



**THE ECONOMIC DIMENSION
OF COOPERATION BETWEEN ARMENIA
AND GEORGIA:
FACING NEW CHALLENGES
AND OPPORTUNITIES**

Friedrich Naumann
STIFTUNG

FÜR DIE FREIHEIT



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INDEX

Introduction THE ECONOMIC DIMENSION OF COOPERATION BETWEEN ARMENIA AND GEORGIA: FACING NEW CHALLENGES AND OPPORTUNITIES.....	5
David Harutyunyan ARMENIA-GEORGIA: FOREIGN ECONOMIC PRIORITIES	7
Kakha Gogolashvili EU-GEORGIA DCFTA AND ITS IMPACT ON GEORGIA-ARMENIA TRADE.....	19
Vakhtang Charaia ARMENIA AND GEORGIA: TRADE AND INVESTMENTS	32
Gagik Sargsyan ARMENIA-GEORGIA: THE MAIN PARAMETERS IN TRANSPORT, COMMUNICATION AND TRADE	43
Facing new challenges and opportunities for the economic cooperation RECOMMENDATIONS OF THE ARMENIAN-GEORGIAN EXPERT FORUM	52
APPENDICES.....	54

Introduction

THE ECONOMIC DIMENSION OF COOPERATION BETWEEN ARMENIA AND GEORGIA: FACING NEW CHALLENGES AND OPPORTUNITIES

In the context of global geopolitical changes that predefine global integration processes to a greater or lesser degree, the South Caucasus region could not stay on the sidelines; rules of the game defined by external players are bound to reflect upon the policy and relations between regional states. Relations between Armenia and Georgia are a good example. Since the Association Agreement came into effect, Georgia has been implementing economic integration with the European Union (EU), while Armenia has been a member of the Eurasian Economic Union since January 2015. Time will show what the course of events will be and what consequences these integration processes will have for the two countries.

However, in this context the most important issue on the agenda is how this situation will affect the economic relations between the two countries in all dimensions, especially taking into account the fact that partnership with Georgia is strategically important for Armenia. Based on the results of discussions organized by the Yerevan Caucasus Institute and the Tbilisi Republican Institute in the framework of the February 26-27, 2015 Armenian-Georgian Expert Forum, it can be stated that

the most important component of the economic agenda of the two countries is preservation of the free trade mode, which is currently put into question because of differing integration priorities of the countries. Preserving free trade between the two neighbors will make it possible to preserve the *status-quo* in trade relations and to develop a future strategy of mutually profitable relations.

Alongside obvious issues, the accession of the countries to different economic integration camps offers business circles the potential to apply the practice of mutual investments, by the means of which the preferential trade treatment provided to Georgia by the European Union and to Armenia by the EEU can be exploited as much as possible.

Where specific sectors of the economy are concerned, Armenia and Georgia have a large potential for cooperating in the energy sphere by means of synchronizing the operation of their energy systems in parallel modes. Transportation and tourism are also promising directions and important components of economic relations.

In general terms, it can be said that new challenges breed new opportunities for Armenia and Georgia; the more competent and balanced their mutual economic policies will be, the stronger will be the long-term effect of cooperation on the two countries.

ARMENIA-GEORGIA: FOREIGN ECONOMIC PRIORITIES

David Harutyunyan

INTRODUCTION

After gaining independence in the beginning of the 1990s, Armenia and Georgia based their economies on the institutional and legal frameworks of market economy, following the European integration development model. Despite the fact that Armenia and Georgia were CIS members, their choice was justified, since the market model was considered the most successful from an economic and institutional point of view, while also being acceptable in the terms of cultural, historical and Christian values. The two countries' path of European integration began with the signing of Partnership and Cooperation Agreements with the EU, followed by accession to the European Neighborhood Policy and the Eastern Partnership program, intended to culminate in Association Agreements with the European Union.

However, the geopolitical situation stemming from different regional agendas of global players affected Armenia's integration plans: in September 2013, after four years of negotiations with the European Union, Armenia made a U-turn in its integration vector in the direction of the Eurasian Economic Union of Russia, Belarus and Kazakhstan. According to the opinion of numerous experts, the swerve had a purely political subtext

based on the security of the Republic of Armenia, because in the economic, legal and institutional perspective, integration with the European Union had undisputable advantages. All this was concluded by Armenia signing the agreement with the EEU and becoming a full member of the organization in January 2015.

As for Georgia, a certain geopolitical *status-quo* established in the region allowed the country to follow its chosen path and sign an Association Agreement with the European Union, which came into effect in September 2014. Inherently the two neighbors ended up in different integration unions and this obviously brings up the issue of developing new rules of the game for the relationship between the two countries that would take the new reality into account. Time will show what the true advantages and disadvantages of their choices will be for the two countries. In the framework of this paper, we will attempt to analyze the outlook of the countries as well as the weak sides of the integration processes, to the extent possible also trying to briefly describe the current situation.

ARMENIA AND THE EURASIAN ECONOMIC UNION

On January 2, 2015 Armenia officially became a full-fledged member of the Eurasian Economic Union (EEU). Armenia entered a union with a territory of 20 million square kilometers, a population of 170 million people, a total annual turnover between member countries of a trillion dollars and a cumulative GDP of more than 2 trillion dollars. What makes Armenia's membership special is that it has no common border with member countries; Georgia lies between Armenia and Russia,

the EEU member geographically closest to Armenia. During the entire period preceding Armenia's accession to the EEU, various experts and institutions evaluated the social-economic preferences that the country will enjoy once it becomes a full member of the organization, although a deep and comprehensive mathematical-economic analysis, such as was made for the DCFTA, was never conducted for the EEU¹.

According to generally accepted estimations, Armenia's membership in the EEU will create advantageous conditions for the accession of Armenian goods to the common market. The country will also enjoy the profits from implementation of the so-called four economic freedoms: movement of goods, services, capital and labor. Inside the union, goods will move without customs barriers, a single service market will be formed and a consistent legal base will be created and used to conduct a coordinated policy in various branches of the economy. As for more specific economic forecasts, according to a study conducted by the Center for Integration Studies of the Eurasian Development Bank, Armenia's accession to the EEU will have the following beneficial effect on economics²:

- Leveling-off of prices for mineral products will stimulate growth of the GDP by 2%;
- Increase of the level of integration via export and investments will contribute to the growth of the GDP by approximately 1%;

1 ECORYS and CASE "Trade Sustainability Impact Assessment in Support of Negotiations a DCFTA between the EU and the Republic of Armenia" Rotterdam July 3, 2013

2 Center for Integration Studies of the EDB "Armenia and the Customs Union: Impact of Accession", 2013

- Growth of transfers by 3% per annum will increase the GDP by 0.2%;
- As a result of the cancellation of the export customs rate, the price for natural gas will decrease by 30%;
- Building of a new nuclear plant;
- Assistance in building the North-South highway and establishing a railway connection with Russia;
- Reduction of costs on import of uncut diamonds.

Already after the signing of Armenia's accession to the EEU, it became clear that Armenia would receive 1.13% of the grand total of the customs rates collected within the union, which will amount to 250-300 million dollars according to preliminary calculations, vastly exceeding the grand total of the customs rates collected in Armenia (just over 100 million dollars in 2014, according to official statistics). From an economic perspective, a negative side of accession to the EEU is the possible rise of prices on the domestic market, since the effective average customs rate in Armenia amounts to 2.7%³, while in the EEU it is 7.6%⁴. An issue can also arise in relations with partners in the WTO. To which degree the forecasts will come true and what the trend will be in the long term will be clear by the end of 2015.

