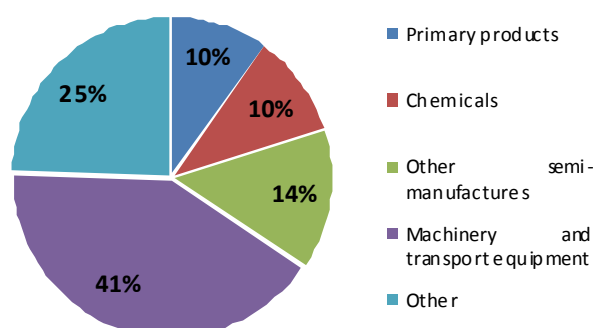
Product	Non EU		EU	
	Import	Export	Import	Export
Wheat and muslin	94,624	0	0	0
Barley	576	0	0	0
Maize	7,380	0	0	0
Rice	6,527	0	23	0
Potato	0	80	744	0
Meat	65,255	348	4,429	0

Source: Trade Map, International trade center, available at: www.trademap.org

Regarding changes in employment and wages, existing empirical evidence makes it very difficult to predict what kind of impact trade liberalization would have on these in Armenia. This is due to the wide range of results observed from trade liberalization with employment and real wages rising in some countries and falling in others.

The impact of a DCFTA on the poor in terms of wages and employment will depend on the nature and scale of general changes in real wages and employment and on how the wage of a job brought about by the DCFTA compares to the income of the unemployed, which relates to Armenia's existing social security system. If local industries in Armenia suffer from opening the Armenian economy to European goods, unemployment may rise as domestic manufacturing loses its capacity to create jobs. However, growing employment in export industries should also be taken into account since the net impact of a DCFTA on employment depends on whether, overall, jobs have been created or lost.

Figure 3.7. Main Product Groups Imported to Armenia from the EU



Source: Trade Map, International trade center, available at: www.trademap.org

As mentioned above, Armenia already enjoys EU's Generalized System of Preferences (GSP+), which gives Armenian products duty-free access to the EU market for around 6,400 tariff lines. Despite this, Armenia's exports to the EU are currently focused on two main commodity groups, namely: base metals and their derivatives (64.3%) and pearls and other precious stones (18.8%)³². The fact that there is such a narrow base of export commodities (mainly produced by large mining companies) underlines the point made throughout this report that it is not only tariff rates that hinder the entrance of Armenian products into the EU market; there is a need for diversification. All in all, the industries that will benefit most from a DCFTA will be those with the greatest need for imported products from the EU. And it is these companies that are likely to become the potential job creators in the near future.

As noted above (see also Figure 3.7), imports from the EU mainly comprise machinery and trans-

³² The Directorate General for Trade of the European Commission, available at: <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/>

port equipment. It would be instructive to locate the industries that use these products in order to evaluate their growth potential and ascertain their geographical location in Armenia (especially since 45% of Armenia’s production is concentrated)³³. By considering such factors, it would be possible to evaluate where the benefits flowing from a DCFTA might reach. Indeed, the access of Armenia’s rural population to the benefits of enhanced trade (if concentrated in Yerevan) has important implications for assessing the country’s human development, especially since the rural population, particularly rural women, might face difficulties relocating to urban areas.

Nevertheless, international experience tends to indicate that trade liberalization interventions generally generate only slight changes in wage and employment levels (Table 3.5 below provides a snapshot of the effects of trade liberalization on wages and employment in other developing countries). Thus, the impact of an EU-Armenia DCFTA on Armenia’s wage and employment levels is not expected to be very significant.

Table 3.5. International Experience on the Impact of Trade Liberalization on Wages and Employment

Panama	Trade liberalization of 1996/97 led to a decrease in unemployment (World Bank 1999)
Uruguay	Trade liberalization in 1978-86 had a significant impact on the level of employment across manufacturing sub-sectors, but almost no impact on real wages (Vaillant 2000)
Mexico	Large trade reform in 1985 led to little change in employment, but real wages for the unskilled fell (GH Hanson 1998)
Mauritius	Limited trade liberalization led to increases in unskilled and female wages (Milner and Peter W. Wright 1998)
Morocco	Major trade reform in 1984 led to little change in employment or wages (Löfgren et al 1999)

Finally, any assessment of the impact of a DCFTA must also take into account changes in tax-revenues. At present, a considerable share of Armenia’s tax-revenues is collected at the border, and any decrease in such revenues will invariably have a knock-on effect on Government spending. Since Armenia already benefits from the EU’s GSP+, at this stage, only Armenia will suffer from DCFTA related duty reductions. As official data on the exact amount of tariffs collected on imports from the EU is unavailable, it is only possible to give a rough estimate of such tax-revenues. By simply taking 8.6 percent (simple average final bound, WTO) of the total value of products imported from the EU to Armenia³⁴, we can calculate that in 2009 Armenian authorities collected approximately 45 million Euros in import tariffs³⁵. This sum equals more than 3 percent of the Armenian Government’s total budget revenues³⁶ and amounts to more than 5 percent of total Government expenditure in the fields of health, education, social security, sports, and culture. This highlights that the reduced tariffs associated with the DCTFTA could deprive the Armenian Government of the revenue it needs for education, healthcare, and other important aspects of human development.

The existing evidence does not, however, always show that Government revenues are reduced as result of trade liberalization. Often, where tariff rates are very high, reduced rates can cause tariff revenues to increase since the incentive of reduced rates leads to a proportional increase in trade. Nevertheless, the associated loss of jobs and wages can cause a short term rise in poverty and inequality. While there may be slight improvements in poverty levels during recovery periods, income inequality can remain high. Therefore, it is vital that any reductions in Government spending that may result from a DCFTA are not allowed to weaken the social safety nets.

As with many developing countries, Armenia lacks the ability to offer any significant subsidies to

33 Source: National Statistical Service of the RA , Marzes of Armenia in Figure 2005-2009, available at: www.armstat.am
 34 The Directorate General for Trade of the European Commission, available at http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf
 35 The average exchange rate of AMD in 2009 (507.4) is used for the calculation
 36 State Budget Execution Report, available at: www.minfin.am

industry; tariffs are its only means of support. While many tariffs are already lowered as a result of Armenia's WTO accession, further reductions in tariffs could make Armenia unable to offer any strategic protection for emerging industries, stripping them of the chance to build dynamic competitive advantages. Thus, in order to mitigate the adverse effects of the DCFTA, safeguard human development, and protect the poor, it is crucial that the Armenian Government is shrewd in choosing which taxes may cover any revenues lost due to trade liberalization; such decisions will considerably affect the overall impact of a DCFTA on human development. Moreover, it is critical that complementary measures are developed that will enable poor people to take full advantage of the opportunities that a DCFTA creates.

In conclusion, it is not yet clear how an Armenia-EU DCFTA would affect Armenia's poverty, social welfare and human development in real terms. In order to improve policy formation and EU negotiations, it is therefore crucial that a clearer understanding is formed, including a better grasp of how possible benefits could be distributed among different segments of society. Moreover, a deeper understanding of the potential impacts of a DCFTA will help the RA Government to develop preventive measures that alleviate any possible negative effects on the country's human development as well as enhance its positive effects.

Relations with the Eurasian Economic Community. While Armenia was making great efforts to strengthen its ties with the EU, it was also maintaining and strengthening its existing network of free-trade agreements with the other nine countries of the CIS. Moreover, in 2003 Armenia acquired observer status in the Eurasian Economic Community (EurAsEC).³⁷

EurAsEC is an international economic organization with the power to form common external customs borders among its member countries (Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan³⁸) and create a single foreign economic policy, tariffs, prices, and other components of a common market.

The purpose of EurAsEC is to create economic cooperation, mutually develop trade, effectively advance a Customs Union (CU), create a single economic zone, and coordinate the actions of member states as they integrate themselves into the world economy and the international trade system. One of the organization's chief spheres of activity is securing dynamic economic development for the Community's nations; by harmonizing socio-economic changes and utilizing each country's economic potential they aim to raise the living standards of their peoples. Some of the Community's principal objectives are:

- Complete the institutionalization of a free trade regime and the formation of a common customs tariff and a uniform system of measures for nontariff regulation;
- Ensure free movement of capital;
- Form a common financial market;
- Agree on the principles and conditions of switching over to a single currency for EurAsEC;
- Establish common rules for trade in goods and services and access to domestic markets;
- Create a common unified system for regulating customs;
- Develop and implement interstate target programs;
- Provide equal conditions for innovative and entrepreneurial activities;
- Create a common market of transportation services and a single transport system;
- Create a common energy market;
- Ensure conditions for foreign investment that provide equal access to the markets of member states;

37 EURASEC in Questions and Answers, available at http://www.evrazes.com/i/other/Evrazes_questions&answers_eng.pdf

38 In January 2006, the Republic of Uzbekistan joined the Community, but has suspended its participation in the work of the EurAsEC's governing bodies since 2008.

- Ensure the free movement of citizens of the EurAsEC states inside the Community;
- Harmonize social policies toward creating a community of social systems that has a common labor market, a single educational zone, and robust approaches to public health and labor migration, etc.;
- Merge and harmonize the legislation of each member state;
- Start cooperation of member state legal systems toward creating a common legal zone within the Community.

EurAsEC aims to guarantee a unified approach of member states to their international activities and eventually develop into a CU of the member countries. In fact, Russia, Belarus and Kazakhstan, three members of the EurAsEC community, have already formed a Customs Union. And in 2010 they agreed to enter into negotiations with the WTO as a single customs territory. Indeed, this kind of Customs Union entails a form of economic integration that presupposes the replacement of the member states' national customs territories with a single unified customs territory. Within this zone a single customs tariff operates, there is a single foreign trade policy toward external countries, rules on customs regulation are uniform, and a single supranational body exists to regulate foreign trade and the activities of definite production and trade spheres as well as to decide on customs matters related to the Union.

Since Russia is Armenia's main trading partner, any changes in Russia's trade legislation or trade preferences with Armenia or any other country is likely to have an impact on Armenia's trade and economic development. Indeed, Armenia will feel the effect of the EurAsEC CU recently formed among Belarus, Kazakhstan and Russia in two main ways: price changes and changes in Government revenues.

Potential Changes in Prices and Revenues Due to the EurAsEC CU. Due to the CU established among Belarus, Kazakhstan and Russia, products that are currently imported into the markets of those countries from Armenia may be substituted by products that are manufactured within that CU. It is natural that elimination of import tariffs among these countries will make the products of those countries more competitive than the Armenian products that previously benefited from FTAs. The formation of the CU is also likely to cause a fall in the prices of those products since liberalization of trade generally leads to greater competition and reduction in prices.

Thus, the enhanced competition against Armenian products in the Russian, Belarusian and Kazakh markets, may hit Armenian producers hard, curbing their revenue and ability to create jobs. The drop in employment and pressure on wages that might result will likely have an adverse effect on Armenia's social welfare and human development since people will have less capacity to fulfill their needs.

Moreover, any fall in revenues for Armenian companies will also impact Government revenues, as fewer taxes will be collected by the Government from export companies. As discussed in relation to the potential impact of a DCFTA in Armenia, if the Government's income declines, this may force it to reduce spending, which will affect the country's social safety nets. Reduced Government spending may also be felt in the country's education and healthcare spheres, which are major factors in human development.

Armenia's Potential Membership of EurAsEC and the Customs Union. The differences in economic and political interests of EurAsEC member countries and the differing relations of those countries with the WTO tend to confirm the hypothesis that decisions taken within the EurAsEC framework will not always be in Armenia's best interests. If Armenia were a member of EurAsEC, it would very much affect the adjustment process of Armenian economic legislation towards international norms and requirements, the process that has led to Armenia's accession to the WTO. In fact, Armenia's trade legislation is already considerably more liberal than the legislation of other EurAsEC member countries.

Thus, when the RA Government discussed the possibility of Armenia's membership in the EurAsEC, and even the CU, it concluded that Armenia's membership would, at this stage, make no obvious contribution to the country's development. After all, membership for Armenia is not expected to significantly enhance its trade and economic relations with other EurAsEC member countries nor Armenia's position in world trade cooperation.

One of the main reasons why membership in EurAsEC would provide little benefit for Armenia is that bilateral agreements already exist between Armenia and the member countries. More specifically, the agreements that regulate economic relations between Armenia and the Community mean that membership in EurAsEC, or the resultant CU, is likely to have limited gains because:

- Armenia's FTAs already secure all customs privileges that may be granted under EurAsEC membership;
- A unified system of non-customs regulation measures (quantitative quotas, licenses, standards) under EurAsEC cannot result in any benefits in trade with EurAsEC member countries, since:
 - According to bilateral agreements, Armenia and EurAsEC member countries have agreed not to apply quantitative restrictions in foreign trade between the two respective countries;
 - The EurAsEC agreement does not regulate trade licensing issues;
 - Armenia already has agreements with EurAsEC member countries on standardization, certification and metrology, according to which the parties recognize and accept certification bodies, expert laboratories, results of experts, certificates, as well as conformity marks of the two countries in question. At the same time, Armenia's non-custom regulation measures are currently being revised to conform to EU international norms.
- Development of a unified customs regulation system will not benefit Armenia's foreign trade with EurAsEC member countries since Armenia's customs legislation fully complies with international requirements, and UN and WB customs organizations' recommendations, which are considered as the yardstick for EurAsEC members. Moreover, Armenia and EurAsEC member countries are represented in the CIS Council of Customs Heads and follow the directives of the latter in their activities.
- Common rules to regulate the entry of goods and services into the domestic market and the ensuing trade will not bring any significant results, since current bilateral agreements force Armenia and EurAsEC countries to apply a national regime, which means that goods and services from the counterpart country will be subject to similar treatment and requirements in the domestic market.
- Development of the transportation services market and a unified EurAsEC transport system is not feasible for Armenia, since the country has no geographical borders with the Community.
- Creating equal conditions for foreign investments will not improve Armenia's investment climate or increase Armenian investments in EurAsEC countries, since Armenia has signed bilateral agreements on mutual promotion and protection of investments with the member countries. Based on these agreements, Armenia and EurAsEC countries ensure equal conditions for foreign and local businesses within their borders; moreover, parties to such agreements grant Most Favored Nations regimes to each other, which require that parties ensure conditions for the counterpart country which are at least as favorable as those offered to any third country.
- At this stage, the legislation of EurAsEC countries is not yet fully established – it is still undergoing reforms so that it will comply with international norms. Meanwhile, Armenia has fully completed reforms in trade and economic legislation and has ensured that it now complies with international standards. Since EurAsEC countries are at various stages of WTO accession, they are grappling with various legislative reforms, whereas Armenia is already a WTO member. Therefore, Armenia is not in a position to reform legislation in terms of harmonizing it with the legislation of EurAsEC countries.
- The single customs tariffs of a CU would have an adverse effect on the Armenian economy

since the recommended rates are mainly based on import rates imposed by Russia. Import tariffs in Russia are based on the country's economic interests; Russia is a country with a vast amount of natural resources and, as a result, it applies high tariffs to protect its mining industry. On the other hand, Armenia has few natural resources; in order to ensure the competitiveness of its manufacturers in external markets, it needs cheap raw materials and applies a 0% rate to imported raw materials and equipment.

The issues described above also demonstrate that if Armenia joined the EurAsEC, its ability to pursue independent economic policies may be seriously restricted; membership implies a partial loss of economic sovereignty in the sense that Armenia's independent policy-making will be superseded by the decisions of the EurAsEC international council. Moreover, such decisions may conflict with other international requirements and commitments (e.g. WTO related).

If Armenia joined the EurAsEC, it would be able to apply the same import tariffs in Armenia as are applied in the other member countries (assuming Armenia decides to join the Customs Union between Belarus, Kazakhstan, and Russia). While this may lead to a rise in Government revenues, it will also result in:

- Increases in domestic market prices for goods imported from non-member countries;
- Disruption of the consumer-market balance as a result of changes in prices;
- Changes in import dynamics, particularly a reduction in imports from countries outside the CU;
- Adverse effects for domestic manufacturers: increases in the price of raw materials and equipment from non-CU countries, which raises production costs and reduces the level of exports of such goods.

The effect of any fiscal gains brought by increased customs tariffs will therefore be neutralized by the reduction in imports from non-CU countries. Moreover, changes in customs tariffs will not affect trade with EurAsEC countries due to the free trade regime with CIS countries.

Hence, it is worth noting that, in the light of Armenia's current policies, EurAsEC membership would have an adverse effect on Armenia's stable economic micro-climate and sustainable economic growth, as well as on the country's investment and business environments, and this would translate into a decline of human development. Consequently, it is preferable that Armenia maintains its observer status in the EurAsEC and defers the possibility of a CU with member countries until those states have closed the gaps in their foreign trade legislation and policy.