Yet, even now it can be clearly stated that the true indicators will be much more subtle, taking into account the deceleration of growth of economic activity in Russia⁵ as a consequence of

3 In Armenia 73% of import is not charged, while the rest is charged by a 10% rate (with a top rate of 15%, according to the WTO)

4 It is planned that by 2015 the effective customs rate will decrease to 6%.

5 According to forecasts, by 2015 Russia's GDP has decrease by 3-4%, the

economic sanctions imposed by Western countries, which is bound to reflect upon the economy of the Republic of Armenia. It is not a secret that economic benefits from the EEU are mostly associated with Russia, taking into account that 23.7% of Armenia's foreign trade turnover (17.5% of the import and 20% of the export turnover) in 2014 was with Russia. Armenia uses Russian natural gas to provide gas to households. The main share of transfers (85%), equivalent to approximately 1.5 billion dollars, comes from Russia. As for Kazakhstan and Belarus, their share in Armenia's foreign trade turnover is 0.1% and 0.7% respectively. According to official statistics, already in January 2015, the volume of foreign trade decreased by almost 20% and import by 31.2% in comparison to January 2014 (the data will need adjusting, as it does not fully reflect the trade volume with EEU countries). It is notable that according to expert estimation, in 2014 the inflow of private transfers from Russia decreased by 172.4 million dollars. As to the situation in March 2015, after almost two months we observe the following trends:

Relations in the trade sphere. Trade between the EEU countries is conducted without customs rates on import and export according to the "Customs Transit" procedure, as a result of which the export of goods produced in Armenia to EEU countries has become significantly simplified. At the same time, import of goods from the EEU into Armenia requires no double

inflation will be within 12.2-12.7%, the income of the population will shorten by 6.3% and investments in the main capital by 13.7% (Ministry of Economic Development of Russia, HSE, IMF).

customs processing. The procedures connected to foreign trade activity have also simplified: importers no longer need to turn up at the customs office in person. Under the new procedures, it is sufficient to submit two documents concerning the export or import.

However, as already mentioned, one of the main negative consequences of Armenia's accession to the EEU may be the increase in customs rates in trade with third countries, which has caused significant growth of domestic prices and accordingly the deterioration of the population's social welfare. In the process of negotiations, Armenia has negotiated a delay in the rise of customs rates for 776 categories of goods until 2022⁶. For some groups of goods, the rate has been lowered or zeroed out; for others, the rates have increased. Customs rates for frozen fish, car parts, plastic tubes and other plastic goods have been reduced. Customs rates for green coffee, pumps, compressors and some types of household appliances have been annulled altogether. In the meantime, there has been an increase in customs rates for furniture, household appliances, wood and some types of car parts.

It is notable that during import of Russian-made cars (including foreign brands) the importers will only pay VAT calculated as 20% of the customs cost, which can significantly influence the state of the market⁷. There also are some innovations

6 The list of categories of goods is quite impressive and if the member countries do not reduce the customs rates in that period Armenia will not evade an inflationary turn, as it is unlikely that a mass import-substitution will take place.

7 The interests of official dealers of the foreign car industry, whose cars are produced in Russia, will suffer. In that regard it should be noted that in the

in terms of registration procedures for goods imported from non-EEU countries: the previous timeline of ten days has been extended to two months with a possibility of extension for another two months. In this context, it makes sense to point out that Customs Code of the EEU is now being coordinated with EEU partners and is due to be signed in the end of 2015⁸.

The social services market and state procurement.

The issue of building a new nuclear plant is under discussion. So far, Russia has provided a 270 million dollar loan and a 30 million dollar grant to sustain the operation of the existing plant until 2026. In the sphere of telecommunications, it is expected that the prices for roaming inside of the EEU will slowly decrease and in the next 4-5 years roaming will become free⁹. Concerning state procurement, it should be noted that Armenian producers can participate in tenders for procurement of goods and services EEU countries.

Labor market. Following accession to the EEU, a) citizens of Armenia will no longer need work permits to work in EEU countries; b) education certificates will be mutually acceptable (excepting the diplomas of lawyers, teacher, doctor and pharmacists); c) healthcare throughout the EEU will be provided on the same basis as for the local citizens; d) Armenian citizens

framework of conducting a single competitive policy directed at lowering the level of concentration of commodities' markets the issue of allowing parallel import, i.e. other economic entities can import that produce at the same time with the exclusive importer.

8 A single finance-currency market will be formed in 2025.

9 As the EU countries' experience tells us, the removal of interstate roaming leads to a significant growth of service volume that positively affects the income of mobile operators.

working on a contract for longer than six months will have the same tax obligations as residents; e) social welfare (with the exception of old-age pensions) for Armenian citizens and their family members will be the same as for local citizens; f) Armenian citizens' employment in EEU countries will be included in their work records on a par with domestic employment.

Without doubt, Armenia's membership in the EEU is facing certain challenges stemming from the absence of a common border with other members of the union, primarily with Russia, and the resulting need to set up a well-coordinated and functional logistics system. In this connection, Armenia is conducting negotiations with Russia about the option of creating a separate terminal for Armenian cargo carriers within the Verkhniy Lars checkpoint¹⁰. More work needs to be done on enabling alternative access to the Russian and other EEU markets, from various ferry routes¹¹ to cargo flights.

For Armenia, one of the possible short-term challenges can be the loss of competitive advantages of local goods because of the unprecedented decline of the ruble (more than 70% at the moment of writing). Thus, the cost of Russian flour delivered to Armenia by motorway is much lower than the prime cost of local flour, so that Armenian flour producers are suffering heavy

10 As a result of sanctions of Western countries against Russia, Turkey has abruptly increased exports to Russia, which has complicated the work of Turkish harbors to a certain degree. As a result part of the cargo went to Russia through the Verkhniy Lars checkpoint, the output capacity of which is also limited (six exit lanes and six entry lanes have a daily capacity of 2300 people, 30 buses, 170 passenger cars and 200 cargo vehicles).

11 The problem is the insufficient capacity of Georgian harbors, due to the short tie-down and a insufficient depth, leading to cost increase (transportation of a 20-ton container from Beirut to Marseille costs 100 dollars vs. 675 dollars from Poti to Marseille for the same freight).

losses. If the situation persists, local producers risk losing their market to goods imported from Russia¹².

ARMENIA – EUROPEAN UNION

Despite the fact that Armenia has abruptly changed its integration course in favor of the EEU, cooperation with the European Union remains on its agenda. Since 2014, Armenia and the European Union have resumed negotiations about the future format of the cooperation and definition of sectors, and currently the main trends by which Armenia will deepen its relations with European Union member countries have already been defined. Armenia and the EU are expected to sign a new document that will replace the Partnership agreement signed in 1996¹³.

The new document will cover some areas of the DCFTA agreement, in particular, energy production, metal mining, human rights, education etc. In the institutional aspect, cooperation with the European Union will be focused on trade, anti-monopoly policy, intellectual property rights, technical parameters, and food se-

12 At the moment, there is no solution to the problem in the legal and institutional field. The existing law on protection of the local market cannot de facto be applied in view of the existence of the concept of a common market in the EEU framework. In general, this may prove one of the most delicate issues in integration processes, when an economically stronger country uses its comparative and competitive advantages to “objectively” force players from a country with a comparatively weaker economy out of the common market.

13 It should be noted that Kazakhstan, Armenia’s partner in the EEU, signed an agreement with the EU in September 2014 on the conclusion of negotiations about a draft agreement on extended partnership and cooperation between Kazakhstan and the European Union as well as a document on the conclusion of bilateral negotiations between Kazakhstan and the EU in the framework of Kazakhstan’s accession to the WTO.

curity. At the same time, the political part of the agreement is being discussed. If the negotiations are successful, Armenia will sign a new agreement with the European Union in the very near future.

It is noteworthy that from the financial point of view, EU aid to Armenia in 2015-2017 will amount to up to 170 million euro, which is more than in the previous two year period. The EU has already given Armenia 77.5 million euro for reforms and changes in various areas¹⁴. It remains to add that Armenia and the European Union have a preferential GSP+ trade scheme, in the framework of which around 7000 types of Armenian products have customs preferences when imported to the EU market¹⁵.

GEORGIA- EUROPEAN UNION

In September 2014, Georgia's Association Agreement with the European Union came into effect. It includes the DCFTA, which, according to CORYS and CASE experts, will lead to the following positive changes in Georgia's economy:

- GDP will grow by 1.7% in the short term and by 4.3% in the long term,
- Export will grow by 12% in 5 years,
- Import from the EU will grow by 7.5%.

14 This sum includes 25 million euro for agriculture and poverty reduction, 10 million euro for professional education, 21 million euro for the civil service reform and the struggle against corruption, 4 million euro for border improvement, 6 million euro for strengthening the civil society, 5 million for the repairs of the Yerevan metro, 5.5 million euro for the refurbishment of the Yerevan waterworks and 1 million euro for utilization of radioactive waste.

15 European Parliament and the European Council Regulation No 978/2012 (GSP Regulation)

Georgia has been given privileged access to the biggest global market of 500 million people. Import of goods produced in Georgia to the EU will be conducted without customs duties, whereas duties on import of European goods to Georgia will remain but will zero out in several years. However, export quotes from Georgia to EU countries have been imposed. E.g., the annual export of meat into the EU cannot exceed 5000 tons, granulated sugar – 8000 tons, dairy produce – 2000 tons etc. According to forecasts, most of the duty-free trade with the EU (around 62%) will be the produce of the chemical industry¹⁶. Georgia's accession to the Associated Agreement with the EU can have negative impact on its economic relations with the countries of the EEU, first and foremost with Russia, because of the difference in the trade systems.

ARMENIA - GEORGIA

Relations with Georgia have special significance for Armenia in every respect¹⁷ and the fact that the two neighboring countries are now in various integration camps with different foreign trade systems was bound to fuel concerns about the future of the economic relations. There is free trade between Armenia and Georgia, defined by an agreement that was signed in 1995 and came into effect in 1998. However, according to the Vienna Convention on the

16 It is obvious that the EU is using its status of the 'stronger' partner to impose quotas in order to protect its economy.

17 The main transportation route connecting Armenia to the outside world passes via Georgia (including two seaports), and consequently, 70 to 75% of Armenia's foreign trade is conducted via Georgia's territory. The gas pipeline from Russia also passes via Georgia. Moreover, Georgia has a large ethnic Armenian community.

Law of Treaties, the agreement on free trade between Armenia and Georgia automatically lost effect once they joined different integration blocks with mutually inconsistent trade systems¹⁸.

The issue was resolved on the political level in the framework of the EEU¹⁹ and between the authorities of the two countries, which means that the free trade between Armenia and Georgia will continue²⁰.

It is practical for the two countries to make mutual investments in order to enjoy the economic privileges stemming from both the DCFTA and the EEU²¹. Creation of special economic zones in border regions will also contribute to trade development and the two countries' economic integration.

18 It should be noted that Russia has on multiple occasions offered its European partners to initiate negotiations on the practicability of signing of a free trade agreement between the EEU and the EU.

19 The member countries of the EEU gave their consent to Armenia's proposal to preserve its free trade mode with Georgia.

20 The following several years will serve as a transition period until the signing of a new trade agreement.

21 In this regard, it is worth mentioning recent amendments of Armenia's income tax law, envisaging a tenfold decrease of income tax (from the current 20% to 2%) for economic entities engaging exclusively in export and exporting 50 billion drams (approximately 105 million dollars) worth of goods annually, with the exception of mining enterprises.

EU-GEORGIA DCFTA AND ITS IMPACT ON GEORGIA-ARMENIA TRADE

Kakha Gogolashvili

INTRODUCTION

From 1 September 2014 the Title IV of the Association Agreement between Georgia and the EU establishing Deep and Comprehensive Free Trade Area (DCFTA) entered into force. The DCFTA offers partners a wide liberalization on goods and services with the full elimination of tariff barriers.¹ An important matter of the Agreement are the rules of origin, which are rather beneficial for Georgia in terms that they do not limit fully export of goods jointly manufactured with other countries to the EU exempted from customs duties under conditions usually established by the Agreement.

Minimization of non-tariff barriers is also achieved by practical elimination of quotas and licenses, minimization of anti-dumping and countervailing measures, simplification of customs procedures, etc. However, the main factor of actual trade liberalization, especially in view of assessing the European market, is to cope with the problem of sanitary and phytosanitary standards (STS) and technical barriers to trade (TBT). A liberal approach being carried out by our country for years has left the consumer and the environment practically unprotected from the adverse effect domestic and foreign goods placed on the market. All types of technical regulations, sanitary inspections,

¹ EU-Georgia Association Agreement. Title IV. Trade and Trade Related Matters. Article 26 “Elimination of customs duties on imports”.

market surveillance, food safety regulations and institutions carrying out them have been practically abolished in the country; the quality infrastructure was absent. Such an approach completely excluded the making of any kind of agreement with the EU, which would simplify the access of our products on its market. Therefore, the country from 2009, after prospects of negotiations with the EU concerning the free trade treatment have appeared, has intensively started the recreation of the quality infrastructure and product safety system.

The Association Agreement and, in particular its Title IV, contains proper provisions requiring from a partner country to ensure the legal environment compatible with that of the EU's Internal Market like competition protection standards, protection of intellectual property, environment and labor rights, other.

The establishment of a free trade area with the EU has both an economic and political dimension. It is clearly manifested against acute discussions held by the supporters of an alternative project of a regional integration such as the Eurasian Economic Union (EAEU) set up under the aegis of Russia. In this respect, of much importance is further research of these matters, so that to avoid distortion of the real essence of the matters and their incorrect communication. The EU-Georgia DCFTA, which was put into action from 1 September 2014, includes many advantages. It exempts partners almost fully from customs duties, with small exceptions. The Agreement also gives a good advantage for overcoming the technical barriers. Concurrently, its actual efficient use asks for a prompt and effective harmonization of legislation and the regulatory system, making of a mutual recognition agreement, recognition of equivalence, maximum use of rules of origin cumulation capacities. The work in

connection to the cumulation will continue to extend to Norway and Switzerland (like it is set with Turkey).

TARIFF PREFERENCES, NON-TARIFF BARRIERS

Trade Organization (WTO) says nothing of the *Deep and Comprehensive Free Trade Area* – allowing only a simple free trade,² as an exception to the “most-favoured-nation-treatment”. Notwithstanding this, the establishment of the DCFTA fully meets the spirit of WTO agreements like TBT, SPS, Government Procurement agreement and others. At the same time, if the WTO agreements are of a recommendatory nature and outline the main direction, towards which the countries should address their efforts, the DCFTA sets bilateral mandatory obligations, which give a full guarantee for implementing these calls.

CUSTOMS DUTIES

Article 26 of Title IV of the Agreement states: “The Parties shall eliminate all customs duties on goods originating in the other Party as from the date of entry into force of this Agreement except as provided in paragraphs 2 and 3 of this Article and without prejudice to paragraph 4 of this Article”. These exceptions are:

1. *The products listed in Annex II-A to this Agreement shall be imported into the Union free of customs duties within the limits of the tariff rate quotas set out in that Annex*³.

2 GATT (47), Art. XXIV, 8 (b). See: http://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm

3 EU-Georgia Association Agreement: Title IV, Article 26. 2.

Only Garlic is quoted for export to the EU (whose annual import quota makes 220 tons). Garlic production in Georgia amounted to 7.5 thousand tons in 2013⁴, which approximately 30 times exceeds the EU import quota, yet its export is carried out only at the limited rate. Despite of certain clear explanations for setting the mentioned quota, resorting by the EU to such a restrictive measure in trading with a small country is a rather negative action.

*2. The products listed in Annex II-B to this Agreement shall be subject to an import duty when imported into the Union with exemption of the ad valorem component of that import duty.*⁵

Two types of customs duties are in force in the EU – *ad valorem*⁶ (according to the commodity value/price) and *non ad valorem*, which can be specific, combined and alternative.⁷ The EU uses rather intensively these types of customs duties on agricultural products. To calculate the taxable base of a product, the EU uses on some positions the *minimum price* index, from which the amount payable with the tariff rate interest is computed. On number of products the customs rates in EU comprise two components – monetary and specific. The monetary (*ad valorem*) component is computed from the price declared at the customs (where it exceeds the minimum price), while the specific (*non ad valorem*) – from its physical volume. Depending on the kind

4 Source: GeoStat. Production of Annual Crops.
See: http://geostat.ge/?action=page&p_id=427&lang=geo

5 Ibid, para 3

6 Ad Valorem (Lat.) – according to value

7 Tariff rate forming procedure is given in the Council Regulation (EEC) No. 2658/87, 23 July 1987 (OJ L 256, 7 September 1987).
Viewed at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1987:256:0001:0675:EN:PDF>

and physical properties of a product, other units of measure can be used, e.g. - kg, liter, meter, etc. The mentioned Annex II-B of the EU-Georgia AA contains 28 kinds of agricultural products in total, such as tomatoes, cucumbers, artichokes, courgettes, oranges, mandarines tangerines, citrus hybrids, lemons, table grapes, apples, pears, apricots, morellos, nectarines, plums, grape juice.