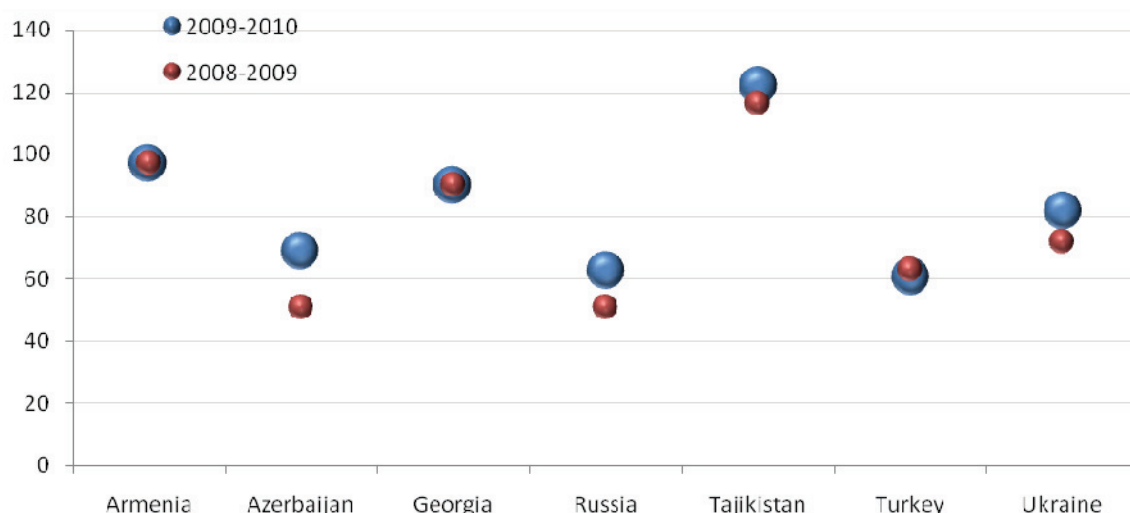
Finally, given the rising degrees of trade liberalization, maintaining the interests of Armenia's domestic industry becomes ever more important and needs to be addressed. Armenia's accession to the WTO commits it to the three WTO trade protection tools, and thus issues regarding anti-dumping and anti-subsidy measures are now regulated by national legislation. However, in addition to adopting such regulatory tools, it is also important to improve their effectiveness through complementary measures. For example, the limited public awareness regarding these issues must be considered; if local producers are made more aware, they will be able to make appropriate use of the protection tools available and protect themselves from unfair competition.

3.4 BUSINESS CLIMATE AND INVESTMENT POLICY

Business Climate. International organizations use various indicators to conduct comparative assessments of different countries' business climates. It is important to present several of them below.

First, the Global Competitiveness Index, (Figure 3.8) shows that Armenia's ranking is poor compared to that of other CIS countries.

Figure 3.8. Global Competitiveness Index, Rankings for 2009–2010 Compared with 2008–2009.



Source: www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm

Another assessment is conducted by the Belgian Export Credit Company. This rating is not favorable for Armenia either (see Table 3.6).

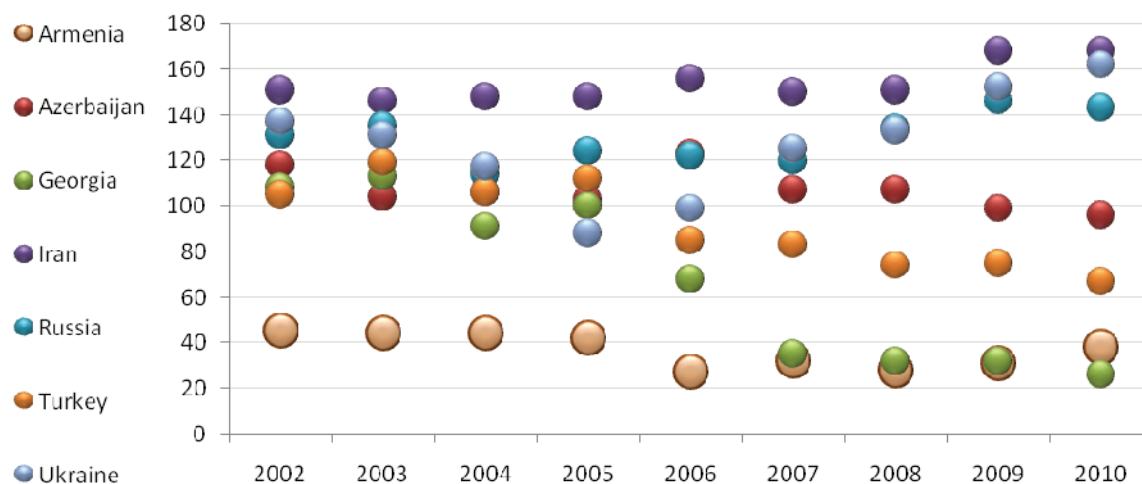
Table 3.6. Risk of Doing Business³⁹

Country	EXPORT TRANSACTIONS				DIRECT INVESTMENTS		
	Short term Political risk	Medium to long term Political risk	Political risk Special transactions	Commercial risk	War risk	Risk of expropriation and Government action	Transfer risk
Armenia	3	6	4	C	4	3	5
Azerbaijan	2	5	3	C	3	3	5
Georgia	4	6	5	C	5	4	6
Russia	2	4	2	C	3	4	3
Tajikistan	7	7	7	C	5	5	7
Turkey	3	4	3	C	3	2	4
Ukraine	6	7	6	C	2	3	6

The “Index of Economic Freedom” conducted by the Heritage Foundation and the Wall Street Journal (www.heritage.org/index) ranks Armenia as the second most economically free nation in the CIS, after Georgia, in 2010 (see Figure 3.9).

³⁹ www.ondd.be - Countries are classified into seven categories (from 1 to 7) reflecting the intensity of political risk. This risk encompasses all events occurring abroad and assumes a case of force measure for the insured or the buyer (foreign exchange shortages, wars, revolutions, natural disasters and government actions). Category 1 includes those countries for which political risk is the lowest and category 7 groups those countries with the highest political risk. Countries are classified into three categories (from A to C) according to the intensity of commercial risk. This is the risk of default by a foreign private buyer, i.e. the risk of a buyer being unable to meet its financial obligations or not honoring them without legitimate reason. Commercial risk not only depends on the situation of the buyer at its micro-level, but also on macroeconomic and systemic factors that have an impact on the repayment capacity of all the buyers in a country. Category A groups countries in which systemic commercial risk is the lowest, while category C groups countries with the highest risk.

Figure 3.9. The Heritage Foundation's Economic Freedom Rankings



Source: Wall Street Journal, 2010

When Armenia's tax rates are compared with those of the countries above, it appears that Armenia's business climate is relatively favorable given that all major tax rates are set at 20% (see Table 3.7).

Table 3.7. Tax Rates in Several Countries⁴⁰

Country	Profit Tax %	Income Tax %	VAT %
Armenia	20	20	20
Azerbaijan	24	14-35	18
Georgia	18	20	18
Russia	20-24	13	18
Tajikistan	25–60 with a standard rate of 30	Maximum 40	20
Turkey	20	13-35	18
Ukraine	25	15	20

Source: Armenian Development Agency, www.ada.am

Although the disadvantages of Armenia's business climate are few, those that exist are relatively significant – a lack of basic production resources, the small consumption market, and high transportation costs with blockades by Turkey and Azerbaijan. Thus, foreign trade is a key driving force for Armenia's economic development since it opens new doors for the consumption market and creates new employment opportunities.

According to the "Doing Business 2010 Report" of the World Bank, Armenia was ranked 44th among 183 countries, an improvement of 7 places since the previous year. There were tangible improvements in 'starting a business' and 'trading across borders' indexes as well. Still, in many respects Armenia ranks worse than its neighboring countries, especially Georgia (see Table 3.8).⁴¹

40 According to the working papers of Armenian Development Agency.

41 www.doingbusiness.org/features/Highlights2010.aspx.

Table 3.8. Ease of Doing Business in Armenia, Georgia and Azerbaijan (among 183 Countries)

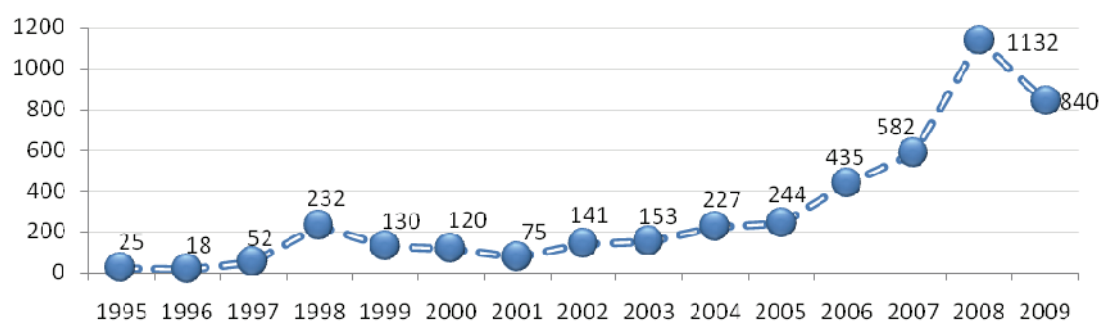
	Georgia	Armenia	Azerbaijan
Ease of Doing Business	11	44 (+7)	38
Starting a Business	5	20 (+44)	17
Dealing with Construction Permits	7	72 (+3)	158
Employing Workers	9	62 (-5)	33
Registering Property	2	4 (+1)	9
Getting Credit	30	44 (-2)	15
Protecting Investors	41	92 (-5)	20
Paying Taxes	64	157 (-2)	108
Trading Across the Border	30	103 (+34)	177
Enforcing Contracts	41	62 (-1)	26
Closing a Business	95	49 (0)	84

Source: Doing Business 2010 Report

Armenia's business climate has numerous features that make it competitive in the world market, such as: easy and free access to markets in the CIS and Middle East; no export duty; free foreign currency conversion; free repatriation of profit; favorable investment legislation; investment guarantees; strong Government commitment to attracting foreign direct investment (FDI); no restrictions on staff recruitment; competitive energy costs; VAT refunds on exported goods and services; and no import duty on capital and raw materials that are related to investment. Still, Armenia's most important competitive advantage is its well-educated, skilled, cost-efficient, and flexible labor force (both internally and externally [i.e. the diaspora]). Nevertheless, these competitive features are gradually weakening, despite the Government's steps to improve the business environment. The reason for this may be the fact that most changes are being made at the macro level.

Investment Performance. Over the last 15 years, investments in Armenia have tended to increase – more in relation to demand than supply. Most private investments were in the construction and mining sectors, while public investments went toward developing and rehabilitating the country's infrastructure. Due to the lack of domestic savings, the role of FDIs in Armenia's total investments cannot be underestimated. While there have been some fluctuations in FDIs levels due to the end of privatization and different kinds of regional and global crises, steady growth has been registered since 2000 (see Figure 3.10).

Figure 3.10. FDI Inflows to Armenia, 1995-2009 (millions of US\$)



Source: National Statistical Service of the RA

The major sectors receiving FDIs have been: mining, electricity, gas, hot water supply, manufacturing of foodstuffs and beverages, wholesale trade, hotels, restaurants, air transport activity, postal services, telecommunications, computers and related activities, research and development, and others (for details, see Appendix 8). The major countries investing in Armenia have been Greece,

Russia, the United States, Germany, France, Lebanon, Canada, and Argentina (for details, see Table 3.9 and Appendix 9). It should be noted, however, that Greece's only investment was in Armenia's telecommunications sector, and when this was sold to Russian investors, Greece's contribution in Armenia's economy dropped to almost 0%.

Current FDIs figures do not represent Armenia's full production and export potential. One of the major reasons for this is that the Government is not taking adequate steps to simplify the business environment and offer foreign investors the kind of incentives that are widely used in other countries to attract FDIs. In particular:

- Taking into consideration the geographical location of Armenia, the Armenian Government should promote knowledge intensive sectors through different kinds of tax holidays, (depending on the size of investments and employment opportunities created), modernization of educational institutions, and incentives that encourage private companies to modernize their equipment and technology;
- Government grants for promoting exports, starting up businesses, or providing capacity building for employees can be created;
- Armenia's business image in the international arena could be considerably improved.

Table 3.9: Major FDIs, by Country, 2000-2009 (%)

Country	2000	2001	2002	2003	2004	2005	2006
Argentina	0	0	0	2.4	10.8	4.6	13.4
Canada	9	0.9	35.6	7.3	1.5	0.4	7.1
Cyprus	1.3	0.7	3.6	3.4	1.1	4.2	6.3
Finland	0	0	0	0	0	0	6.7
France	2.5	0	8	6.1	12.3	8.3	3.6
Germany	0	0.1	0	1.2	17	39.8	19.1
Greece	32.3	17.7	6.6	6.6	19	20	14.1
Russia	36	38	5	44.6	21.5	2.1	11.5
USA	6	26.6	8.1	7	4.6	5.6	9.9

Country	2007	2008	2009
Argentina	3.12	8.76	6.59
Belgium	0.61	0.36	0.17
Cyprus	2.05	1.08	0.95
France	3.22	8.37	11.44
Germany	9.49	2.37	2.64
Ireland	0.7	0.64	0.04
Italy	0	0.04	4.57
Lebanon	14.23	1.18	1.85
Luxemburg	0.64	0.67	0.34
Netherlands	0.33	0.45	0.62
Russia	50.35	71.39	52.56
United Kingdom	1.17	0.11	0.01
USA	4.42	1.77	1.77
Other countries	10.35	2.82	16.43

Source: National Statistical Service of the RA

Investment Policy. The Armenian Government considers investment policy to be a key driver of Armenia's economic development. To this end, the Armenian Development Agency was established in 1998 to promote FDIs inflow, while in 2001 the Business Support Council was established by a Presidential Decree to provide an effective mechanism to monitor the investment climate.

Foreign investments in Armenia are regulated by the Law on Foreign Investment, adopted in July 1999. According to this law, a "foreign investor" is a foreign company, an international organization, a foreign citizen or person without citizenship, or an Armenian citizen permanently residing outside of Armenia that invests in Armenia. A "foreign investment" is any form of property (also financial assets and intellectual property) invested by a foreign investor in the territory of Armenia through a variety of legal entities, such as entrepreneurs/sole proprietors; partnerships (full or limited); companies (open joint stock, closed joint stock, limited liability, supplementary liability); cooperatives (commercial and non-commercial); branches; and representative offices.

According to the legislation of Armenia, foreign investments cannot be nationalized, confiscated, or expropriated, except in cases of natural or state emergency market price compensation. Until now, there have been no cases of nationalization, confiscation, or expropriation. In addition, the law does not limit the volume or type of foreign ownership (except land ownership – a foreign individual cannot buy land in Armenia, but a foreign company registered in Armenia can), the number of foreign employees, or access to financial sources. Furthermore, foreigners may obtain permission to use land for the exploitation of Armenian natural resources in cases of long-term leases and concessions and the participation of an Armenian company.

Armenia's legislation provides for commercial disputes to be settled through either state court proceedings or alternative dispute resolution mechanisms. Moreover, if Bilateral Investment Treaties with the foreign investor's home country exist, the latter can apply to internationally established tribunals for the resolution of the problem. Armenia has also signed the international convention on investment disputes and is a member of the International Center for Investment Disputes Settlement.

Impact of Investment Policy on Foreign Trade and Human Development. Foreign trade and FDIs are very important for an economy's development, especially in the case of small countries such as Armenia. FDIs open new markets since, in most cases, major investors are transnational corporations whose business objective is to invest in favorable business environments and sell their products throughout the world. So, the flow of FDIs into countries like Armenia is mostly related to export potential (since the domestic market is small), which improves trade conditions and thus stimulates further investments into the country's economy. This can create new employment opportunities and import new skills into the economy. Furthermore, investments from these kinds of companies would solve issues of export standardization since their products would already meet established requirements. Therefore, FDIs have a direct impact on foreign trade and human development.

3.5 TRADE-HUMAN DEVELOPMENT LINKAGES

The gains that flow from free trade and FDIs are numerous and varied. A country's productivity, employment, and human development can be vastly enhanced. Nevertheless, if democratic institutions are lacking and legislation is not based on competitive market rules, free trade could result in environmental degradation, reduced healthcare, and lowered security levels. Thus, needs assessment studies are directed at identifying the kind of policy recommendations and technical assistance that will harness the contribution that trade can make to human development and the reduction of poverty.

Today, in the era of globalization and international integration, trade and human development are essential parts of a country's overall development strategy; trade is an important source of economic development, and economic development is an important foundation for maximizing human

potential. Trade is generally understood to boost economic development in terms of bringing higher productivity, new technology, new market opportunities, as well as promoting the level of FDIs. Moreover, trade is understood to have direct impacts on human development as it facilitates exchange of knowledge, an increase in qualifications, and opportunities to enter new markets, all of which leads to rises in employment and income.

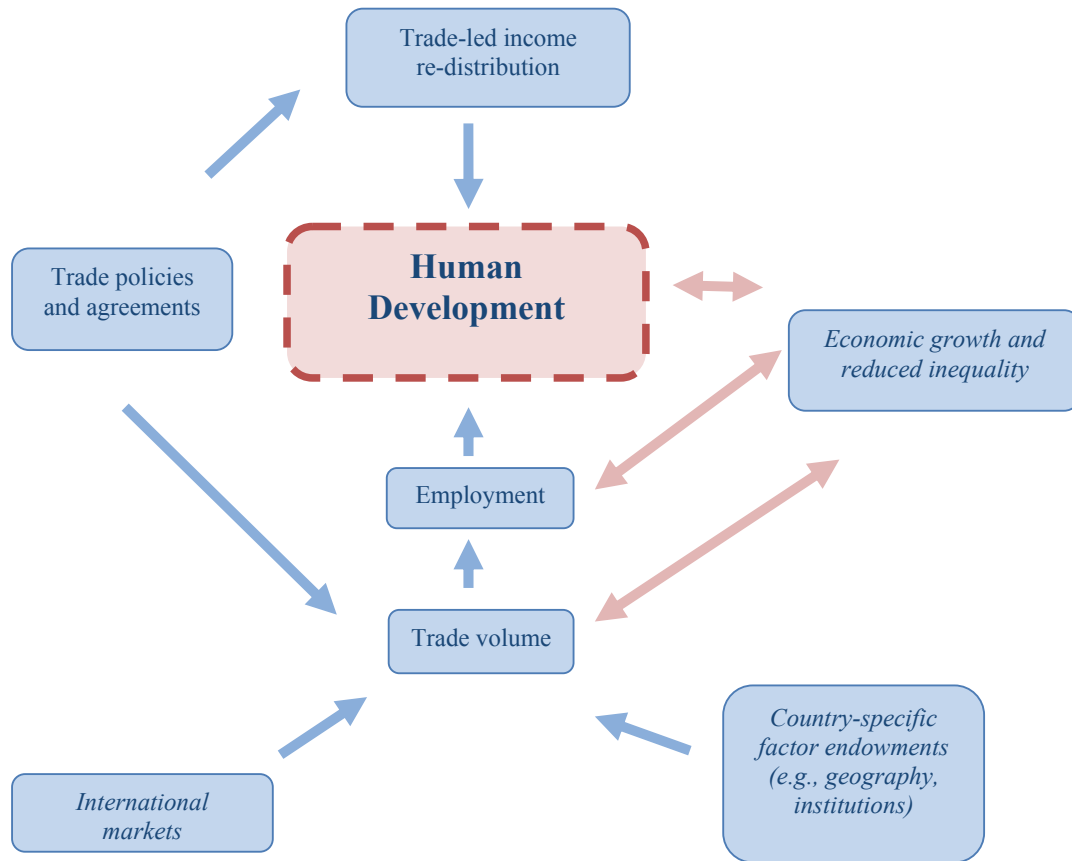
Indeed, the experience of other countries shows that economic growth can affect society in two ways: one is an increase in the nation's overall prosperity; the other is a deterioration in equality, employment, and poverty levels, as well as in the exploitation of natural resources. It is advisable, therefore, that the government of a country create conditions for human development that are conducive to the expansion of quality education, sustainable healthcare, and self-realization in everyday life. For this purpose, the government needs to rely on social-economic resources.

Furthermore, in the era of globalization – with its fierce competition and high demand not only for technology and production but also for a highly educated, skilled, and knowledgeable workforce – new approaches to human development are vital. This is the main idea of Amartya Sen⁴², whose work in the field of development economics has heavily influenced the formulation of UNDP's Human Development Index. Professor Sen is convinced that the concept of "capability" is crucial for development economics and social indicators – that is, Governments should be measured against the real capabilities of their citizens along with their appropriate "functionings", ranging from the very broad, such as the availability of education and healthcare, to the very specific, such as transportation. Each individual society is to formulate a list of minimum capabilities that are to be guaranteed by that society (the government can play a key role in this). It is important, here, to mention that quality healthcare and education that are accessible to all, as well as improved living conditions, lead to increases in professionalism and labor productivity, and this results in economic development. The way in which Singapore, South Korea, and Ireland have developed exemplify such linkages – these countries focused on increasing their citizens' capabilities with their functions (education, healthcare, linking universities with production, infrastructure, etc), while also developing export-oriented sectors. Today, they are found among the world's 'developed countries'.

According to the UNDP guideline "Trade and Human Development (How to conduct Trade Needs Assessments in Transition Economies)", the linkages between trade and human development may be represented as shown in Figure 3.11. It depicts how the impact of trade on human development is mediated through employment, economic growth, and income redistribution, which depends on the unique characteristics of the country and the structure of the international market.

42 Amartya Sen is an Indian economist, who was awarded the 1998 Nobel prize in Economics for his contributions to welfare economics and social choice theory, and for his interest in the problems of society's poorest members.

Figure 3.11. Human Development and Free Trade Linkages



Economic growth is primarily related to two factors: levels of resources – human, capital, and natural – and new technology. Natural resources are endowed by the physical environment; the state has very little power to increase their levels within the country. On the other hand, the government can promote imports of scarce resources in order to then export value-added products via free foreign trade that is based on the rules of a competitive market economy. But even where a vast abundance of natural resources exist, if there is no state development strategy, the country’s development can be dysfunctional – the only developed sector might be resource extraction, which does not require much skill or finance, and the finance earned from it would be distributed among a few people. Capital resources can be generated from two sources: domestic savings and foreign direct investments. If there is a lack of relevant, creditable financial institutions, it is better for the state to stress foreign direct investments.

The economy’s most crucial resource remains human resources. However, an abundance of human resources does not guarantee healthy growth – if human resources are unskilled, poverty, inequality, and gender issues will become critical problems within the country. The potential for internal conflicts could be very high, and the country may become dependent on remittances and foreign assistance.

Thus it is advisable that the Armenian Government’s strategy toward human development should focus on increasing the productivity of the labor force by upgrading the country’s infrastructure and establishing institutions with democratic values. Otherwise, the country’s resources could work against the development of the country, with a major emphasis on merely exporting raw materials from the country.

In addition, the role of free trade is vital – if better conditions are created for businesses to export/import required materials and products, the level of FDIs in the country will rise. This can improve the domestic business environment, further facilitating investment inflows into the country.

This report's analysis of macroeconomic figures and Armenia's trade and investment policies reveals that the country's trade and investment policies are generally open and have a positive impact on human development, as evidenced by improvements in all of the country's social indicators. Moreover, the elimination of trade barriers continues and the regulatory costs associated with business transactions are being reduced. Nonetheless, Armenia is not yet utilizing its full production potential. This is due to several gaps in policy and technical needs that are not yet met, among which the most important are:

- A framework for internationally accepted standardization and licensing and the capacity to test according to those standards;
- Relevant NGOs that can improve the specific needs of exporters/importers and businesses;
- Information centers that can distribute reliable, up-to-date information;
- Training programs for the specialists who will carry out uniform standardization and licensing procedures;
- The capacity of Armenian laboratories to be able to analyze the ingredients of exported products according to Western quality standards (currently, Armenian producers are not aware whether their goods meet necessary requirements due to the lack of modern testing facilities);
- Promotion of SMEs operations and exports and SMEs associations;
- Development of business norms/etiquette;
- Tax holidays related to the modernization of technology, equipment, and machinery, regardless of a company's size;
- Internationally accredited export/import laboratories and standardization bodies;
- An established system for the promotion of start-up businesses.

4. TRADE-RELATED INFRASTRUCTURE

4.1 EXPORT FACILITATING BODIES

Recognizing the importance of foreign trade in socio-economic development, the Government of Armenia has established several programs and bodies to promote exports, particularly:

- **2010 Program of Government Support to Small and Medium Enterprises.** In terms of developing and expanding foreign trade, small and medium sized enterprises are crucial. To that end, the Government has adopted **2010 Program of Government Support to Small and Medium Enterprises.** The program's objectives include: enhance the financial and investment capacities of SMEs, expand innovative and foreign economic activities, create new jobs, and reduce unemployment. To achieve this, the program envisages the maintenance of existing infrastructure along with the implementation of new infrastructure projects, financial and investment support to SMEs, provision of bank guarantees, support for market promotion, and other measures. Under the framework of the program, preference is given to SMEs that operate in the production sector, use high-tech equipment and innovative approaches, and whose products have export potential.
- **Armenian Development Agency (ADA)**⁴³. Established in 1998 by the Government, ADA aims to promote foreign investments and exports. It is a 'one-stop shop agency' that assists investors in establishing businesses in Armenia. With regard to promoting exports, it assists businessmen in identifying export markets, carries out market research and studies, and finds new partners. ADA organizes local and international fairs, encourages participation in such fairs, studies international fairs and provides relevant information about them, analyzes potential foreign markets and provides information on relevant legislation in those markets, identifies potential sources of financial support, organizes specialized trainings, and publishes brochures and booklets. All ADA services are free of charge for businesses.

⁴³ www.ada.am

The major tool ADA uses to promote exports is its organizing of and support to Armenia's participation in international fairs and specialized events. The Agency helps Armenian manufacturers to participate in fairs in foreign countries and regions that are considered to be primary markets for Armenian production. The ADA cooperates with various international organizations when organizing fairs, such as USDA and USAID as well as local organizations (Union of Armenian Manufacturers and Businessmen, Association of Armenian Cheese-makers, etc.). It also plans to create an electronic reference book of exports that can be presented at international fairs, conferences and various meetings, with the purpose of advertising Armenia's potential and promoting its products.

- **The Chamber of Commerce and Industry of Armenia**⁴⁴. Armenia's Chamber of Commerce and Industry was founded in 2002. The mission of the Chamber is to improve Armenia's business environment, promote exports and investment, and support SMEs. The Chamber represents the interests of its members at the International Chamber of Commerce, Euro-Chamber, International Association of Industrial Property, International Bureau of Fairs, and other international organizations. Currently, the Chamber is a full member of the International Chamber of Commerce, Global Federation of Chambers, Euro-Chamber, CIS Council of Heads of Trade and Industry Chambers, Black Sea Area Trade and Industry Chambers, and the Executive Council of the Black Sea Economic Cooperation Organization.

The Chamber's main activities include: support toward the production of competitive goods (thus promoting the export of those goods, organizing business conferences, fairs and exhibitions, and exchange of information with various international organizations. The main task of the Chamber is to develop exhibition activities in Armenia. To that end, the Chamber organizes the participation of Armenian businessmen and enterprises in local fairs and exhibitions as well as in national exhibitions abroad, provides support in terms of press conferences, finding partners, meetings, and negotiations, and organizes the visits of Armenian experts to international fairs and exhibitions.

- **The Union of Armenian Manufacturers and Businessmen**. The Union of Armenian Manufacturers and Businessmen was established in 1996 in order to develop a favorable business environment and protect the interests of businessmen. Its objectives are to foster business community, create a favorable environment for foreign investment, and promote Armenia's integration into the world economy. Activities of the Union include the organizing of business forums, exhibitions, and fairs, all of which promote the production of competitive goods and enhance export potential. It periodically organizes targeted discussions, market studies of other countries, and discussions regarding the feasibility of organizing exhibitions (of Armenian products) with a view to establishing Trade Houses. In addition, the Union provides samples of Armenian products and gives additional information about them.

Furthermore, a number of the Union's members have contributed to export promotion by introducing international quality systems and certification in accordance with ISO 9000, labor safety OSHAS 18001, and food safety HACCP systems.

- **Armenia Small and Medium Enterprise Development National Center (SME DNC)**⁴⁵. SME DNC was founded by the Government of Armenia in 2002. SME DNC supports SMEs in relation to external trade, economic activities, and the internationalization of businesses. Its support includes: promoting the export of produced goods, searching for foreign partners and establishing cooperation with them, participating in fairs abroad, consulting, and providing information.

SME DNC carries out joint projects and cooperates with a number of international and overseas organizations such as UNDP, UK DFID, JICA and OSCE.

As noted above, Armenian producers face certain constraints in the business environment and need support in adequately dealing with them. One could argue that such support is, or should already have been, provided; however, until today, those doing business in Armenia still feel an acute need

44 www.armcci.am

45 www.smednc.am

for relevant information, consultancy, and networking support. This is the case, despite the fact that various public and private institutions are currently aimed at providing such support to the business community.

According to a 2008 report by EDRC⁴⁶, there is clear duplication in the efforts of these institutions (although the report does not analyze how effective their efforts are). On the other hand, needs assessments among the business community reveal that some issues are largely left unaddressed – most notably, there appears to be an urgent need for business consultations and similar kinds of services. The fact that there is still a significant need among the business community even though numerous support institutions exist suggests that there may be a mismatch between services offered and community needs.

It should be noted, however, that businesses are often not fully aware of the services offered by support institutions. In fact, many tend to think that the efforts of these institutions do little more than provide information on issues pertaining to administrative bodies or, at most, to the implementation of some abstract projects. Moreover, since support institutions are thought to be bureaucratic organizations, the business community tries to have as little contact with them as possible.

For the aforementioned EDRC report, focus group discussions were held with business men and women in order to identify the main issues and problems faced by the Armenian business community. The main issues that were raised concerned the need to improve financing opportunities – more specifically, the need for support in attracting foreign investments. However, support services addressing these issues are in fact provided by almost every support institution, as are services relating to human resource development and support for entrepreneurship.

In addition to the abovementioned institutions, the study also surveyed several international organizations that implement various projects aimed at offering business support services. Here too, the findings pointed toward a lack of logical linkages and duplication of efforts, leading to projects that are dogged by limited effectiveness and short term accomplishments. In this regard, more coordinated efforts among such institutions would not only make projects more effective and bring greater satisfaction to the business community in the short run but also contribute to Armenia's business productivity in the long term.

4.2 CUSTOMS TARIFFS AND TRADE PROCEDURES

Armenia has one of the world's most open customs systems, which fully complies with WTO requirements. According to Article 128 of the Customs Code, all imported goods that pass through the customs border of Armenia (and their means of transportation) are subject to declaration (verbal or written). Goods to be exported (and their means of transportation) must be declared at a regional customs house (the nearest to an exporting organization), except for those passing through "Zvartnots" Armenia International Airport and International Road Customs.

In order to identify tasks that will improve customs administration, Armenia's Customs Service developed the Strategy of the Customs Department of Armenia, a program for 2008-2012⁴⁷. The Strategy is based on the reform and modernization of customs administration, as anticipated by the 2008-2012 Government Activities Program. Reforms are aimed at increasing revenues from customs, fairly distributing tax and customs burdens, providing high quality services to economic agents and reducing the time needed to provide those services, ensuring transparency of the customs system, taking measures against smuggling, reducing cases of customs infringements, and promoting ethical behavior.

Currently, one of the Customs Service's main priorities is to increase self-declaration and electronic

⁴⁶ "Armenian foreign trade: how to utilize the existing opportunities", EDRC, December 2008, Yerevan, RA.

⁴⁷ www.customs.am/index.php?menuID=289&tid=2&pid=&lng=9

declaration of goods and to establish an intermediary institution for customs. These reforms are expected to minimize the face-to-face interaction between customs officers and organizations engaged in external economic activities so that the potential for corruption is reduced.

One of the underlying principles of the Customs Strategy is the simplification of customs procedures, specifically a reduction in the official paperwork required by customs and the time spent in customs by economic agents. To accomplish this, it is necessary to:

- Review the list of documents required for customs inspection in the light of international best practices;
- Define simplified customs procedures for means of transport that transfer goods under the International Road Transportation Convention;
- Introduce a bank guarantee system in customs areas and devise mechanisms for its wide use;
- Ensure a diversified approach to economic agents by applying simplified procedures to those with a good track record for doing honest business.

To reduce processing time, there are plans to introduce special software that will allow real-time monitoring of customs proceedings. The one-stop principle will be introduced and a single advisory center will be created to provide technical assistance to economic agents on customs procedures and information technologies.

4.3 TECHNICAL REGULATION

Public Institutions. In modern states, a great deal of attention is paid to product safety and quality assurance; technical regulations that develop a complex system of quality infrastructure have emerged – a system that consists of standardization, metrology, accreditation and testing, technical control, and certification sectors.

Acknowledging the important role quality infrastructure plays in promoting Armenia's export industry, the Government developed a Quality Infrastructure Reform Strategy, which will be implemented by 2020. It aims at integrating the quality infrastructure of Armenia into the global system. These reforms consist of a number of legal, institutional, capacity strengthening and awareness raising measures in technical regulation, standardization, metrology, accreditation, testing, technical control, certification and market supervision⁴⁸.

Standardization and Metrology. Work in this area in Armenia started in the 1920s. By 1931, the local standardization bureau, ArmStandard, had been established to implement standardization and monitor compliance to standards. In 2001, as part of wider structural reforms in Armenia's public sector, the standardization, compliance assurance and metrology system was incorporated into the structures of the Ministry of Trade and Economic Development.