The average customs duty on the EU agricultural products⁸ (including the non ad valorem tariff) in 2013 made 14.3% of the value of the imported products.⁹ It can be thus simply concluded that Georgia greatly benefits from the DCFTA treatment. Also, given that only 28 categories of products are in the so called partial “exemption” list (mainly fruit and vegetables see some of those products in the table 1 below), a lot of products, including of animal origin, are totally exempted from the customs duties (although they are subject to other kinds of barriers, on which we shall deal below).

Table 1. List of some products exempted from full duty free regime

CN Code 2012	Product Description	Specific rate (calculated lower than minimum price) (highest during season)
07020000	Tomatoes	2.5 to 29.8 €/100 kg/
07070005	Cucumbers	2,2 to 37 3 €/100 kg/
07099100	Artichokes	1,9 to 29.9 €/100 kg/
07099310	Courgettes	1,4 to 15.2 €/100 kg/
08051020	Oranges	0,7 to 7.1 €/100 kg

8 WTO. Trade Policy Review by Secretariat. European Union. WT/TPR/S/284. 2013, p. 45

9 Ibid.

08052050	Tangerines	0.6 to 10.6 €/100 kg/
08055010	Lemons	1.1 to 25.6 €/100kg
08061010	Table grapes	3.4 to 23.8 €/100 kg/)
08081080	Apples	1.1 to 23.8 €/100 kg/
08083090	Pears	1 to 23.8 €/100 kg/
08091000	Apricots	2.1 to 22.7 €/100 kg/
08092100	Morellos	MIN 2,4 €/100 kg
20096000	Grape juice	0,8 – 27 €/hl

3. The import of products originating in Georgia listed in Annex II-C to this Agreement shall be subject to the anti-circumvention mechanism set out in Article 27 of this Agreement.¹⁰

Article 27 of the Association Agreement defines action of the *anti-circumvention mechanism*. Georgia is not the only country, to which the EU applies such a mechanism. The list gives 277 agricultural products and processed agricultural products of the 15 product categories (beef, pork and sheep meat; poultry meat; dairy products; eggs in shell; eggs and albumins; mushrooms; cereals; malt and wheat gluten; starches; sugars; bran, sharps and other residues; sweet corn; sugar processed; cereal processed; cigarettes (see part of the list in Table 2.). The anti-circumvention mechanism implies the introduction of the upper limit on product imports, the exceeding of which might lead to a temporary suspension of the preferential treatment for the products concerned for the next six months, during which these products will be subjected to the so-called “conventional” (ordinary) treatment. To avoid such restrictions, the official authorities of the country concerned should provide robust and satisfactory evidence that the volume of the relevant

¹⁰ EU-Georgia Association Agreement, Title IV, Art. 26. 4

category products imported in excess of the fixed volume results from a change in the level of production and export capacity of the country for the product(s) concerned.

Table 2. Some products subjected to the anti-circumvention mechanism

Product	Production capacity	Marginal level
Meat	42 000 t	4 400 t.
Eggs	550 mln eggs	6 000 t, approx. 50 mln eggs
Dairy products	589 mln liters	1.650 t

RULES OF ORIGIN

Protocol I of the Agreement¹¹ defines the rules of origin that provide the access of a product to the market under national treatment. On the one hand, it means more prospects for local production to manufacture fully competent products using foreign ingredients or components. On the other hand, it will stimulate foreign businesses to look for partners in Georgia for beneficial cooperation aimed at marketing joint products in the EU. The Protocol defines the parameters of the categories that are related to the rules of origin, such as products wholly obtained in a country, cumulation of origin, sufficiently worked or processed

11 EU-Georgia Association Agreement. Protocol I: Concerning the Definition of the Concept of “Originating Products” and Methods of Administrative Cooperation.

See: http://www.mfa.gov.ge/index.php?lang_id=GEO&sec_id=30&info_id=17011

products; it establishes units of qualification, explains the rules related to such categories as accessories, spare parts and tools, sets, neutral elements. Products shall be considered as originating in a Contracting Party “if they are wholly obtained in the Party or their incorporating materials have undergone sufficient working or processing in the Party concerned.”

The effect of cumulation of rules of origin is also rather important for facilitating trade. Article 3 of Protocol I of the EU-Georgia Association Agreement states that “...products shall be considered as originating in the exporting Party if they are obtained there, incorporating materials originating in the other Party or incorporating materials originating in Turkey to which the Decision No 1/95 of the EC-Turkey Association Council of 22 December 1995¹² applies, provided that the working or processing carried out in the exporting Party goes beyond the operations referred to in Article 6 of this Protocol. It shall not be necessary for such materials to have undergone sufficient working or processing...” And further: “It shall not be necessary for such materials to have undergone sufficient working or processing...” At the same time, the agreement lacks the opportunities of neither regional nor extended cumulation with other EU partner/associated countries. In the future EU will recognize cumulation between Georgian and Moldovan and Ukrainian products, with the EFTA countries and Switzerland. Future approximation of the rules of origin with *the*

12 Decision No 1/95 of the EC-Turkey Association Council of 22 December 1995 on implementing the final phase of the Customs Union applies to products other than agricultural products as defined in the Agreement establishing an Association between the European Community and Turkey and other than coal and steel products as defined in the Agreement between the European Coal and Steel Community and the Republic of Turkey on trade in products covered by the Treaty establishing the European Coal and Steel Community.

pan-Euro-Mediterranean system of cumulation of origin is currently under discussion.

TECHNICAL BARRIERS

Technical barriers to trade (TBT) are the most important form of non-tariff barriers representing one of the cornerstones of the EU's trade policy. Access of industrial products to the EU market is very complicated because of numerous directives and regulations that establish technical regulations, standards and the conformity assessment rules and procedures. The most ambitious objective of the Deep and Comprehensive Free Trade Area (DCFTA) is exactly the overcoming of these technical barriers, so that the products originating in Georgia would be placed on the EU market without additional examination and procedures. To that end, the Agreement requires the introduction in Georgia of the EU's common technical regulations (technical regulations provided for the global and new approach directives and standards), the respective institutional environment (standardization, metrology, accreditation and conformity assessment), including market surveillance institutions, development that ensure the full implementation of these regulations.

The recognition by the EU of the certificates of conformity issued by the national accreditation authorities shall take place in two ways – the Georgian institutions of quality infrastructure shall be united into the respective European organizations and an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) shall be made between Georgia and the EU.¹³ This Agreement may be ef-

¹³ EU-Georgia Association Agreement, Article 48.

See: http://www.mfa.gov.ge/index.php?lang_id=GEO&sec_id=30&info_id=17011

ected sectorally, depending on the sectors where a real progress with regard to approximation of legislation has been observed.

SANITARY AND PHYTOSANITARY MEASURES (SPS)

The EU legislation on animal and plant health status (correspondingly human health status in terms of food safety) is rather developed and perfect. Georgia started to establish its legislation and institutions in this direction just several years ago and, correspondingly, much work is to be done in order to approximate the EU standards. The principal objectives of the Agreement in this sphere are just to ensure approximating the Georgian regulatory system to that of the Union and to establish, on this basis, a mechanism for the recognition of equivalence of measures maintained by the Parties. EU has practically accorded an opportunity of unrestricted imports to Georgia of its products of animal and plant origin. The reason of is the significant lagging of Georgia in terms of both legislative and institutional opportunities (that ensure the meeting of standards) as well as the ones in the industrial sphere rather than the asymmetric treatment.

List of establishments, provisional approval

Upon entry of the Agreement into force, the Parties will be entitled to request approval of the processing establishments of animal products which are situated in the territory of the exporting Party, without prior inspection of individual establishments. In the same time the competent authority of the exporting Party should deserve credit of the importing Party. As can be seen, this article simplifies, on the one hand, the registration of establishments exporting animal products, , while, on

the other hand, lays the heavy responsibility on the competent authorities of Georgia, who, in this case, themselves are to carry out testing and inspection and should, for this purpose, be equipped with proper laboratory facilities, personnel and experience. Their activities should be transparent, etc. Otherwise this privilege will remain unused.