The Standardization, Metrology and Certification Department was later restructured by a Government decree and merged with the Ministry of Trade and Economic Development. The reorganization led to the following units being established:

- Standardization, Metrology and Compliance Assurance Department as a structural unit of the Ministry;
- Quality Inspectorate of Armenia as a separate unit within the structure of the Ministry;
- Accreditation Agency of Armenia as a separate unit within the structure of the Ministry;
- National Institute of Metrology and the National Standards Institute⁴⁹.

The current quality infrastructure in Armenia can be seen in the table below.

⁴⁸ Quality Infrastructure Reform Strategy in Armenia (2010-2020)

⁴⁹ <http://www.mineconomy.am/am/23/>

Table 4.1. Institutions Forming Armenia’s Quality Infrastructure

Institution	Main Functions at Present	Compliance Legislation
Ministry of Economy of Armenia	The Ministry is the authorized body of the Government of Armenia on Standardization, which: <ul style="list-style-type: none"> • Develops the public policy of standardization; • Adopts and enacts national standards; • Coordinates the activities of the National Standards’ Institute. 	RA Law on Standardization
	It is the national body on metrology which: <ul style="list-style-type: none"> • Develops the public policy in the field of metrology; • Coordinates the activities of the National Institute of Metrology; • Carries out public metrological supervision. 	RA Law on Ensuring Unification of Measurements
	It is the national body on compliance assessment which: <ul style="list-style-type: none"> • Implements the public policy on compliance assurance; • Implements public supervision on compliance of goods and services to the requirements of technical regulations; • Carries out accreditation process. 	RA Law on Compliance Assessment
Accreditation Agency of the Ministry of Economy	<ul style="list-style-type: none"> • Organizes the accreditation process. 	RA Law on Compliance Assessment
State Inspectorate of Consumer’s Rights and Markets of the Ministry of Economy	Carries out public inspection processes, in particular: <ul style="list-style-type: none"> • Market supervision of non-food production and measurement means; • Metrological inspection of measurement means; • Quality control of liquid fuel. 	RA Law on Standardization, RA Law on Ensuring Unification of Measurements, RA Law on Compliance Assessment
National Standards’ Institute CJSC (legal person)	<ul style="list-style-type: none"> • Adopts and publishes the national standards; • Creates and maintains the national database of normative documentation on standardization; • Represents Armenia in international organizations; • Implements testing and certification. 	RA Law on Standardization
National Institute of Metrology CJSC	<ul style="list-style-type: none"> • Creates, stores and maintains national standards and distributes measurement units; • Implements checks of measurement devices and metrological certification. 	RA Law on Ensuring Unification of Measurements

Source: Quality Infrastructure Reform Strategy in Armenia (2010-2020)

The National Standards Institute develops, publishes and monitors the codes of RA national standards (ArmSt), inter-state standards (GOST), and International Standards (ISO, CEN), and conducts methodological and scientific activities in the area of standardization. The National Standards Institute has been an ISO member since 1996⁵⁰. It coordinates the activities of six technical commissions on standardization⁵¹. In cooperation with them, it developed 950 new national standards that correspond with international ISO and European EN standards in order to boost exports and imports. As of April 2010, 63 technical regulations had been adopted, and since 2004, 33 technical regulations on products have been approximated to international standards and EU Directives⁵².

The National Standards Institute issues the documents required for exports of wine and grape juice to EU member countries (form VI 1 of a document that accompanies other shipment paperwork, as well as VIN code to the manufacturers of transportation means), in accordance with ISO 3780-83 and ISO 3779-83 international standards. The Headquarters of CEN (European Committee on Standardization), in a letter dated 21 November 2006, agreed to accept the National Standards

50 <http://www.worldwidestandards.com/worldwide-standards/bodies/sarm-standards.php>

51 http://www.iso.org/iso/about/iso_members/iso_member_body.htm?member_id=1489

52 Quality Infrastructure Reform Strategy in Armenia (2010-2020).

Institute (SARM) as a CEN partner standardization body⁵³.

The Institute conducts standardization activities and compliance assurance in accordance with the RA Law on Standardization, adopted in 1999 and amended in 2004, and the RA Law on Compliance Assessment, adopted in 2004. The Law on Standardization defines the legal bases for standardization in Armenia and the roles of relevant stakeholders. Furthermore, it regulates the principles of devising and applying technical regulations and normative documentation on standardization.⁵⁴

Licenses are issued by the Government, Central Bank, Energy Regulatory (Public Services Regulatory) Commission, Securities Commission, Commission on TV and Radio, as well as ministries and agencies authorized by the Government, for all activities covered by Article 43 of the RA Law on Licensing⁵⁵.

Accreditation is carried out by the Accreditation Council, the membership and procedure for participation of which are approved by the Government. The Council consists of 15 members and includes representatives of RA state governance bodies, stakeholder societal groups, and scientific organizations. The Accreditation body of Armenia has been a correspondent member of ILAC since 7 December 2000. The national body on compliance assurance is currently negotiating membership in European Accreditation Framework (EAF). The Council accredits testing laboratories and certification bodies for certification of products, services, quality management systems, environmental management systems and physical persons⁵⁶. As of 1 April 2000, national accreditation had been issued to 67 laboratories and 17 certification bodies. The Ministry on Emergency Situations also issues accreditation documents in order to apply technical controls, and one certification body has internationally recognized accreditation⁵⁷.

01 certificates certify the safety of a product not only with regard to consumers' life and health, but also in terms of the environment. 01 certificates are intended to help manufacturers to improve the quality of their goods and products and remove any trade barriers for importers and exporters⁵⁸.

In order to stimulate trade, the National Standards' Institute – in compliance with the WTO requirement on the provision of information on technical regulations, standards, and compliance assurance (Agreement on Technical barriers to Trade) – created an inquiry point, which is aimed at reducing barriers in trade and import and export procedures.

SME DNC (Small and Medium Enterprises' Development National Center) also carries out activities aimed at promoting exports; it provides advisory and consulting services to SMEs regarding how their products need to comply with international standards in order to enter foreign markets⁵⁹.

Private Institutions. ISO Consulting LLC provides consulting services and supports compliance to international standards and consumer satisfaction studies. Established in 2001, it is the only company certified by the Quality Management System ISO 9001:2000 and cooperates with a company that has 20 years of experience in international quality management standards. ISO Consulting employs international experts and specialized consultants. It was founded to help Armenian companies to achieve compliance with international quality standards and enter international markets⁶⁰.

53 http://www.mineconomy.am/files/docs/1_am.pdf

54 RA Law on Standardization, HO-18, 09 November 1999.

55 RA Law on Licensing.

56 http://www.mineconomy.am/files/docs/1_am.pdf

57 Quality Infrastructure Reform Strategy in Armenia (2010-2020).

58 http://www.sarm.am/am/activity/sertifikacum/sertifikacman_marmin

59 <http://smednc.am/?laid=2&com=module&module=menu&id=281>

60 http://www.isoconsultant.am/index.php?page=our_company

4.4 TRANSPORTATION AND LOGISTICS

Logistics costs are a significant obstacle to the integration of Armenia into the international trade community. Total logistic costs include net transportation cost, official and non-official facilitation expenses, expenses for obtaining necessary information, and costs related to the lack of capacity to benefit from economies of scale⁶¹.

The World Bank calculates a Logistics Performance Index (LPI), which ranks about 150 trade partner countries on components that reveal a country's overall logistics situation. The components are: efficiency of customs clearings, quality of trade and transportation infrastructure, ease of organizing cargo transportation at competitive prices, quality of logistical services, possibilities of monitoring the transportation route, and timely delivery⁶². According to the 2010 LPI, Armenia is in 111th place, scoring 2.52 out of a possible 5 points (see Table 4.1). The Index highlighted that one of Armenia's chief problems with regard to logistics and transportation is related to border controls (i.e. speed and ease of customs clearance, etc.).

Transportation and logistical problems also arise due to the fact that Armenia lacks direct access to the sea and has closed borders with Turkey and Azerbaijan. This means that about 85% of exported goods are transported through Georgia, while the rest travels through Iran. These problems significantly affect the development of Armenia's export industry, since high transportation costs reduce the competitiveness of its products in foreign markets.

Table 4.1. Armenia's Logistics Performance Index with its Components

	Score	Rank
LPI	2.52	111
Border Control	2.1	125
Infrastructure	2.32	92
International Cargo Transportations	2.43	123
Quality of Logistic Services	2.59	79
Monitoring of transportation route	2.26	139
Delivery on time	3.4	77

Source: <http://info.worldbank.org/etools/tradesurvey/mode1a.asp?countryID=6>

Of Armenia's railroads, only the Yerevan-Tbilisi line is operational. It goes from Yerevan to Gyumri and Vanadzor and connects Armenia to the Georgian ports of Poti and Batumi. Road transport (via Georgia and Iran) still remains the best option for land transportation of goods to and from Armenia⁶³.

61 Armenia Trade Diagnostic Study, Poverty Reduction and Economic Management, Europe and Central Asia Region, The World Bank.

62 Armenia Trade Diagnostic Study, Poverty Reduction and Economic Management, Europe and Central Asia Region, The World Bank.

63 <http://www.amcham.am/index.cfm?objectid=F5974320-4396-11DE-AE2D0003FF3452C2>

5. TRADE AND HUMAN DEVELOPMENT NEXUS: ANALYSIS OF SELECTED SECTORS

5.1 AGRICULTURE AND THE AGRO-PROCESSING INDUSTRY

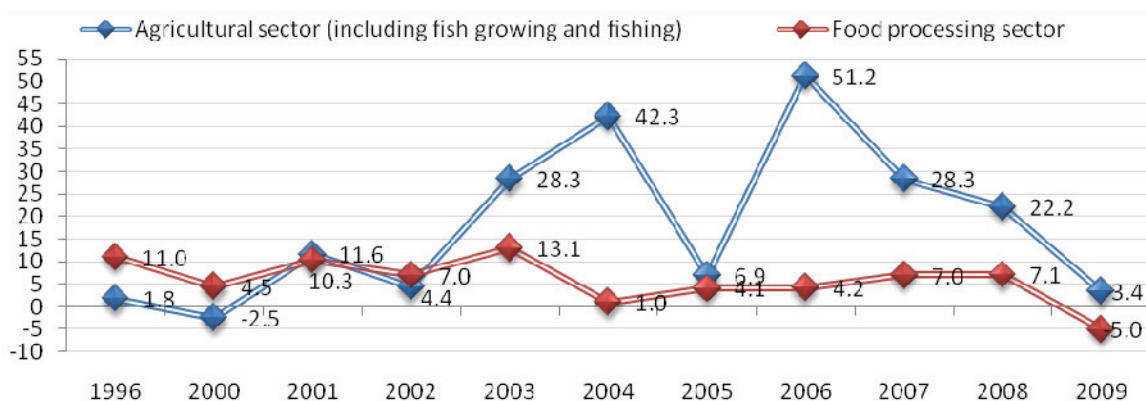
Overview of the Sector. Following Armenia's independence, the productivity of the country's highly developed industrial agro-economy was radically reduced⁶⁴. Moreover, since there have been no significant investments in the sector and related infrastructure over the last 20 years, productivity remains low. As a result, Armenia is characterized as a country with a labor-intensive agricultural sector, where plant cultivation is highly dependent on climatic conditions.

The Ministry of Agriculture is responsible for setting agricultural policy to cover areas such as: agriculture and plant protection; agriculture extension services; agro-chemicals and reclamation; cattle breeding and veterinary medicine; fruit growing and wine making; vegetable and gourd farming; and industrial crops. The standardization system employed is still the GOST – a system that was used during Soviet times and has remained in force among CIS countries. It is directed toward minimum product specifications rather than food safety. There is an ongoing process to shift from GOST to the European Union's standardization system, but the process is yet complete because of a lack of relevant experience, skills, knowledge, finance, and laboratories.

Currently, farms are generally small and fragmented. This is due not only to economic factors (among them, lack of consolidation of farms to bring them to scale of economy, lack of participation in trade, lack of finances, and poor productivity of land), but also to geographical factors such as topography and climate. In addition, more than 80% of Armenia's land can only be cultivated if irrigation systems are used.⁶⁵ Due to these factors, the agricultural sector cannot realistically be seen as a main driving force for economic growth, notwithstanding the fact that there is also a high rate of employment within the sector (along with low productivity).

Output. Nevertheless, positive trends in Armenia's agricultural and food processing sectors have been registered since 1995 (see Figure 5.1). In terms of output of agricultural products, the highest increase was registered in 2006 (51.2%), while food processing witnessed a 13.1% increase in 2003.

Figure 5.1. Growth of Armenia's Agro Industry (1996-2009) (%)



Source: National Statistical Service of the RA

During 1995-2009, CIS countries constituted the major agro market for Armenia due to FTAs and other factors, such as:

- The establishment of domestic private companies;

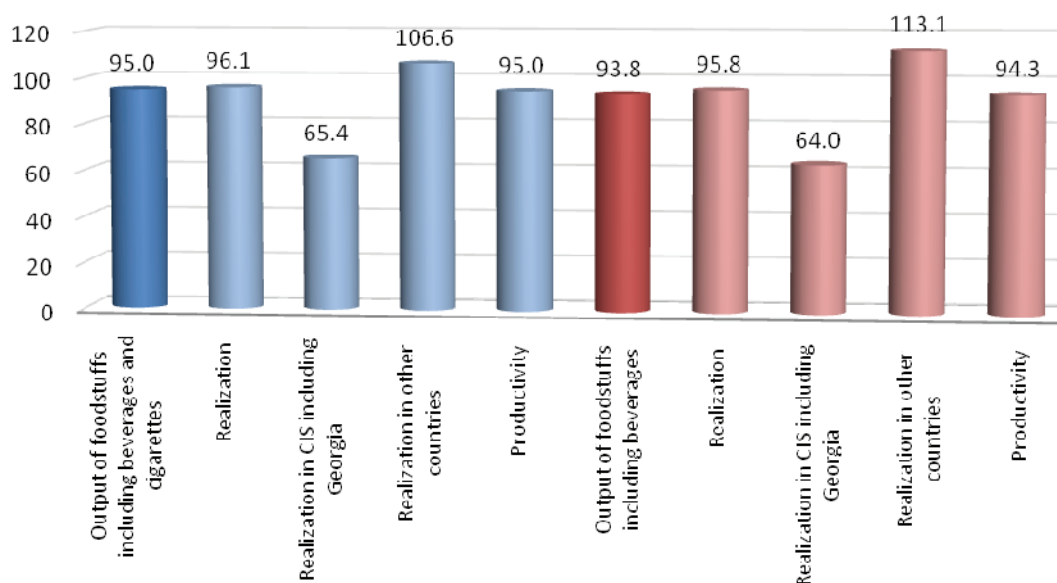
64 Research on Private sector development of Armenia. JICA and ADA, Japan. 1999, p. 2-3.

65 Files of the RA Ministry of Agriculture.

- Preference of domestic consumers for Armenian products, leading to import substitutions;
- Several high-profile privatizations with foreign capital, such as the Yerevan brandy company;
- High rate of immigration to CIS countries leading to a demand for products “Made in Armenia”.

As in other sectors of the economy, there is a positive movement of exports from CIS to other markets as well, especially in food processing (see Figure 5.2).

Figure 5.2. Main Characteristics of the Food Processing Sector (2009 compared to 2008) (%)



Source: National Statistical Service of the RA

One of the positive trends in the agricultural sector is the growth of the fishing industry; the fishing and fish farming sector increased by 20.9% in 2008 and 3.5% in 2009. On the average, exports from this industry constitute 21% of Armenia’s animal (and animal product) exports. These mostly went to EU markets (in 2009 exports to the EU constituted 10% of the total output of the fishing industry). Within the sector itself, output and productivity levels significantly increased from 2008 to 2009 (see Table 5.1). Similar increases were also registered in 2009 in the production of juice (36 %) and oil (51 %).

Table 5.1 Changes in the Fishing Industry

Changes from 2009 to 2008	
Output of fishing industry	588.6 times higher
Productivity	98.1% increase

Source: National Statistical Service of the RA

Increases in the agro industry’s production and export levels would be even higher if: domestic companies received information on export markets; non-tariff regulations were reduced; training sessions on business ethics were conducted (e.g. on maintaining standards even after official standardization has been received⁶⁶); comprehensive training were organized to cover topics such as assessing consumer wants and business management, including financial management, business planning, marketing and quality management, and supply chain issues. It would be preferable if these trainings were targeted at Government officials as well.

In 2009, animal breeding increased by 1 percent, while vegetable growing increased by 0.7 percent. Among Armenia’s 10 marzes (administrative regions), the leaders in the agricultural sector

⁶⁶ There were cases when companies that had received standards of exporting countries started to send under-qualified products. When it became known, the country prohibited Armenian imports.

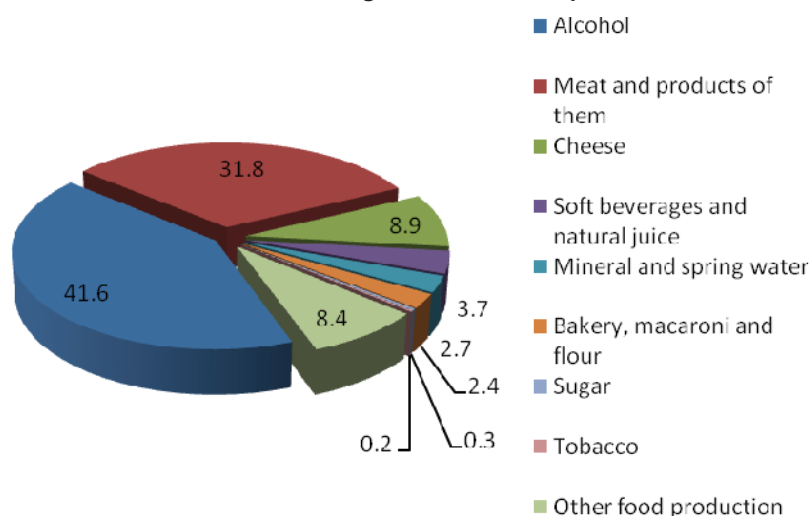
are Armavir (19%), Gegharkunik (17%), Ararat (16%), Shirak (10.1%) and Aragatsotn (9.8%), according to statistics from the last 5 years. It is notable that most of these marzes have the lowest unemployment levels in the country (Shirak and Gegharkunik are the exception). On the average, the income of the workforce engaged in this sector continues to be half that of the non-agricultural workforce's, while the situation is even worse in mountainous areas, where approximately 40% of the agri-workforce lives.

Main Products. The agricultural sector's main products are:

- Vegetables: including tomatoes, peppers, eggplants, cabbages, potatoes, cucumbers, carrots, pumpkins, beans, radishes, parsley, basil, coriander, mint, fennel, estragon, cress, cauliflower, lettuces, and peas; among these the main exports are potatoes and tomatoes;
- Fruits, nuts, and berries: including apricots, grapes, peaches, apples, plums, pears, pomegranates, quince, figs, walnuts, watermelon, melon, and almost all types of berries; among these the main exports are apricots, grapes, cherries and peaches;
- Meat and poultry (including eggs) and sheep breeding; the gross output of livestock products comprises half of all agricultural products, with sheep being the major export.

The food processing industry's main products include: canned fruits and vegetables, beverages, cigarettes, milk and other dairy products (including "European style" cheese, ice cream, yogurt, and sour cream), meat and meat products, flour, and bread. There are also positive trends in the areas of domestic seed production, greenhouse produced cut flowers and vegetables, as well as in aquaculture.

Figure 5.3. The Composition of the Food Industry in 2008 (%)



Source: National Statistical Service of the RA

Exports and Imports of Agro Products. At present, Armenian food products successfully compete with foreign imports in local markets, while several companies are developing export markets to Russia, Georgia, other CIS countries, and, to a lesser extent, European Union countries and the United States. Exports to the latter are primarily aimed at the diaspora market. In addition, Armenian companies have started to diversify their products and look for additional financing, which could be a signal for the Government to help to create an institutional framework for financing. One of the positive trends in terms of policy is the harmonization of the country's foreign trade and related governance laws and regulations with European Union requirements. This will require additional training for both private and public sectors. Nonetheless, Armenia imports almost a third of its food consumption as domestic production mostly increasing extensively due to a lack of manufacturing plants that can produce agricultural chemicals and high protein supplement feeds.

Overall, a SWOT analysis (below) reveals that the major strengths of the agro industry are its cost

effective labor force and organic products, while its main weaknesses remain low productivity and high transportation costs.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Cost effective labor force; • Specific/unique agro products, such as pomegranate wines and different kinds of dried fruits; • Government's recognition of agricultural sector as a top development priority; • Existence of higher education institutions that prepare specialists in this sector; • Existing trade preferential agreements with CIS, US and EU countries; • Willingness of companies to diversify their products and look for new markets; • Existence of clusters; • WTO membership. 	<ul style="list-style-type: none"> • Low productivity; • Production based on extensive expansion; • High transportation costs; • Inadequate mechanization and technical equipment, fertilizers; • Non-compliance with international standards on food safety; • Lack and/or high cost of long-term financial resources; • Lack of a mechanism/institutions for financing the sector; • Lack of modern agro equipment and technology • Lack of institutions to promote the sector and its exports; • Poor marketing and management (financial and general); • Insufficient training for Government officials and the private sector (paid and financed); • Low capacity for export industry; • Small size of the local market; • Small size of farms; • Existence of non-systemized clusters; • No institutions to unite farmers and help them benefit from economy of scale.
Opportunities	Threats
<ul style="list-style-type: none"> • FTA with EU; • Increase of global demand for food and agricultural products; • Consolidation of farms; • Increase in global market prices for food and agricultural products; • Development of innovative products for new markets and market niches; • Shift to production of high value-added products; • Opening of border with Turkey; • Existence of a widespread diaspora; • Promotion of FDIs into the sector. 	<ul style="list-style-type: none"> • Global and macroeconomic threats (market prices, fluctuations in exchange rates; poverty; low income; inequality; unemployment; etc.); • Possible climatic cataclysm; • Entry into global markets restricted by high barriers and non-tariff regulations; • Low level of investments in agriculture.

Potential Impact of FTAs on Trade Expansion and Human Development in the Agro Industry. The agro industry is a major driving force of the Armenian economy and employs a significant proportion of the population. Enhanced domestic production not only reduces the need for foreign imports but also provides output for exportation, which can considerably improve the country's employment levels during its transition period. Nevertheless, profitability, modernization of production capacity, and wage levels remain low, and employment is seasonal.

Since Armenia's agro industry is sensitive to external changes and its expansion very much depends on the export of end products and the import of corresponding resources, any positive developments in terms of bilateral and multilateral agreements could lead to increased production, new jobs, the transfer of new technologies, and the modernization of production capacities. This would result in an increase in productivity and wages within the industry.

The coordination of standardization and certification procedures among signature countries would facilitate foreign trade turnover and enlarge possibilities for making joint long-term, high-cost projects within the industry. Moreover, associated decreases in customs-related costs could have a direct impact on the profitability of companies.

Opening the border with Turkey could be a threat for Armenian producers in the short run; cheap products would enter the Armenian market, creating "unequal" conditions (Armenian producers would not be able to compete due to their lack of modern equipment and technology).

Overall, the impacts of new FTAs can be summarized in SWOT form:

SWOT of Potential Impact of FTAs on Trade Expansion and Human Development in the Agro Industry

Strengths	Weaknesses
<ul style="list-style-type: none"> • Decrease of export/import costs; • Unified standardization and certification procedures; • Increase in competition; • Smooth and easy transition to new technologies, equipments, skills and knowledge; • More opportunities to conduct high-cost and long-term joint projects. 	<ul style="list-style-type: none"> • Increase of competition leading to increase of informal business with informal employment at low wages; • Decrease in production costs by involving new labor with low wages and extensive expansion rather than by modernizing production capacity; • Fewer opportunities to develop infant industries; • Reduced income to state budget (in the short run) as a result of tariff reductions.
Opportunities	Threats
<ul style="list-style-type: none"> • Increase in productivity; • More opportunities to conduct high-cost and long-term joint projects; • Decreased scale of economy; • Promotion of FDIs in the sectors; • Opening of border with Turkey. 	<ul style="list-style-type: none"> • Reduced production, with accompanying rise in unemployment; • Outflow limited to raw materials to be processed in signature countries; • Outflow of financial capital; • Loss of independent trade policy development; • Increase in wages leading to a decrease of competitiveness of Armenian products and a fall in domestic production; • Opening of border with Turkey.

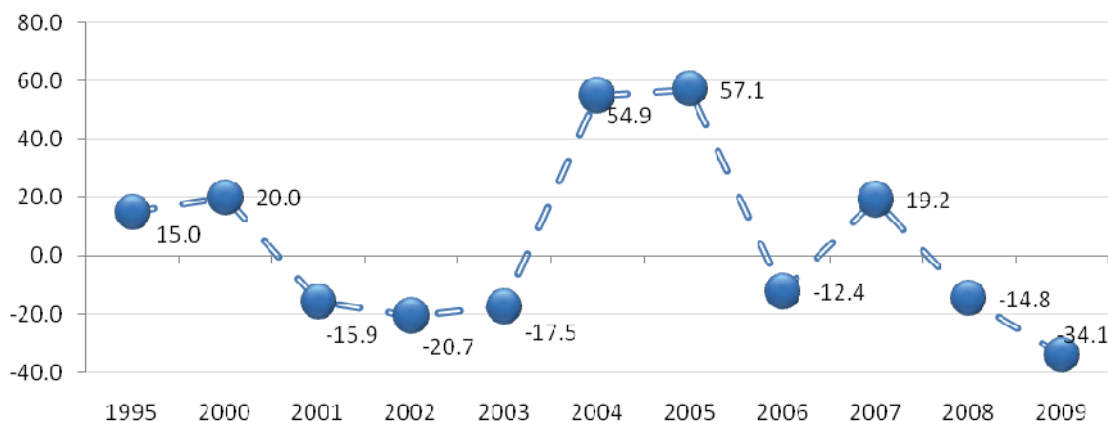
5.2 CHEMICAL INDUSTRY

Overview of the Sector. The collapse of the Soviet Union deeply impacted Armenia's well developed chemical sector. During the 1980s, the industry constituted 10% of manufacturing output⁶⁷, but by 2009 this figure had fallen to just 2.7 percent, with a 34.1% decrease in the sector's production levels (see Figure 5.4) and a 33% drop in productivity⁶⁸.

Currently, there are around 78 enterprises functioning in Armenia, with the eight largest providing almost a quarter of the sector's total output. The industry is mainly concentrated in Yerevan, but there are also some enterprises in Vanadzor. There are five universities educating specialists in this industry as well as six major R&D institutes. Currently, there are more than 5000 highly qualified specialists in the sector, with 300 graduates every year.

Armenia has a system for the legislative and institutional regulation of chemicals, which manages the different stages of the chemical life-cycle. The bodies responsible for this are the appropriate state governance structures, local authorities of self-Government, as well as various NGOs. The RA Ministry of Nature Protection is an authoritative body of executive power in the sphere of chemical and waste management. Armenia is a signatory of several international conventions, including the Stockholm Convention on Persistent Organic Pollutants.

Figure 5.4. Growth of Armenia's Chemical Industry, 1995-2009 (%)



Source: National Statistical Service of the RA

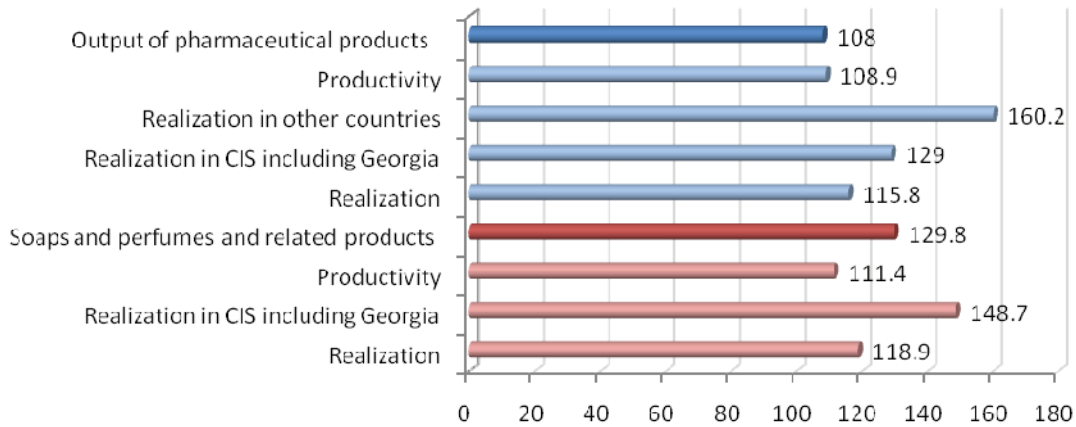
In the past, the main areas of specialization within the chemical industry were: synthetic rubber; chemical filaments and micro-fibers; synthetic tars and plastics; caustic soda and tire-covers. Currently, the major fields are: paints and lacquers, synthetic rubber, pharmaceuticals, soaps and perfumes and related products. The paints and lacquers sector constituted 32% of the chemical industry in 2009, but there was a decrease of more than 4% in outputs and of more than 3% in productivity. The other major sector, constituting more than a quarter of the chemical industry, is the synthetic rubber sector. Trends in this sector were even more alarming: drops of 65.5% in output and 66.4% in productivity were registered, accompanied by the loss of western markets.

Despite these negative trends, increases were registered in the soaps and perfumes and pharmaceutical sectors with growth of 29.8% and 8% percent respectively (see Figure 5.5.). The pharmaceutical sector constituted 22% of the chemical industry, while soaps and perfumes sector accounted for 9% of 2009's output.

67 Ministry of Economy of Armenia.

68 National Statistics Services of Armenia.

Figure 5.5 Registered Changes in Two Sectors of the Chemical Industry (2009 Compared to 2008) (%)



Source: National Statistical Service of the RA

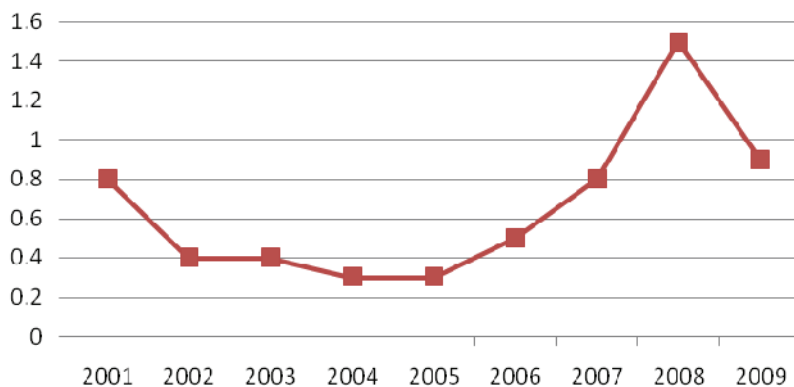
As pharmaceuticals represent one of Armenia’s fastest growing sectors and have high export potential, the sector is a clear target for investment generation and export promotion. Until now foreign investments in the chemical industry have been relatively limited and focused mainly on the pharmaceuticals sector. In fact, the first investments in the chemical industry were directed at this sector.

Currently, there are 18 companies operating in the sector, among which the largest enterprises are “Yerevan Chemical-Pharmaceutical Firm” OJSC and “Pharmatech” Ltd. Moreover, Armenia’s pharma research institutes develop and patent new active pharmaceutical ingredients and conduct groundbreaking research in various directions. If the outputs of this research were strategically promoted at the international level in order to secure licenses, the sector could become a major source of Armenian exports, attracting large foreign investments and R&D.

More than 30% of this sector’s outputs are exported to CIS countries, with main destinations being Central Asia and Georgia. Although most of the raw materials and chemical compounds used in production are bought from EU and US suppliers, exporting to western markets remains virtually impossible. To address this, a number of initiatives are underway to help to establish internationally-accepted quality standards.

Exports of Chemical Products. As a share of Armenia’s total exports, chemical products (led by pharmaceutical products) are relatively insignificant (for details, see Figure 5.6). The main markets are Ukraine, Georgia and Russia. In order to export many chemical products into the EU market, companies are required to meet strict non-tariff regulations, which cannot be met by Armenian companies because of the high costs associated with them.

Figure 5.6. Share of Chemical Products within Armenia’s Total Exports, 2001-2009 (%)



Source: National Statistical Service of the RA

Overall, a SWOT analysis (below) reveals that the major strengths of the chemical industry are its highly qualified labor force and its high potential for exporting its products.

SWOT Analysis of the Chemical Industry

Strengths	Weaknesses
<ul style="list-style-type: none"> • Cost effective labor force; • Availability of a qualified and skilled labor force; • Government's recognition of chemical industry as a top development priority; • Existence of higher education institutes preparing specialists in this sector; • High value/low volume characteristics of the major products, which reduces transportation costs; • Existence of clusters; • Availability of local resources: copper, molybdenum, iron, gypsum, dolomite, zeolite, barite, bentonite, diatomite, sulfur, quartz, mineral dyes, pigments, curative plants; • WTO membership. 	<ul style="list-style-type: none"> • Armenian chemical standards not recognized by western markets; • Lack of modern and well-equipped laboratories; • Lack of institutions to promote the sector and exports from the sector; • Obsolete technology; • Limited know-how about the organization of exports; • Poor marketing and management (financial and general) accompanied by low capacity for exportation; • Competition among clusters; • Small size of the local market.
Opportunities	Threats
<ul style="list-style-type: none"> • FTA with EU; • Co-operation with CIS countries and Iran; • Modernization and international accreditation of laboratories; • Promotion of FDIs into the sectors. 	<ul style="list-style-type: none"> • Global and macroeconomic threats (market prices, fluctuations in exchange rates; poverty; low income; inequality; unemployment; etc.); • Entry into global markets restricted by high barriers and non-tariff regulations; • Emigration and brain drain; • Environmental issues; • High international competition from multinational corporations; • Low level of investment.