Gradual approximation and recognition of equivalence

What does the recognition of equivalence provide? First, it is important in terms of recognition of the certification procedure and correspondingly of the certificates issued by the competent authority of Georgia. Second, it is important for reducing the frequency of frontier checks of animal and plant products (that involves a special inspection charges). A decision on such reduction (in case of proper approximation) shall be made by the special SPS Subcommittee.

ARMENIA AND GEORGIA: IMPACT OF THE DIFFERENT VECTORS OF INTEGRATION

Notwithstanding the fact that Georgia, Moldova and Ukraine signed the DCFTA with the EU and their joining to the EAEU, that by essence is a Customs Union is no longer on the agenda, the accession of other EU Eastern Partners (Armenia in particular) to the EEU will affect the trade policy of Georgia and the neighboring countries. Any status quo trade agreement may lose its force and trade relations will be regulated as between the CU member country and a “third” country. An exception is possible if all the CU member countries agree not to abolish their free trade agreements (FTAs) concluded with Geor-

gia. Recently, the Russian intellectual and academic circles frequently mention the possibilities of cooperation between the countries tending towards the European Union and those, who join the Eurasian Union in the positive context. Also worthy of mention is the circumstance that the Russian government has not yet decided on the revocation of the FTA with the three “stubborn countries”. Otherwise imports in the EAEU countries would significantly rise in price (because upon joining WTO Russia reserved the right of preserving high customs tariffs on many products). Naturally, the EAEU countries and Armenia in particular would find themselves in a relative isolation and their economy would be concentrated only on the manufacture of products being in demand on the Russian market. As for Georgia, should such a scenario take place, the country will no longer benefit from an “easy trade” with Armenia and other neighboring countries, with whom it had the favorable balance of trade and whom it considered among its 10 largest trade partners. As far as the tariff barriers will not supposedly hinder the trade between Armenia and Georgia, the technical barriers, like technical regulations on industrial products and sanitary/phytosanitary measures may in the future pose some restrictions to the access of Armenian goods at Georgian market (regulated by EU driven rules) and vice-versa, hinder access of Georgian goods to the Armenia market regulated by EAEU rules.

Indeed at this stage no any complications in bilateral trade can be predicted for two reasons: a) Georgia will start intensive implementation of EU technical rules and norms in 5-8 years and 2) further approximation and mutual recognition of technical regulations may take place between EU and Russia, and EAEU countries consequently.

Armenia and Georgia still have possibilities to develop closer in-

dustrial cooperation and use the opportunity of preferential trade that Georgia enjoys with the European Union. Joint ventures and production schemes that can fit the EU's preferential system of the Rules of Origin may be well exploited by businesses in both countries and find the mutual benefit.

For Armenian businesses Georgia may become as well a facilitating access point to the EU market. As far as Georgia in the near future will be obliged to develop an infrastructure of laboratories and certification bodies, which would be recognized by EU, it will make easier for Armenian producers to certify their export product in Georgia, before selling them to EU, which will be much cheaper as well. Same maybe used vice versa. Georgia may use Armenian bodies to certify their products for further exports to EAEU markets.

In general, both countries may benefit from the easy access to both markets (EU and EAEU) and deepen economic cooperation despite of their participation in different.

ARMENIA AND GEORGIA: TRADE AND INVESTMENTS

Vakhtang Charaia

INTRODUCTION

On January 2, 2015, Armenia officially joined the Eurasian Economic Union (EEU) that was based on the Customs Union. This resulted in certain economic changes in the former Soviet Union, in particular, for Georgia. In the spirit of its strategic plans, Georgia has already signed the Association Agreement with the European Union, including the Deep and Comprehensive Free Trade Agreement (DCFTA).

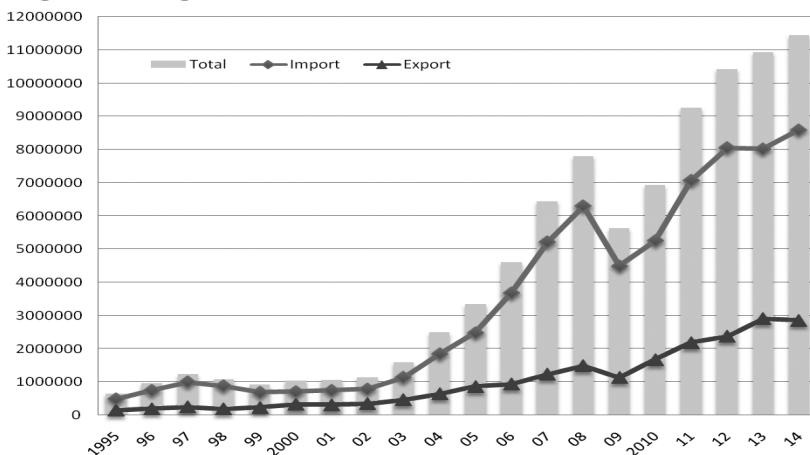
In the framework of the Customs Union of the EEU, the member countries commit to coordinate their economic policy and common customs regulations and to remove trade limitations between themselves. At the same time, it is necessary to take into account the fact that these measures will not cause instant change of the economic situation of these countries: on the ground, the economic integration process can take a couple of decades. In the current circumstances, the accession of two neighboring Caucasus countries to different economic associations – Georgia to the European economic block and Armenia to the Eurasian economic block – creates new opportunities as well as problems in economic cooperation between those countries.

THE ROLE OF THE EURASIAN ECONOMIC UNION IN THE GEORGIAN-ARMENIAN ECONOMIC RELATIONS

To define how accession to two different economic blocks can affect Georgian-Armenian economic relations, we need to take into account several important factors, such as trade and investments (statistical data by the National Statistics Office of Georgia).

To begin, let us have a look at the structure of Georgian foreign trade turnover (fig. 1). Despite steady growth of the Georgian trade in the last 15 years, it should be noted that import remains at least three times larger than export. In absolute numbers, the negative trade balance has grown from several hundred million dollars to 5.7 billion in 2014, which is highly negatively affecting the Georgian economy in general.

Fig. 1. Georgian trade turnover (1995 – 2014 гг.)¹

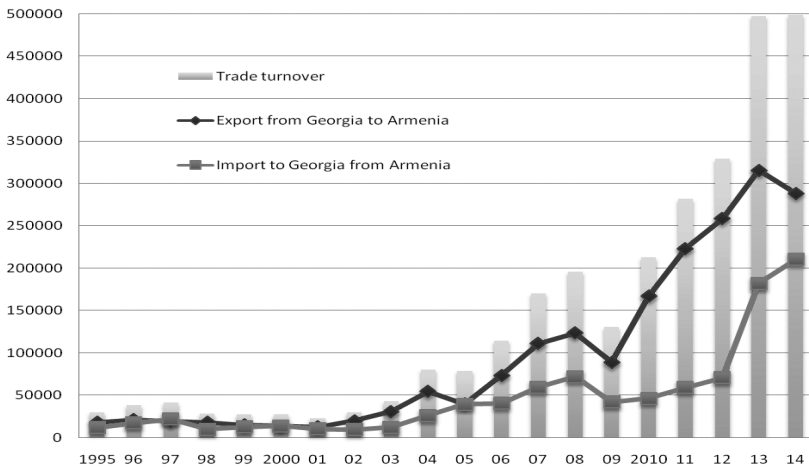


Source: – National Statistics Office of Georgia

¹ National Statistics Office of Georgia http://geostat.ge/index.php?action=page&p_id=137&lang=eng (downloaded 03.05.2015)

Although Georgia and Armenia are neighbors, neither has ever been the dominating partner because of their small economies. In 1995-2014, the trade turnover between the two countries amounted to under 2.9 billion dollars; in particular, export from Georgia to Armenia amounted to just over 1.9 billion and import, to 967 million. However, there has been a constant growth trend in the last ten years, if we ignore the year 2009 because of the Russian-Georgian war and the global financial crisis that affected Georgia and its partners for obvious reasons. Despite the reduction of Georgian export to Armenia in 2014, it is important to note that in comparison with 2013, the total trade turnover did grow, albeit insignificantly, for the first time getting close to 500 million dollars (fig. 2).

Figure 2. Trade turnover between Armenia and Georgia (1995 – 2014 rr.)²

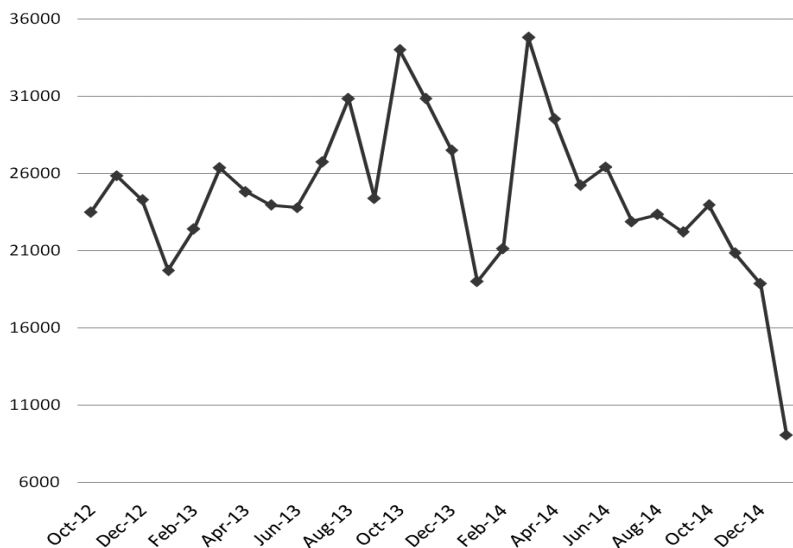


Source: National Statistics office of Georgia

² GEOSTAT http://geostat.ge/index.php?action=page&p_id=137&lang=eng (downloaded 03.05.2015)

The statistics of the export of Georgian goods to Armenia for the last 28 months should be reviewed separately (as the growth and decline of the Georgian export to Armenia took place in that very time period) and especially the trends for the last 6 months (fig. 3). If we look at the first months of 2013, 2014 and 2015, we can see that in January, the trade turnover between these countries only begins to gain momentum (after the decrease around New Year). However, in contrast to January 2013 and 2014, the first month of 2015 was not optimistic: export was almost two times smaller than those of the previous years.

Figure 3. Monthly indices of Georgian export to Armenia. Georgian trade turnover (October 2012 – January 2015)³



Source: National Statistics Office of Georgia

³ GEOSTAT http://geostat.ge/index.php?action=page&p_id=137&lang=eng (downloaded 03.05.2015)

Is this decline a result of integration of Georgia and Armenia into different economic blocks? To answer this question, we need to analyze the structure of the trade turnover of these countries. According to the official data of the National Statistics Office of Georgia, Georgian export to Armenia decreased by 9% (27 million dollars) in 2014 compared to 2013. The main export goods were light vehicles, fertilizer, wheat, soy oil, electrical energy and other goods (table 1).

Table 1. Georgian export to Armenia (2013 – 2014, thousand dollars)⁴

Product name	2013	2014
Total	315 413,8	288 244,4
Light vehicles	120 597,5	129 324,7
Mineral, chemical and nitric fertilizer	12 502,9	12 570,5
Wheat and meslin	45 621,4	12 376,9
Soy oil and relevant products	7 926,0	8 796,1
Trucks	8 554,2	8 525,2
Electric energy (1000 kWh)	2 926,4	7 520,1
Corn	11 976,4	7 213,2
Wood (tablets)	7 310,2	6 152,7

Source: National Statistics Office of Georgia

It should be noted that in 2014, the (re)export of motor cars, which accounts for the lion's share of Georgian export, grew by

⁴ GEOSTAT http://geostat.ge/index.php?action=page&p_id=137&lang=eng (downloaded 03.05.2015)

7.5% (approximately 9 million dollars), probably explained by the wish of Armenian citizens to purchase motor cars prior to the introduction of new customs duties in view of Armenia's accession to the EEU. This is proven by the acute growth of the import of motor cars to Armenia in the last months of 2014. In general, the (re)export of motor cars from Georgia in January 2015 decreased by half compared to January 2014, from 43.4 million to 22.2 million dollars. The main role in that change was played by the minimization of export to Armenia (and to Azerbaijan, from 20.4 to 13.7 million dollars in 2014 and 2015 respectively).

There were some interesting changes in the export of other goods: the export of wheat and olives decreased by a factor of 3.5, that of electric energy rose from 2.9 to 7.5 million dollars and the export of corn dropped by around 40% (from 12 to 7.2 million). The decline of Georgian export to Armenia in 2014 was thus in no way connected to Armenia's accession to the EEU. However, from the beginning of 2015, Armenia's EEU accession was the main reason for the decline of the trade turnover between the two countries (fig. 3).

To see the whole picture, let us have a look at the structure of Armenian import to Georgia, which grew by 15% (28 million dollars) in 2014 compared to the previous year due to a 32 million dollar increase in the import of copper ore and concentrates. At the same time, the import of certain products dropped: cement by more than 7 million dollars and denaturalized ethyl alcohol from 6.6 to 1.8 million dollars (table 2).

Table 2. Georgian import from Armenia (2013-2014)⁵

Product name	2013	2014
Total	181 917,8	210 312,7
Copper ore and concentrates	100 001,9	132 260,2
Bottles and other small glass containers	16 418,8	12 997,0
Cement	12 652,2	5 071,6
Acid, hydrocarbon and other gases	1 386,2	4 895,1
Plastic containers and packaging for cargo transportation	5 436,6	4 728,0
Live sheep and goats	904,1	4 125,9
Cigars, cigarillos and cigarettes from tobacco and its substitutes (1000 units)	3 688,6	4 099,3
Non-denatured ethyl alcohol below 80% concentration, alcoholic drinks (liters of 100% alcohol)	2 749,0	3 242,1
Potatoes, fresh or frozen	976,3	2 933,1
Non-denatured ethyl alcohol 80% and higher concentration (liters)	6 614,7	1 785,2

Source: National Statistics Office of Georgia

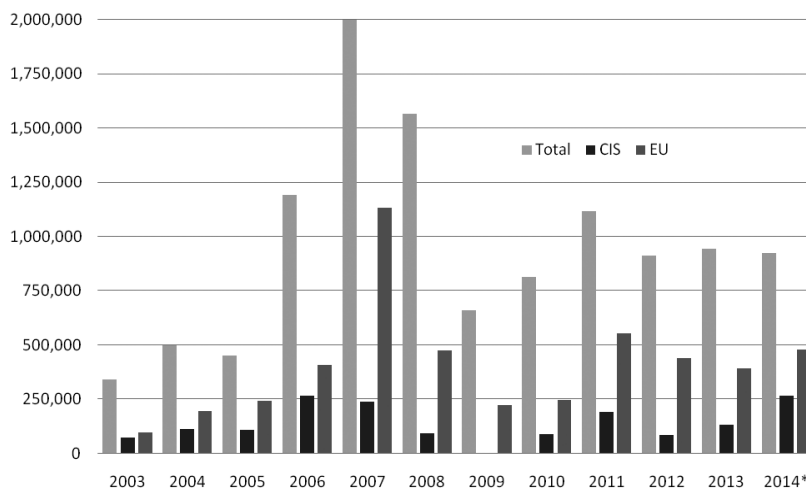
Despite the integration processes of Armenia and Georgia into different economic blocks, these countries are using the benefits of the August 14, 1995 Free Trade Agreement, albeit with some exceptions.

However, obligations incurred by Georgia toward the EU and by Armenia, toward the EEU, are top priority. Most probably, the Georgian-Armenian Free Trade Agreement will stay in force until 2020 when Armenia will fully adopt the common customs rates of the EEU.

⁵ GEOSTAT http://geostat.ge/index.php?action=page&p_id=137&lang=eng (downloaded 03.05.2015)

The improvement of Georgia's investment climate does not affect the flow of direct Armenian foreign investments to Georgia. 42% of all foreign investments to Georgia come from the EU countries and only 14% from CIS countries (from 1996 to the third quarter of 2014), amounting to almost 5.2 billion dollars from the EU and 1.75 billion dollars from the CIS (fig. 4).