Potential Impact of FTAs on Trade Expansion and Human Development in the Chemical Industry. Although there are no official restrictions on exports or imports in this industry, any new trade agreements would not greatly improve the sector if they are not followed by: mutual acceptance of the standards and basic regulations of the relevant unions; and, the elimination of non-tariff rules and regulations. Currently, Armenia's conformity assessment of industrial products follows the EU New Approach modules, while assessments for food products, cosmetics, and chemicals, are conducted according to the ISO/IEC Guide 67 schemes (which are in fact inoperative because the country lacks the necessary infrastructure and a well-functioning institutional system).

One assessment of Armenia's quality infrastructure (conducted by the World Bank in cooperation with the German Metrology Institute in response to a request from the RA Ministry of Economy), raises the following issues:

- "Enterprises show major deficiencies in the adoption of modern quality practices;
- A weak market for quality related services such as certification, testing and calibration, poses further challenges to product quality in Armenia;
- Many shortcomings in quality practices of enterprises and in quality related services can be

traced to deficiencies among public national quality infrastructure institutions;

- The current legislative and institutional framework is largely inconsistent with international best practices and leads to an ineffective national quality infrastructure;
- The existing national metrology institute acts as an instrument of state control rather than as a spur to industrial competitiveness;
- The National Institute of Standards is subject to conflicts of interest and does not develop standards that reflect the economy's needs.
- The Accreditation Agency does not provide technically credible or impartial accreditation services, and as a consequence does not serve the needs of the economy and is not recognized abroad.”⁶⁹

The overall impact of new FTAs on trade expansion and human development can be represented by the following SWOT analysis.

<p>Strengths</p> <ul style="list-style-type: none"> • Decrease of export/import costs; • Unification of standardization and certification procedures; • Increase in competition; • Smooth and easy transition to new technologies, equipment, skills and knowledge; • More opportunities to conduct high-cost and long-term joint projects. 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Production will be shut down as signature countries will be able to supply better qualified products; • Fewer opportunities to develop infant industries; • Reduced income to state budget (in the short run) as a result of tariff reductions.
<p>Opportunities</p> <ul style="list-style-type: none"> • Increase in productivity; • More opportunities to conduct high-cost and long-term joint projects; • Promotion of FDIs in the sectors. 	<p>Threats</p> <ul style="list-style-type: none"> • Brain-drain; • Traditions of Armenia's well developed educational system undermined; • Loss of independent trade policy development; • Loss of existing clusters; • Increase in wages leading to a decrease of competitiveness of Armenian products and a fall in domestic production.

Summary. Sectors that are labor intensive and knowledge intensive are the most vulnerable to foreign trade; any changes that result from trade partner countries or the world economy directly affect the outputs of these two sectors by cutting employment levels and lowering income.

⁶⁹ Strategy for the reform of the Republic of Armenia's quality infrastructure (2010 - 2020). Draft Paper, 2010.

6. SUMMARY AND POLICY RECOMMENDATIONS

Before the global economic and financial crisis struck, Armenia's prosperity levels were rising steadily (increases in industrial output, FDIs, exports, and income) accompanied by decreases in the country's poverty levels. The global crisis, however, led to a slowdown in remittance flows as well as less trade, investments, and official assistance, and this resulted in a dramatic fall in all other economic figures.

At the same time, the economy has not yet overcome some very negative factors inherited from the Soviet system, such as the monopolistic mindsets of businessmen, a lack of knowledge about international market rules, and a lack of skills (in the public and private sectors) to promote and manage SMEs. As a result, unemployment continues to be a serious challenge for the Armenian Government, especially in rural areas. Moreover, in the short to medium term, the country's low birthrate and high rate of male emigration will create serious issues for the structure of the labor market and Armenia's supply and demand.

Human development is hampered by the blockade by Azerbaijan and Turkey, the small domestic market, low economies of scale, high transportation costs, the large number of refugees forced out of Azerbaijan, energy crises, high rates of emigration of skilled workers, and the poor condition of trade and distribution channels left from the collapsed centrally planned economy. Thus, over the last 20 years Armenia has shifted from being an industrially developed country to being a labor-intensive country with low productivity, where the major part of income constitutes remittances as well as assistance and transfers from the diaspora. One result of this shift is that the Armenian economy has become extremely vulnerable to economic and political changes in major economic partner countries as well as in the global economy.

Although there have been some increases in state budget income, it remains low. As a result, Government expenditure in Armenia's social sector is limited, while private sector participation in social expenditure is not yet developed. In addition, monetary and fiscal policies that were aimed at tackling the consequences of the global economic crisis and at promoting domestic business have not yet yielded any significant results.

Moreover, Armenian exports and imports lack diversification. This further contributes to the economy's sensitivity to economic and political changes in partner countries and the world. Foreign investments continue to be at the initiative of foreign investors, while trade agreements have failed to have their expected impact on Armenia's foreign trade turnover. There are no substantial changes in figures for domestic output, unemployment, or foreign trade turnover (increase of total exports and high-tech, knowledge-based imports).

Overall, the Armenian trade regime and investment climate are characterized by openness and liberalized rules and regulations. Armenia has made progress in approximating its legislation and policies to WTO requirements as well as EU measures. Nevertheless, Armenia is not yet fully utilizing its production and export capacities, with few changes being made in trade sensitive sectors – these industries continue to demonstrate low levels of investments and poor trade performance and low productivity.

International experience and the potentially positive outcomes of free trade, as well as Armenia's current economic situation and production potential, suggest that trade and foreign trade agreements could become a major driving force for economic development. Any such developments, however, must be pursued within the wider context of reducing poverty, increasing social welfare and human development, and fairly distributing potential benefits among different segments of society.

The main reasons for the situation described above are **political, institutional, and social; more specifically, they are:**

- High transportation costs due to the blockade;
- High concentration of business in the capital;
- Limited role of SMEs in the economy due to a lack of experience in managing this part of the private sector;
- Highly monopolized economy;
- Conditions that are conducive to “brain-drain”;
- Dependence on remittances;
- Low birth-rate;
- Low social expenditure;
- Lack of institutions, such as EXIM banks, information centers, developed leasing systems, and others;
- Lack of training (giving guidance on how to export to the CIS and EU);
- Reluctance of the private sector to export products because of bureaucracy within and outside the country;
- Lack of mutual acceptance of standardization;
- Existence of non-tariff rules and regulations in western countries, while domestic laboratories and standardization bodies are unable to conduct tests according to the requirements of the exported countries because of the lack of equipment, technology, and international accreditation;
- Lack of business ethics;
- Lack of tax holidays for modernization of technology, equipment, and machinery, regardless of company size;
- Armenia’s sanitary and phyto-sanitary measures do not correspond with those of the countries to which exports are being sent;
- Hardly any NGOs or agencies that promote exports;
- The limited impact of pre-existing trade agreements on sensitive sectors, such as the agro-industry (due to: low productivity; production based on extensive expansion; high transportation costs; inadequate mechanization, technical equipment, and fertilizers; non-compliance with international food safety standards; lack or high cost of financial resources in longer term; lack of mechanisms/institutions to finance the sector; lack of modern agro equipment and technology; lack of institutions to promote the sector and the sector’s exports; poor marketing and management (financial and general); lack of training for officials and the private sector (paid and financed); low export capacities; small local market; small farms; existence of non-systemized clusters; no institutions to unite farmers to create economy of scale) and the chemical industry (due to Armenian chemical standards not being recognized in western markets; lack of modernized and well-equipped laboratories; lack of institutions to promote the sector and its exports; obsolete technology; limited know-how on organizing exports; poor marketing and management (financial and general) with export capacities; competition among clusters; and small size of local market).

Policy Recommendations. The Armenian Government should improve its “Sustainable Development Program” by emphasizing the promotion of a certain type of foreign trade – that which is based on market economy principles and which reflects a vision for advancing knowledge-intensive sectors and for improving productivity in labor-intensive sectors. Major steps toward this should be (but not be confined to):

- Identifying and targeting a few sectors that can form the basis of industrial development among labor-intensive and knowledge-intensive sectors, with an orientation toward exports that involve the implementation of new technologies and knowledge;
- Generating foreign investments in the targeted sectors through market principles such as tax holidays, reduced business risks, co-financing of staff training, funding to modernize the edu-

cation system, etc;

- Assisting the establishment of clusters in the targeted sectors;
- Stimulating international accreditation of standardization and licensing bodies in the country;
- Promoting SMEs and start-ups through all possible means;
- Creating an equal and fair social payments system;
- Encouraging the financial sector to provide cheap loans for the private sector;
- Expanding trade agreements without excluding the mutual acceptance of non-tariff rules and regulations;
- Assisting the development of trade-related infrastructure and capacities;
- Promoting diversification of exports/imports markets and products;
- Organizing export-oriented training programs for the private sector in the targeted sectors;
- Organizing training programs to upgrade the skills and knowledge of the population and reduce unemployment among the most vulnerable segments of society;
- Bringing the Armenian legislative environment into line with EU requirements, while taking into consideration the unique characteristics of the Armenian economy and the feasibility of implementing harmonized laws;
- Facilitating the decentralization of business;
- Promoting the establishment of different kinds of associations, unions, and other NGOs that are aimed at stimulating private business;
- Promoting the modernization of R&D institutes to increase capacity.

Action Matrix⁷⁰

Action	Target indicator	Timeline for completion	Responsible entities
1. Support the Government of Armenia in its strengthening of institutions that promote foreign trade and FDIs	Increased export capacity and higher competitiveness, with an emphasis on improvements in poverty indicators		RA Ministry of Economy Armenian Development Agency Research institutes DCFTA TBT working group and other stakeholders
1.1 Assess the capacities of existing institutions in these fields according to international experience and the specifics of the Armenian economy		Short term	
1.2 Target a few sectors to promote exports and generate FDIs		Short term	
1.3 Support identification of technical barriers to trade for the selected sectors		Short term	
1.4 Create an action plan for the elimination of those technical barriers to trade for the selected sectors, and start implementation of that plan		Short term	
1.5 Present suggestions for how the situation can be improved and gaps filled		Short term	
1.6 Identify mechanisms to protect trade and promote FDIs according to market rules		Short term	
1.7 Present suggestions and monitor the results		Medium term	
2. Support the Government of Armenia in its strengthening of institutions that promote the role of SMEs in the economy	Increase in start-up initiatives and export capacity		RA Ministry of Economy Research Institutes
2.1 Assess the capacities of existing institutions in these fields according to international experience and the specifics of the Armenian economy		Short term	
2.2 Present recommendations that address legislative and institutional issues		Short term	
2.3 Present suggestions and monitor the results		Medium term	

⁷⁰ The resources required for each Action point will be finalized after discussion with relevant governmental bodies and donor organizations.

Action	Target indicator	Timeline for completion	Responsible entities
3. Support the Government of Armenia in its promotion of export diversification (in terms of products and markets)	Increased export capacity and higher competitiveness, with an emphasis on improvements in poverty indicators		RA Ministry of Economy Armenian Development Agency Research institutes
3.1 Assess the current situation of Armenian exports/imports and opportunities for its expansion and diversification		Short term	
3.2 Identify potential markets in order to organize targeted exports		Short term	
3.3 Present the outcomes of the assessments, with an emphasis on promoting production in rural areas		Short term	
3.4 Present suggestions and monitor the results		Medium term	
4. Support the Government of Armenia in <ul style="list-style-type: none"> improving process costs of export financing procedures decreasing costs of export financing procedures 	Increased export capacity and higher competitiveness		RA Ministry of Economy Armenian Development Agency, Research institutes
4.1 Assess the current financing mechanism in the Armenian market and suggest possible improvements		Short term	
5. Support the Government of Armenia in its improvement of export and import logistics	Increased export capacity and higher competitiveness		RA Ministry of Economy Armenian development agency, Research institutes
5.1 Assess the current exports/imports logistics and suggest possible improvements		Short term	
5.2 Draft a road map for the creation of logistics centers across the whole territory of Armenia		Medium term	
6. Help the Government of Armenia to create a framework that will establish, in both urban and rural areas, training and information centers to give guidance on exporting and importing	Increased export capacity and higher competitiveness, with an emphasis on de-centralization of business to reduce inequality among rural and urban areas and increase employment in rural areas		RA Ministry of Economy Armenian Development Agency Research institutes
6.1 Assess existing capacities for training and information centers		Short term	
6.2 Present possible changes/establishments of required bodies		Short term	

Action	Target indicator	Timeline for completion	Responsible entities
6.3 Establish the necessary bodies		Medium term	
6.4 Train the relevant staff for these bodies, supplying them with the information, tools and technologies needed to fulfil their major functions, at first free of charge, then moving to payment for base services; monitor the results		Medium and long term	
7. Help the Government of Armenia to fully realize the potential benefits of future FTAs (including EU-Armenia DCFTA) and other preferential trade regimes (GSP, GSP+) by actively participating in negotiations and prioritizing Armenia's interests	Increased export capacity and higher competitiveness		RA Ministry of Economy Research institutes
7.1 Assess which gaps need to be filled to ensure smooth negotiations; present relevant suggestions		Short term	
7.2 Create a mechanism that will provide ongoing support to the negotiating team (i.e. provide high level consultancy)		Short/medium term	
8. Support the Government of Armenia in its promotion of the accreditation process of domestic testing laboratories and standardization bodies	Improved quality of exported products		RA Ministry of Economy Standardization bodies operating in Armenia
8.1 Assess domestic capacities in relation to target export markets and target export sectors		Short/medium term	
9. Support the Government of Armenia in its elimination of technical barriers to trade in selected sectors and target markets	Increased trade in selected sectors and higher competitiveness Improved image of Armenia		RA Ministry of Economy RA Ministry of Agriculture
9.1 Assess potential technical trade barriers in target sectors of target markets; present suggestions for making the required changes		Short and medium term	
10. Support the Government of Armenia as it seeks to improve the social environment in rural areas	Increased equality between rural and urban areas and higher employment levels in rural areas		All related ministries and official bodies in rural areas
10.1 Identify ways to improve social environments based on international experience and the specifics of domestic markets in rural areas		Short term	

Action	Target indicator	Timeline for completion	Responsible entities
10.2 Present suggestions for making the required changes		Short term	
10.3 Present suggestions and monitor the results		Medium term	
11. Produce a study on trade protection mechanisms	<ul style="list-style-type: none"> Increased number of organizations aware of trade protection mechanisms; a more secure trade environment Classification of trade protection mechanisms Trade protection mechanisms manual 	Short term	RA Ministry of Economy
12. Analyze RA legislation on trade protection mechanisms	<ul style="list-style-type: none"> Compliance of RA legislation with international commitments made by RA Development of necessary sub-legislative acts 	Short term	RA Ministry of Economy
13. Clarify which bodies will ensure the launch of the trade protection mechanisms	<ul style="list-style-type: none"> Description of activities/functions of the bodies ensuring the launch of trade protection mechanisms; development of job descriptions 	Short term	RA Ministry of Economy
14. Establish empowered and specialized structures, such as unions of different producers (e.g. fish producers), with descriptions of their functions	<ul style="list-style-type: none"> Establishment of an authorized structure within the Ministry of Economy to ensure the effective launch of the trade protection mechanisms Creation of specialized unions, with relevant legislation to regulate their activities 	Short term	RA Ministry of Economy
15. Develop a manual for the launch of the trade protection mechanisms	<ul style="list-style-type: none"> Development, publishing, presentation, and distribution of a manual for the launch of the trade protection mechanisms 	TBD	RA Ministry of Economy
16. Organize the necessary training programs on the trade protection mechanisms	<ul style="list-style-type: none"> Development of modules for training courses aimed at the effective launch of the trade protection mechanisms 'Training of Trainers' organized Study trips and secondments organized 	TBD	RA Ministry of Economy

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APPENDICES

APPENDIX 1 – EXPORTS STRUCTURE OF ARMENIA BY COUNTRY, 1996-2009 (%)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
CIS countries	19.9	23.6	23.2	16.1	18.9	28.9	18.7	19.1	25.99	24.46	24.74	36.5	40.7	44.1
Russia	15.4	19.7	17.4	12.3	12.5	10.8	13.9	12.8	17.65	14.96	14.49	18.13	27.05	33.12
Ukraine	1.8	2.1	4	2.3	1.4	1.4	1.1	1.6	3.2	1.1	0.9	1.8	1.5	1.67
NON CIS countries	80.1	76.4	76.8	83.9	81.1	82.7	81.3	80.9	74.01	75.54	75.26	63.5	59.3	53.9
EU countries	44.5	54.2	48.9	48.1	40	35.3	38.1	39.1	25.85	35.97	45.69	34.6	28.5	21.3
Belgium	6.7	8.5	9.1	11	13.1	14.9	18.3	18.3	13.58	25.23	36.08	22.6	20.2	15.41
Bulgaria	8.6	5.6	3.9	0.1	0.1	0.7	0.2	0.3	0	0.22	0.38	0	0	0
Germany	16.5	17.4	14.7	15	15.5	11.5	6.5	5.6	3.24	4.34	4.37	4.22	3.99	1.28
Italy	1.0	2.6	2.6	2.9	2.7	3.9	2.8	2.3	1.77	0.9	0.62	0.19	0.76	0.03
Netherlands	7.5	12.4	13.5	12.9	13.7	3	3.2	2.2	0.37	0.88	0.19	3.59	2.68	3.01
Spain	1.1	1.1	1.3	2.7	0	0.1	0.2	0.1	0.59	0	0	0	0.54	0.1
Other Countries (total)	35.6	22.2	20.4	30.4	34.5	47.4	43.2	41.8	48.16	39.57	29.55	28.9	30.8	32.6
Israel	0.1	0.5	2.3	8.9	11.8	13	21	17.4	9.74	0	0	0	0	0
USA	9.6	5.0	4.4	6.6	0.5	9.8	8.3	9.2	15.25	12.73	6.95	5.25	3.06	1.50
Iran	2.7	2.4	3.3	3	2.7	4.2	3.3	6.2	9.47	9.32	14.65	14.24	18.32	15.13
Turkey	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.51	0.48	1.35	3.08	2.08
Switzerland	3.6	1.1	4.3	7.3	3	0.3	4.7	1.5	2.61	2.97	1.61	1.13	0.68	0.09
China	2.6	0.2	0.7	0	1	3	0.7	0.8	0	0	0	0.06	0	0.01
Canada	4.9	1.5	0.5	1.1	1.2	1.1	0	0	0	0	0	0	0	0
Georgia	7.6	7.7	7.5	5.5	4.1	4	2.3	3.3	3.63	5.1	4.81	0	0	0

Source: National Statistics Services of the RA

APPENDIX 2 – EXPORTS STRUCTURE OF ARMENIA BY COMMODITY, 1996-2009 (%)

EXPORTED PRODUCTS	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Animal or vegetable fats	0	0	0	0	0	0	0	0.4	0	0	0
Wood & Wood Products	0.1	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.1	0.1
Footwear / Headgear	0.4	0.3	0.1	0.1	0	0	0	0	0.1	0.1	0.1
Furniture, Toys	0.1	0.4	0.2	0.3	0.3	0.2	0.1	0.1	0	0.1	0.2
Works of Art	0.1	0.1	0.1	0.1	0.1	0	0	0.1	0.2	0.1	0.1
Paper and paperboard	0.4	0.1	0.4	0.1	0.1	0.2	0.6	0.4	0.5	0.2	0.2
Raw Hides, Skins, Leather, and Furs	0.4	0.5	0.6	0.1	0.1	0.2	0.2	0.3	0.2	0.3	0.3
Means of Transportation	1.1	0.6	0.7	3	2.1	1.3	1.1	1.5	2.3	0.6	1.8
Animal & Animal Products	0.2	0.2	0.4	0.5	0.8	0.9	0.7	0.8	0.7	0.9	2.2
Stone / Glass	0.3	0.7	0.5	0.6	0.2	0.4	0.6	1	1.8	1.3	1.9
Chemicals & Allied Industries	0.8	1.1	0.8	0.4	0.4	0.3	0.3	0.5	0.8	1.5	0.9
Instruments and accessories	0.7	0.8	2.6	3.8	4.6	1	0.5	2.3	2.7	1.7	1.1
Plastics / Rubbers	3.9	3	3.8	1.3	0.7	1.4	0.9	2.8	0.9	1.8	1.4
Vegetable Products	0.6	0.6	0.4	0.3	0.5	1	1	1.6	1.5	2.1	2.8
Textiles	5.9	4.4	7.1	5.7	4.6	6.1	3.8	3.6	3.1	3.8	2.1
Machinery / Electrical	7.3	10.3	12.7	4.2	2.9	3	2.9	2.1	3.4	3.8	3
Foodstuffs	6.9	9.1	14	10.8	10.5	9.6	9.9	9.6	12.5	15.9	14
Mineral Products	13.4	12.4	11.1	8.3	7.3	13.8	9.6	13.9	15.1	16.3	20.5
Precious stones and metals	43.1	40.4	35.9	51.1	51.2	41.4	34.5	30.6	18.1	16.4	14.8
Non precious metals and products made from them	10.8	14.7	8.3	8.9	13.2	19	33.1	28.5	33.9	32.8	32.5

Source: National Statistics Services of the RA

APPENDIX 3 – ARMENIA'S MAJOR EXPORTS

PRODUCT	2008	2009
	(% share within the product category)	(% share within the product category)
ARTICLES OF APPAREL & CLOTHING ACCESSORIES – NOT KNITTED OR CROCHETED (% share in total exports)	1.9	0.8
	Germany (- 7.1) Italy (89.5)	Germany (23) Italy (63.4)
NUCLEAR REACTORS, BOILERS, MACHINERY & MECHANICAL APPLIANCES, COMPUTERS (% share in total exports)	1.5	1.1
	Georgia (11.1) Germany (6.1) Iran (7.1) Italy (3.7) Kazakhstan (4.4) Moldova (5.6) Russia (31.9) UAE (6) Turkmenistan (4) Uzbekistan (10.5)	Russia (22.2) Iran (10.4) UAE (9) Uzbekistan (7.9) Georgia (7) Korea (6.9) Austria (7.6)
ELECTRICAL MACHINERY & EQUIPMENT & PARTS, TELECOMMUNICATIONS EQUIPMENT, SOUND RECORDERS, TELEVISION RECORDERS (% share in total exports)	2.3	1.9
	France (29.7) Georgia (3.3) Iran (7.9) Russia (34.2) UAE (9.9) Ukraine (3.9) USA (2.6) Uzbekistan (2.4)	Russia (35.6) France (24.7) Ukraine (6.2) Iran (6.2) Holland (5.8) USA (5.2)

PRODUCT	2008	2009
	(% share within the product category)	(% share within the product category)
BEVERAGES, SPIRITS & VINEGAR (% share in total exports)	13.8	11.3
	Belarus (1.2)	Russia (77)
	Estonia (0.5)	Ukraine (7.1)
	Georgia (0.7)	Belarus (4.7)
	Germany (0.5)	USA (3.5)
	Kazakhstan (0.6)	Kazakhstan (1.2)
	Latvia (0.7)	Georgia (1)
	Russia (83.6)	Germany (0.7)
	Ukraine (8.5)	Latvia (0.9)
	USA (1.6)	
ORES, SLAG & ASH (% share in total exports)	11.9	16.3
	Bulgaria (45.5)	Bulgaria (50.9)
	Belgium (3.5)	Switzerland (20.9)
	Belize (1.9)	China (14.2)
	Chili (6.8)	Spain (6.4)
		Korea (4.4)
		UK (1)
		Iran (0.6)
		Holland (0.6)
		Belgium (0.7)
PEARLS, STONES, PRECIOUS METALS, FAUX JEWELRY, COINS (% share in total exports)	16.4	14.8
	Australia (0.8)	Belgium (42.6)
	Belgium (48.4)	Canada (31.5)
	Canada (8.3)	Russia (10.3)
	Germany (0.3)	Panama (1.4)
	Hong Kong (0.5)	Thailand (3.4)
	Israel (2.2)	UAE (0.9)
	Kazakhstan (0.3)	Turkmenistan (2)
	Panama (0.5)	USA (4.3)
	Russia (18.7)	Germany (0.8)

PRODUCT

2008 **2009**
 (% share within the product category) (% share within the product category)

UAE (2)
 Turkmenistan (1.7)
 USA (10.5)
 Thailand (2.2)

IRON & STEEL (% share in total exports)	20.3	13.1
	Austria (2.6)	Holland (54.1)
	Germany (91.6)	Germany (37.3)
	Iran (1.8)	Austria (4.8)
	Russia (1.3)	Ukraine (1.4)
	UAE (2.3)	Iran (1.8)

COPPER & ARTICLES MADE FROM COPPER (% share in total exports)	6.5	9.2
	Germany (91.8)	Germany (93.1)
	Austria (2.6)	Austria (2.3)
	UAE (2.3)	UAE (3.1)
	Iran (1.8)	Iran (0.9)

ALUMINUM & ARTICLES MADE FROM ALUMINUM (% share in total exports)	3.8	8.5
	Bulgaria (4.3)	USA (84.8)
	Germany (4.6)	Iran (5.3)
	Iran (17.3)	India (3.1)
	Italy (3.8)	Columbia (1.5)
	Norway (3.5)	Italy (1.1)
	Russia (4.6)	Turkey (1.2)
	UAE (2.3)	
	USA (54)	

Source: National Statistics Services of the RA

APPENDIX 4 – THE MAIN SUB-PRODUCTS OF ARMENIA'S MAJOR EXPORTS, 1999-2009 (%)

SUB-PRODUCT / YEAR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TEXTILES (mainly represented by...)											
Man-made staple fibers, incl. Yarns etc. (Sewing thread of manmade filaments; Woven synthetic filament yarn, monofilament; Artificial filament tow; Woven fabric >85% synth+cotton, >170g/m2 unbl/bleached; Woven fabric of synthetic staple fibers, nes; Woven fabric <85% artificial staple fibre)	0.3	0.4	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.1
Carpets & other textile floor coverings	0.3	0.4	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.1
Articles of apparel & clothing accessories – knitted or crocheted (Men's, boys' underwear, nightwear, etc, knit or crochet; Women's, girls' underwear, nightwear, etc knit, crochet; T-shirts, singlets and other vests, knit or crochet; Babies garments, clothing accessories, knit or crochet)	0.7	0.9	0.9	0.7	0.6	0.7	0.8	0.7	0.5	0.5	0.3
Articles of apparel & clothing accessories – not knitted or crocheted	4.7	3	4.5	3.3	2.7	3.9	2.3	2.1	1.8	1.9	0.8
Synthetic textile articles nesoi, needlecraft sets, second-hand clothing, cloths	0	0.1	0.4	0.4	0.1	0.2	0.2	0.2	0.2	0.1	0.1
MACHINERY / ELECTRICAL (mainly represented by...)											
Nuclear reactors, boilers, machinery & mechanical appliances, computers (Auxiliary plant for boilers; Pumps for liquids; Air, vacuum pumps, compressors, ventilation fans, etc.; Machinery, non-domestic, involving heating or cooling; Lifting, handling, loading machinery nes; Self-propelled earth moving, road making, machines; Industrial food and drink preparation machinery nes)	3.7	3.2	4.4	1.9	1.5	1.5	1.7	1.1	1.4	1.5	1.1
Electrical machinery & equipment & parts, telecommunications equipment, sound recorders, television recorders (Electric motors and generators; Electric generating sets and rotary converters; Electric transformers, static converters and rectifiers; Electric solder, weld, braze, hot metal spray equipment; Electric apparatus for line telephony, telegraphy; Prepared unrecorded sound recording media (nonphoto); Parts for radio, TV transmission, receiver equipment; Electronic printed circuits; Electrical switches, connectors, etc, for <1KV)	3.8	7.1	3.9	2.3	1.4	1.6	1.1	1	2.1	2.3	1.9
FOODSTUFFS (mainly represented by)											
Ed. Prep. of meat, fish, crustaceans, etc (Sausages, similar products of meat, meat offal & blood; Prepared or preserved meat, meat offal and blood, nes; Crustaceans, molluscs, etc, prepared or preserved)	0	0	0	0	0	0.1	0.1	0.1	0.2	0.2	0.2

SUB-PRODUCT / YEAR

1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

Prep. of veg, fruit, nuts, etc. (chocolate and other foods containing cocoa; Vegetables, fruit, nuts, etc, preserved in vinegar; Tomatoes prepared, pre-served, not in vinegar; Vegetables nes, prepared/preserved, not frozen/vinegar; Jams, jellies, marmalades, fruit, nut pastes, purees; Fruit, nut, edible plant parts nes, prepared/preserved; Fruit and vegetable juices, not fermented or spirited

1 0.9 1.6 1.1 1.1 0.8 0.8 1 0.9 1 1.1

Beverages, spirits & vinegar (Unsweetened beverage waters, ice and snow; Waters, non-alcoholic sweetened or flavoured beverages; Beer made from malt; Grape wines(including fortified), alcoholic grape must; Fermented beverages; nes (eg cider, perry, mead); Liqueur, brandy, spirits and undenatured ethyl alcohol <80%)

4.2 7.5 11.4 8.9 8.8 7.9 8.7 8 11 13.8 11.3

Tobacco & manuf. Tobacco substitutes (Tobacco un-manufactured, tobacco refuse; Cigars, cigarettes etc, tobacco or tobacco substitute; Tobacco, tobacco substitute products nes)

1.5 0.6 0.8 0.7 0.5 0.6 0.4 0.3 0.4 0.7 1.2

MINERAL PRODUCTS (mainly represented by...)

Salt, sulphur, earth & stone, lime & cement (Salt (sodium chloride) including solution, salt water; Siliceous fossil; meals and earths; Granite, porphyry, basalt, sandstone, etc., Cement)

1.8 0.4 0.1 0.1 0.2 1 1.5 2.4 3 3.8 1.4

Ores slag & ash (Copper ores and concentrates; Zinc ores and concentrates; Ore and concentrates molybdenic)

3.3 5.1 6 5.6 5.6 10.1 5.3 9.5 10.9 11.9 16.3

Mineral fuels, oils, waxes & bituminous sub (Kerosene motor fuel (not jet)

from petro oils and bitumin minerals (o/than ude) or preps. 70%+ by wt. From petroleum oils; Natural gas, in gaseous state)

8.3 6.9 5 2.7 1.6 2.7 2.8 2 1.1 0.6 2.8

Precious stones and metals

Pearls, stones, prec. Metals, imitation jewelry, coins (Diamonds, not mounted or set; Synthetic, reconstructed jewellery stones, not set; Gold, unwrought, semi manufactured, powder form; Jeweler and parts, containing precious metal)

43.1 40.4 35.9 51.1 51.2 41.4 34.5 30.6 18.1 16.4 14.8

NON PRECIOUS METALS AND PRODUCTS MADE FROM THEM (mainly represented by...)

Iron & steel (Ferro-alloys; Ferrous waste or scrap, ingots or iron or steel)

3.6 3.6 2.8 2.3 2.6 9.8 25 17 21.1 20.3 13.1

Copper & articles made of copper (Ferrous waste or scrap, ingots or iron or steel; Copper, copper alloy, waste or scrap)

2.4 5.3 3.8 2.3 2.1 5.2 5.2 7.8 6.5 6.5 9.2

Aluminum & articles made of aluminum (Aluminum waste or scrap; Aluminum foil of a thickness <0.2mm)

4 4.8 5.2 3.5 7.8 2.3 0.5 0.8 3.7 3.8 8.5

Base metals nesoi, cermet, articles etc. (Molybdenum and articles made from it, waste or scrap)

0.5 0.7 0.6 0.6 0.4 1.1 1.8 2.6 2.1 1.9 1.3

APPENDIX 5 – BREAKDOWN OF ARMENIA'S IMPORTS BY COUNTRY, 1996-2009 (%)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
CIS countries	31.6	28.5	31.7	30.2	28.9	28	24.4	30.6	24.8	19	21.9	25.5	33.5	38.9
Russia	24.0	19.2	15.3	13.9	13.2	11.8	16.4	19.5	19.5	14.93	17.25	21.21	24.19	14.66
Ukraine	6.1	7.1	7.7	7.4	1.1	1	3.5	4.6	2.53	1.39	0.99	3.9	3.9	4.3
NON CIS countries	68.4	71.5	68.3	69.8	71.1	71.4	75.6	69.4	75.4	80.99	78.1	74.5	66.5	61.1
EU countries	27.3	30.7	34.7	34	28.5	25.4	29.3	25.9	28.85	34.19	31.65	28.7	19.8	15.5
Austria	1.7	3.7	3.8	2	0.3	0.4	0.3	0.3	0	0.29	0.36	0.31	0.25	0.22
Belgium	1.8	2.1	3.5	5.5	8.2	7	10.2	9.2	4.78	9.53	10.63	6.05	5.57	5.79
Bulgaria	2.6	2.7	2.7	1.9	1.5	3.9	2.4	5	0	0.81	0.51	1.79	2.85	1.67
France	2.2	2.9	4.6	3.2	2.7	1.4	1.4	1.2	1.39	1.98	1.54	3.04	2.18	1.40
Germany	5.4	5.8	6.8	6.6	7.9	5.9	3.4	4.3	3.88	4.1	4.31	3.77	2.94	2.03
Italy	3.4	3.6	3.5	4	3.3	3.3	3.1	3.7	3.4	2.9	2.9	3.83	3.67	3.06
Romania	2.2	2.3	2.1	3.8	4.3	2.5	0.5	0.7	0	0	0	0.11	0.16	0.56
Other Countries (total)	41.1	40.7	33.6	35.8	42	45.9	46.3	43.5	46.55	46.8	46.45	45.8	46.7	45.6
USA	3.7	4.9	4.4	4.8	0	0.3	4.5	4.4	9.63	11.6	10.69	10.67	13.01	12.10
Iran	4.1	4.6	4.3	5.2	4.7	4	5.3	6.3	8.93	9.37	9.79	7.08	9.94	17.50
Turkey	5.4	6.1	4	4.4	3	3.3	3	3.9	3.85	4.46	5.01	6.29	4.30	0.73
Switzerland	3.7	0.4	0.7	0.9	2	4.3	3.3	1	3.03	2.59	2.05	2.84	2.54	1.93
China	8.7	8.6	5.9	5.1	3	2.9	0.9	1	0	0	0	1.10	0.82	0.10
Brazil	1.7	1.3	0.8	0.7	1.3	1.7	0.7	1.6	0	0	0	0	0	0
Japan	2.3	3.8	3.2	1.8	1.3	1.7	0.7	0	0	0	0	0.69	0.33	0.06
India	1.3	1.1	0.7	1	0	1.3	0.5	0.4	0	0	0	0.41	0.15	0.09
Georgia	1.2	1.1	1.4	1.6	1.1	1	3	3.2	2.11	2.21	3.35	5.99	4.29	2.97