Figure 4. Direct foreign investments to Georgia from EU and CIS countries (2003- 2014)



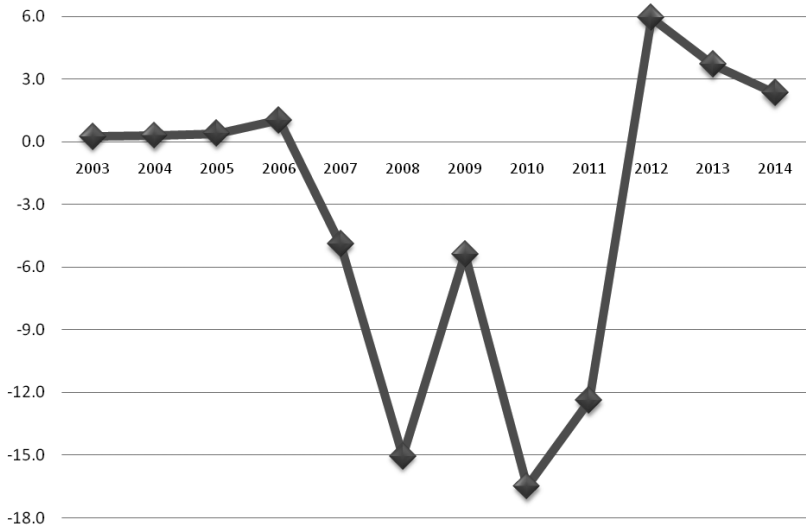
*Source for the data on the first three quarters of 2014: National Statistics Office of Georgia⁶

If we conduct an elaborate study of direct Armenian investments to Georgia we can see that from 2007 to 2011 Armenian investors preferred to make their investments abroad and in

⁶ GEOSTAT http://geostat.ge/index.php?action=page&p_id=140&lang=eng (downloaded 03.05.2015)

2012, this figure reached a positive value of 6 million dollars. However, in 2013 and 2014 the Georgian market became less interesting for the Armenians and the investments amounted to just 3.7 and 2.3 million dollars respectively (fig. 5).

Figure 5. Direct Armenian investments to Georgia (2003-2014)



**Source for the data on the first three quarters of 2014: National Statistics Office of Georgia⁷*

According to the National Statistics Office of Georgia, the interest of Armenian investors in various branches of Georgian economy is strongest in the transport, communications, hotel and restaurant sectors. (table 3).

⁷ GEOSTAT http://geostat.ge/index.php?action=page&p_id=140&lang=eng (downloaded 03.05.2015)

Table 3. Armenian investments in Georgia (thousand dollars)⁸

Sector	2010	2011	2012	2013 1 kw.	2013 2 kw.	Beero
Agricultural	–	25	60	–	–	85
Consulting	–	-5	87	67	126	275
Real estate	–	–	90	20	27	137
Finance	150	219	-92	-154	59	182
Industry	-15 574	–	–	–	–	-15 574
Production	–	-14 036	687	44	169	-13 137
Buildings	-1 161	-503	62	-44	-34	-1 681
Hotels and restaurants	–	–	-2	303	27	328
Transport and communications	-32	419	214	93	235	930
Other	101	1 498	4 826	654	837	7 916

It should also be noted that Armenian investors resold and/or exported their investments from several sectors of Georgian economy, in particular, industrial production and buildings (table 3). However, the new game rules in the region should unite Georgian and Armenian investors, as free trade between Georgia and the EU offers new opportunities not only to Georgian but also Armenian businesses to export their production from Georgia to the EU without any customs rates, whereas the GSP+ scheme provided to Armenia by the EU gives the right of duty-

⁸ GEOSTAT http://geostat.ge/index.php?action=page&p_id=140&lang=eng (downloaded 03.05.2015)

free export only to a limited list of products that are mainly non-relevant for Armenia.

CONCLUSION

The new environment in the region and the integration of two neighboring countries into different economic blocks creates both new opportunities and new problems for the full-scale economic cooperation between Georgia and Armenia. As a consequence, the Georgian export potential has suffered losses, decreasing by half in 2015 in comparison to the same period of the previous year, mainly due to the reduced (re)export of motor cars – the main product exported from Georgia to Armenia.

Yet, in our opinion, new opportunities for mutual investments are emerging, as free trade between Georgia and the EU creates new possibilities for both domestic and foreign investors. With the right approach, Armenian investors could use these possibilities in a positive way, in particular, in the sectors of electric energy production, ore mining and agricultural production.

ARMENIA-GEORGIA: THE MAIN PARAMETERS IN TRANSPORT, COMMUNICATION AND TRADE

Gagik Sargsyan

From the beginning of the 1990s Armenia is in an economic blockade because of complicated relations with Azerbaijan and its ally Turkey. Armenia's southern neighbor, the Islamic republic of Iran has problems in relations with countries of Western Europe and the USA, which also circumstantially affects Armenia's economy.

Based on that, Georgia is Armenia's window to the outside world. Transport and energy communications to Armenia, including the gas pipe which provides natural gas from Russia, pass through Georgia's territory. 74.8% of Armenia's foreign trade (import, export) is conducted through Georgia's territory.

On June 27 2014, Georgia signed the Association Agreement with the European Union, stipulating Georgia's entrance to the EU free trade zone. Armenia chose to join Russia, Belarus and Kazakhstan in the Eurasian Union. On October 10, 2014, Armenian president Serzh Sargsyan signed an agreement on Armenia's accession to the Eurasian Economic Union. However, even after accession to the EEU, Armenia will still use Georgia's territory as its exit to the Russian and other EEU-member states' markets, because Armenia lacks a land border with the EEU.

To address this problem, the October 10, 2014 EEU agreement has a special Appendix №5, stipulating that “during transportation from

one customs territory of the Union to another via the territory of foreign countries, according to the customs transit procedure, Eurasian Economic Union goods retain their status of EEU goods”.

Appendix №4 to the agreement contains a list of goods and rates, according to which in the 2015-2022 transition period Armenia will apply import customs rates that are different from the integrated tariff of the Eurasian Economic Union. There are 774 “sensitive goods” in the list. In 2015, the import customs duties will not exceed 10%.

The Georgian Military Road is the most popular transit route from Russia to Armenia. Russian goods reach Armenia and other countries of the region through the Verkhny Lars border crossing. Unfortunately, the capacity of the Georgian Military Road can be heavily reduced by bad weather. According to estimations by the Georgian Business Insight (BPI) director Irakli Lekvinadze, on those days that the road closes due to bad weather, Georgia alone incurs losses amounting to 3-4 million USD. Georgia is participating in the construction of multi-billion regional infrastructural projects passing through its territory. Those are the Baku-Tbilisi-Ceyhan oil pipeline, the Baku-Tbilisi-Erzurum gas pipeline and the Baku-Tbilisi-Akhalkalaki-Kars railroad.

Sadly, all these projects bypass Armenia’s territory and can be considered a challenge or even a threat to Armenia’s economy, deepening its economic blockade. In these circumstances, the most beneficial course of action would be the reconstruction of the Transcaucasian railroad through Abkhazia, which would allow Armenian goods to be exported not only to the CU-EEU markets, but also to the EU. This would also weaken the blockade by Turkey and Azerbaijan.

Regrettably, the persisting Abkhazian conflict and possibly also Tbilisi’s reluctance to upset its relations with Baku make this prospect

unlikely and in the nearest future, even impossible. Therefore, Armenia relies mostly on car roads and railroads via Georgia and Iran, and on aviation.

Armenia is landlocked. The closest seaport is Poti in Georgia, via which Armenia gets access to countries of the Black Sea region. Armenia entertains certain hopes in connection with the new railroad project connecting Armenia to Iran, which open map a route to the Persian Gulf and countries of Central Asia, Middle East, India and China. Armenia has road service with Iran and plays an important role in Georgia's economic cooperation with Iran.

In September 2012, with the support of the Asian Development Bank, the construction of a new North-South Highway began in Armenia. The project for which the bank gave Armenia a loan of 500 million dollars includes construction and repairs of roads from the southern border with Iran to the northern border with Georgia. The goal of the program is to provide Armenia access to international trade routes and markets. In particular, the highway will stretch from the town of Meghri in the south of Armenia to the Georgian Black Sea seaports of Poti and Batumi. The program includes the construction of a 700-kilometer-long Yerevan-Batumi highway. The highway will allow secure freight from Persian Gulf countries to Europe and back. Once the construction of the new 556-kilometer-long highway is completed, the flow of traffic from Armenia's southern border to the Georgian border and further to the Black Sea seaports will grow significantly.

Overall, cooperation in the transport sphere has been successful. Rehabilitation (reconstruction) of the regional Meghri-Yerevan-Gyumri-Bavra-Ninotsminda-Akhaltsikhe-Shuakhevi-Batumi highway

led to the growth of the traffic flow between Armenia and Georgia.