Source: National Statistics Services of the RA

APPENDIX 6 – ARMENIA'S MAJOR IMPORTS, 1999-2009 (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Works of art. Collectors' pieces, antiques	0	0	0	0	0	0	0.2	0.2	0.3	0	0
Raw Hides, Skins, Leather, & Furs	0.2	0.2	0.7	0.2	0.1	0.1	0.2	0.2	0.1	0.2	0.2
Footwear / Headgear	0.7	0.6	0.7	0.4	0.3	0.4	0.6	0.8	0.4	0.7	0.7
Animal or vegetable fats, oils & waxes	2.1	1.9	2.2	1.9	1.8	1.5	1.5	1.2	1	1.2	1.6
Instruments & accessories	1.5	1.4	3.1	2.1	2.7	2.1	1.7	2	1.9	1.3	1.6
Wood & Wood Products	0.5	0.6	0.7	0.7	0.7	0.7	0.7	1.1	1.4	1.6	1.5
Paper & paperboard, articles of paper pulp	2.2	2.6	2.8	1.9	1.6	1.8	1.8	1.9	1.7	1.8	2
Furniture, Toys	1.5	1.3	1.3	1.1	1.2	1.3	1.2	1.5	1.4	1.9	1.9
Stone / Glass	1.5	1.3	1.8	1.9	1.7	1.7	1.9	2.3	2.3	2.6	2.2
Animal & Animal Products	0	3.8	3.5	2.8	2.6	3	2.5	1.8	1.9	2.8	2.9
Textiles	3.6	3.6	4.1	3.7	3.1	3.5	2.6	2.7	2	3.5	2.8
Plastics / Rubbers	2.8	2.6	2.6	2.2	2.2	2.6	2.7	3.6	1.4	4.2	3.9
Vegetable Products	9	11.2	9.7	7.5	5.9	8.1	5.5	5.1	5.7	5.3	6
Chemicals & Allied Industries	8.8	9.3	7.4	6.4	6.1	6.3	6.6	6.9	6.7	6.1	7.6
Precision stones and metals	10.3	12.8	12.2	21.6	26	21.6	19.3	14.3	9.1	6.9	3.2
Foodstuffs	9.1	7.9	8.8	8	7.3	8.3	8.1	7.5	7.8	7.9	8
Non precious metals and products made from them	2.8	2.8	10.1	5.6	6	4.5	5.2	7.5	10.4	9.5	11.3
means of Transportation	3.9	2.6	3	4	6.1	6.9	8.4	9	12.9	13	7.3
Machinery / Electrical	9.7	13.3	4.1	10.5	10.5	10	12.9	13.9	13.1	14.6	18.9
Mineral Products	20.9	20.3	21.4	17.4	14	15.5	16.5	16.7	15.8	15	16.3

Source: National Statistics Services of the RA

APPENDIX 7 – CHANGES IN ARMENIAN LEGISLATION AND GOVERNMENT DECREES ADOPTED AFTER WTO MEMBERSHIP

New Laws

- **Law of the Republic of Armenia “On Conformity of Goods and Services to Normative Requirements”** (adopted 9 November 1999 (3.30(96).6/12/1999) (HO-19), in force since 6 December 1999, thereafter replaced by a new Law on Conformity Assessment adopted on 26 May 2004 (OB-2004-034-(333), 30/06/2004) (HO-82-N), in force since 10 July 2004)
- **Law of the Republic of Armenia “On Standardization”** (adopted on 9 November 1999 (3.30(96).6/12/1999) (HO-18), in force since 6 December 1999)
- **Law of the Republic of Armenia “On Plant Protection and Plan Quarantine”** (adopted on 20 March 2000 (3.8(106).28/4/2000) (HO-46), in force since 28 June 2000)
- **Customs Code of the Republic of Armenia** (adopted on 6 July 2000 (3.19(117).21/08/00) (HO-83), in force since 1 January 2001)
- **Law of the Republic of Armenia “On Food Safety”** (adopted 8 December 1999 (3.32(98).31/12/1999) (HO-25), in force since 1 May 2000)
- **Law of the Republic of Armenia “On Protection of Economic Competition”** (adopted on 6 November 2000 (3.30(128).15/12/2000) (HO-112), signed by the President on 5 December 2000, in force since 15 December 2000)
- **Law of the Republic of Armenia “On Measures of Protecting the Domestic Market”** (adopted on 18 April 2001 (3.15(147).31/5/2001) (HO-175), signed on 14 May 2001, in force since 31 May 2001)
- **Law of the Republic of Armenia “On Anti-Dumping and Subsidization Measures”** (adopted on 19 June 2002 (3.28(203).31/07/02) (HO-385-N), signed on 22 July 2002, in force since 10 August 2002)
- **Law of the Republic of Armenia “On Procurement”** (adopted on 5 January 2000 (3.13(111).22/6/2000) (HO-62), in force since 22 August 2000, thereafter replaced with the new Law on Procurement adopted on 6 December 2004 (OB-2004-072-(371), 28/12/2004) (HO-160-N), in force since 1 January 2005)
- **Law of the Republic of Armenia “On Protection of Selection Achievements”** (adopted on 23 November 1999 (3.31(97).27/12/1999) (HO-23), signed by the President on 22 December 1999, in force since 6 January 2000)
- **Law of the Republic of Armenia “On Veterinary”** (adopted on 26 October 1999; (3.30(96).6/12/1999) (HO-16), in force since 16 December 1999)

Amendments to Existing Laws

- Law of the Republic of Armenia “On Amendments to the Civil Code”
- Law of the Republic of Armenia “On Amendments to the Civil Court Proceeding”
- Law of the Republic of Armenia “On Amendments to the Criminal Court Proceeding”
- Law of the Republic of Armenia “On Amendments to the Criminal Code”
- Amendments to the Code on Administrative Infringements
- Law of the Republic of Armenia “On Amendments to the Law on Trade Marks and Service Marks, Origination Names”
- Law of the Republic of Armenia “On Amendments to the Law on Firm Names”
- Law of the Republic of Armenia “On Amendments to the Law on Intellectual Property and Adjacent Rights”
- Law of the Republic of Armenia “On Amendments to the Law on Patents”

Government Decrees

- **Government Decree on Establishing WTO Notification Center in the Republic of Armenia** (not yet adopted)
- **Government Decree on Approving the Procedures of Preparation, Adoption and Application of Technical Regulations** (11 January 2000 (OB-2000-001-(099), 20/01/2000) (0009), in force since 11 January 2000)

APPENDIX 8 – FDIs INFLOWS TO ARMENIA BY SECTOR, 2000-2009 (US\$ THOUSANDS)

SECTOR / YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TOTAL	120,060	75,859	140,964	153,497.9	226,723.4	400,357.3	434,667.5	582,314.1	1,000,911.2	732,118.5
Agriculture and Hunting	0	207	3394	0	0	0	386.3	0	22923.6	6700.0
Mining of Metal Ores	3,150.2	650.8	3064	12,168.6	3,372	881.6	17,917.4	18,428.7	0	0
Other Mining and Quarrying	228.4	95.8	249.4	17.6	39,555.1	97,537.0	48,085.	62,453.5	33,814.4	20,901.4
Manufacture of Food Products and Beverages	7,793.3	3,851.6	13,597.8	12,914.2	34,728.4	26,401.8	11,433.0	21,148.2	25,381.8	29,435.7
Manufacture of Tobacco Products	1,400	0	5,936	946.0	0	0	0	0	0	0
Manufacture of Textiles	174.7	37.4	0	0.0	13.3	0	0	0	0	0
Tanning and Dressing of Leather	34.4	0	0	0	0	0	0	0	0	110.6
Manufacture of Wood and of Products of Wood and Cork	0	0	0	263.4	5.8	5,405.9	2,230.7	1,436.3	0	0
Manufacture of Chemicals and Chemical Products	180.1	697.1	10,788.7	307.3	109.7	1,368.6	170.1	197.4	0	4,574.7
Manufacture of Rubber and Plastics Products	0	0	0	1,282.1	0	0	1,431.1	0	0	0
Manufacture of Other Non-Metallic Mineral Products	0	0	0	0	1,246.9	807.5	0	0	0	9,484.5
Manufacture of Basic Metals	350	2,151	3,038.4	6,369.0	0	368.0	0	0	0	18.7
Manufacture of Fabricated Metal Products	0	0	194.7	0	0	0	0	0	0	0
Manufacture of Machinery and Equipment NEC	5.5	0	91.2	0.1	0.6	202.3	43.9	192.2	2.9	0
Manufacture of Electrical Machinery and Apparatus NEC	0	0	0	0.1	37.9	133.2	0	0	0	0
Production of equipment for radio and TV connection	0	0	0	5,956.0	68	0	2,609.4	2,518.1	0	935.8

SECTOR / YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Manufacture of Furniture; Manufacturing NEC	1,138.5	2,033.9	3,594.8	1,190.8	3,637	5,405.9	2,230.7	1,436.3	3,562.6	1,213.1
Electricity, Gas, Steam and Hot Water Supply	42,000	24,855.8	42,376.7	3,769.0	32,282.5	120.0	18,137.0	222,767.9	476,278.9	151,320.8
Construction	720	3,449.8	8,619.1	5,259.0	1,031	4,353.1	14,411.2	956.4	1,592.0	14.9
Wholesale Trade and Commission Trade, excluding cars and motorcycles	10,811.2	3,938.1	7,235.1	6,437.6	4,423.7	2,728.8	10,128.8	5,330.8	639.1	4,517
Retail Trade, excluding Motor Vehicles and Motorcycles	54	477	236.9	320.5	222.6	201.1	280.2	5,592.0	1,007.8	210.5
Hotels and Restaurants	4,551.7	1,145.6	2,104.8	1,410.2	3,098.5	6,555.9	9,168.3	13,939.7	4,784.9	5,033.7
Land Transport; Transport via Pipelines	0	0	0	0.0	0	0	0	0	136,330.0	148,800.0
Air Transport Activity	0	0	0	3,627.4	24,401	14,866.6	26,615.7	15,360.6	53,747.6	31,184.3
Supporting and Auxiliary Transport Activities	140	999.5	29	0	0	0	6,979.1	2,818.2	11,096.8	10,374.6
Post and Telecommunications	37,415	13,322	9,242.1	10,069.0	43,178	56,067.8	61,881.1	149,434.1	157,838.4	253,402.5
Financial Intermediation	0	1,650	9,447	3,481.4	11,930.1	0	20.0	10.1	0	0
Insurance and Pension Funding	0	319.9	70.4	0	82	372.3	423.4	29,900.0	0	0
Computer and related activities	1,488.8	2,189.7	5,235.6	7,869.6	4,945.9	6,849.6	7,107.5	5,266.8	5,298.8	4,575.4
R&D		4,573.8	1,441.2	1,604.1	1,965.9	4,835.6	1,040.3	7,923.6	11,106.3	4,470.1
Other Business activities	2,969.4	1,592.3	2,480.6	1,826.6	2,121	2,756.1	8,427.1	13,013.4	24,282.2	7,626.8
Recreational, Cultural and Sporting activities	983.4	2	680.2	76.7	751.2	833.5	0.0	1,645.3	18.5	61.2
Personal Services	50.2	1,010.5	222.9	0.0	18.8	0	0	37.0	0	0

Source: National Statistics Services of the RA

APPENDIX 9 – FDI Inflows to Armenia by Country, 2000-2009 (US\$ Thousands)

COUNTRY / YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TOTAL	120,060.1	75,859	140,964	153,497.9	226,723.4	244,423.5	434,667.5	582,314.1	1,000,911.2	732,118.5
1 Argentina	0	0	0	3,627.4	24,401	11,214.5	33,594.8	18,178.8	87,666.8	48,258.2
2 Australia	0	0	0	0	0	0	0	18,428.7	0	0
3 Bahamas	43.6	0	0.1	0.0	0	0	0.1	0	0	0
4 Belarus	0	20	0	0.0	0	0	0	0	0	0
5 Belgium	194.2	33.9	3,332.2	0.0	4,930.1	4,471.3	730.7	1,436.3	3,562.6	1,213.1
6 Belize	0	30.2	0	0.0	0	0	0	0	0	0
7 Canada	10,803.5	650.8	50,133.4	11,291.0	3,372	881.6	17,997.2	0	0	0
8 China	5.5	0	0	0.0	0.6	0	1,295.1	0.1	0	0
9 Cuba	49	918.5	0	0.0	0	0	0	0	0	0
10 Cyprus	1,672.1	504	5,021.6	5,298.2	2,409.4	10,257.1	15,891.0	11,943.2	10,797.0	6,939.7
11 Czech	9.9	1.8	0	0.0	0	0	0	0	0	0
12 Finland	0	0	0	0	0	0	16802.0	1882.0	0	0
13 France	3,019	2.3	11,337.8	9,351.4	28,038.3	20,242.2	9,093.9	18,745.7	83,756.0	83,756.0
14 Georgia	0	0.1	14	0.6	0	0	0	0	0	0.8
15 Germany	12	62.1	56	1,822.0	38,705.9	97,354.4	47,815.9	55,251.9	23,707.6	19,358.0
16 Greece	38,835	13,449	9,314	10,069.0	43,178	49,050.3	35,313.8	0	0	0
17 Hungary	102	61.2	0	0.0	0	0	0	68.2	107.3	0
18 Iceland	0	0	0	0	0	0.2	0	0	0	0
19 Iran	714.2	247.1	1,798.6	419.8	39.2	119.7	195.3	154.7	0	0
20 Ireland	964.9	1,334.9	966.6	263.9	0	0	0	4,049.2	6,407.0	289.1

21	Israel	0	2,000	0	1,100.0	0	0	1,500.0	0	0	0	0
22	Italy	4,925	563.6	1,835	19.3	9	14.0	525.7	448.6	432.1	33,480.3	
23	Lebanon	158.9	4.7	2,728.3	1,635.4	2,915.7	11,762.3	1,142.4	82,877.8	11,838.0	13,548.8	
24	Liberia	647.2	0	0	0.0	0	0	0	0	0	0	
25	Liechtenstein	0	0	0	4,436.0	10	0	0	0	0	16.1	
26	Luxemburg	2,764.1	635.9	525	1,336.2	2,106	639.0	3,285.0	3,731.0	6,687.0	2,487.0	
27	Netherlands	830.8	1,043.6	1,305.3	1,665.3	1,993.6	3,507.2	997.0	1,944.9	4,507.9	4,569.2	
28	Panama	0	1,650	2,450.2	2,406.4	0	0	20.0	0	0	0	
29	Russia	43,127.6	28,899.2	7,030.2	68,429.6	48,690.8	5,148.1	28,752.2	293,212.5	714,508.8	384,831.2	
30	Slovakia	0	0	0	0.1	29.3	38.2	20.3	0	0	0	
31	Spain	115.8	2	680.1	0.0	751.2	0	0	0	0	0	
32	Switzerland	0	915.7	749	6,736.4	0	0	0	0	0	0	
33	Syria	37.3	0.3	0	0.0	86	99.2	0	0	0	0	
34	Turkmenistan	0	0	0	0.0	0	0	0	0	0	0	
35	Ukraine	0	0	0	0	0	3,652.1	0	0	101.2	0	
36	United Kingdom	516.1	1,216.8	19,259	6,414.6	1,569.1	1,523.8	2,967.3	6,835.7	1,130.9	82.5	
37	USA	7,511.1	17,941.3	11,379	10,775.2	10,488.2	13,748.0	24,787.8	25,734.8	17,700.0	12,982.9	
38	Virgin Islands	0	0	0	0	0	0	0	7,490.0	0	0	
39	Other economies	3,001.3	3,670	11,048.6	6,400.1	13,000	10,700.0	8,000.0	29,900.0	28,001	120,305.6	

Source: National Statistics Services of the RA

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