The Gross Domestic Product (GDP) per capita by Purchasing Power Parity (PPP) is the most precise parameter defining the level of economic development and economic growth. In 1990, prior to the collapse of the USSR, Georgia had the largest per capita GDP in the South Caucasus: Georgia – 6000 USD, Azerbaijan – 4800 USD and Armenia – 3000 USD (in current prices). In 2013, according to Global Bank data, per capita GDP by PPP in current prices was 7 176 dollars in Georgia and 7 776 dollars in Armenia.

Armenia and Georgia have signed approximately 80 international contracts and agreements. Apart from cooperation in the sphere of transport, the main areas of economic relations between the two countries are trade, energy, tourism and investments. Two key agreements regulate these relations: “On free trade” and “On encouragement and protection of foreign investments”. Since January 1, 2012, Armenia has had agreements on avoiding double taxation with 35 countries including Georgia.

An important factor of bilateral trade between Georgia and Armenia is the effective functioning of the free trade scheme in the framework of the CIS and based on the two agreements between Armenia and Georgia. The mainstays of the free trade scheme are equal conditions for export and import of produce with indirect taxation, as well as the transit of goods without customs rates.

According to 2014 data, Armenia became Georgia’s second export partner and seventh trade partner. The trade turnover between the two countries amounted to around 500 million dollars. Georgia’s largest trade partners, as before, were Turkey and Azerbaijan, with 1 966.7 and 1 182 million dollars of trade turnover, respectively. In 2014, Ar-

menia's trade turnover was 5 920.9 million dollars (against 5 864.6 in 2013). Georgia's share was 156 million dollars (151.9 in 2013). Export from Armenia amounted to 84 million dollars, import from Georgia – 72 million dollars.

Net trade turnover with Georgia thus amounts to just 2.6% of Armenia's turnover. The growth rate has dropped compared to the previous period (103.5% in 9 months in 2014 compared to 126.8% in 2013).

If we look at the list of top exports from Armenia to Georgia in 9 months of 2014, we see that the main exports from Armenia to Georgia are glass bottles, flasks and other glass containers (FEACN code 7010). Their relative share in the general volume is 18.4% and the customs worth is 10.7 million dollars.

The exports that come second (7.5% of the total) are gases and gaseous hydrocarbons (FEACN code 2711) with a customs cost of 4.35 million dollars. After that comes cement (FEACN code 2523) amounting to 6.2%, or 3.6 million dollars; transportation and packaging materials (FEACN code 3923): 5.8%, 3.4 million dollars; sheep and goats: 5.4%, 3.12 million dollars; potatoes, fresh and chilled: 4.8%, 2.8 million dollars. Armenia's exports to Georgia also include cigarettes, ethyl alcohol and pharmaceuticals.

The list of top commodities imported to Armenia from Georgia from January to September 2014 begins with fertilizer: mineral, chemical and nitrous (FEACN code 3102) with a relative share of 22.2% in the total volume of import and a customs value of 11.7 million dollars. Electricity (FEACN code 2716) comes second with 14.2%, equivalent to 7.52 million dollars, followed by wood chipboards (FEACN code 4410) with 8.9%, 4.7 million dollars; plaster commodi-

ties (FEACN code 6809) and water, including mineral and carbonated (FEACN code 2202) with 7.5% and 5.6%, 3.95 and 2.94 million dollars respectively.

Armenia is a beneficiary of the GSP scheme alongside Canada, Japan, Norway, Switzerland and USA. Since January 1, 2009, Armenia has been on the list of countries covered by the European Union's GSP+ scheme.

To increase the foreign trade turnover between our countries, it is important to organize and attend specialized expos and fairs that ensure mutual acquaintance with Armenian and Georgian goods. Unfortunately, businesspeople from Armenia and Georgia do not cooperate enough in the investment sphere. The growth of investments is a must for the development of business relations between Georgian and Armenian business circles.

Regular meetings between representatives of Georgian and Armenian business circles are crucial for the growth of bilateral cooperation. We need to deepen cooperation and to exchange information about investment projects in the spheres of tourism, real estate, consumer goods manufacture, agriculture and IT, and to organize business-tours for representatives of business circles of both countries on a mutual basis.

To deepen the investment cooperation, it is necessary to exchange of information about foreign investors active on Georgian and Armenian territories and to encourage their meetings with Georgian and Armenian investors. Hopefully, despite the integration into different economic blocks, both Armenia and Georgia will stimulate mutual investments, providing each other access to the major markets of the EU and the EEU.

Armenia's industrial policy is export-oriented. Armenia is a mountainous country rich with natural resources such as iron, copper, molybdenum, lead, zinc, gold, silver, antimony, aluminum and other scarce and rare metals. Armenia also possesses resources widely used in construction – tufa, perlite, pumice, zeolite, slag, basalt and marble.

Armenia is also rich with mineral water: Jermuk, Bjni, Dilijan, Arzni, Sevan and Ararat are famous for the medical and organoleptic qualities of their mineral waters. This is why the most rapidly developing industries in Armenia are mining of minerals, metallurgy, food industry, production of construction materials, pharmacology, textile and jewelry production.

Armenia has a huge potential in such spheres as IT, consumer goods industry, chemistry, biological technologies, mechanical engineering, manufacture of tools, electric engineering and production construction materials. Armenia's food industry is also rapidly developing and possesses a large export potential thanks to local ecologically clean agricultural produce.

The main strategic directions of economic development defined by the Armenian government are the increase of the competitive performance of Armenian produce on the international market; development of new advanced technologies; development of an innovative economy; creation of new jobs and a background for stable economic development; increase of the share of export of high-tech and knowledge-intensive products; stimulation and attraction of direct foreign investments.

As one of the mechanisms for achieving these strategic goals, the Armenian government defined the creation of specialized free economic zones under the 2011 law "On free economic zones". In Febru-

ary 2012, a company called Sitronics Armenia Ltd signed an agreement with the Armenian government to achieve the status of a Free Economic Zone operator. The opening of the ALLIANCE Free Economic Zone took place in July 2013. The main strategic directions of the zone's activity are high-end and knowledge-intensive technologies and production at the RAO Mars Company, development and implementation of innovations in the sphere of high-end technologies.

Another Free Economic Zone is called MERIDIAN and has an area of over 50 000 square meters. The MERIDIAN FEZ has a unique platform with a cluster infrastructure for the production of jewelry, watches and diamond processing. The advantages for the residents are the free repatriation of funds, profit and dividends, absence of monetary restrictions, state support of the jewelry sector as a strategic priority of industrial development, the "one window" system, the rich traditions of jewelry manufacture, the readily available skilled work force, and strategic placement close to Europe, Russia, Central Asia and the Middle east. Taxation and customs advantages of the FEZ are impressive: the VAT, the income tax, the customs duties and the net worth tax are all set at 0%.

Electricity, gas and water are supplied to Armenia's entire territory. The country has a nuclear power plant, two thermal power stations and more than a hundred hydroelectric stations. There is also a trilateral agreement between Armenia, Georgia and Iran to supply electric energy via Armenian territory to Georgia and synchronization of the energy systems in a concurrent mode.

Armenia and Georgia are actively cooperating in the tourism sphere. Both countries are full members of the UNWTO and participate in the current projects of the organization including the "South

Caucasus Tourist Initiative”, the main goal of which is the creation and the effective development of joint regional tourist products on the international market.

Apart from trade relations, Armenia is also important to Georgia because of the growing number of visitors and tourists visiting Georgia during the year. Because of the proximity of the Black Sea, low transport expenses and historical circumstances, the percentage of Armenian tourists to Georgia is quite high. According to 2013 data, Armenia is second only to Turkey by the number of tourists and visitors to Georgia: around 1.3 million per annum. Around 230 thousand Georgian tourists visited Armenia, most of them ethnic Armenians with Georgian citizenship. The two countries’ tour operators need to cooperate in the creation of a common tour itinerary for cultural tours to attract tourists from remote countries. They also need to organize information tours for journalists and tour operators from both countries on a mutual basis and to participate in international tourist expos held on the territory of the two countries. As problems in the tourism sphere, one can name the poor quality of the railroad and the absence of direct flights between Yerevan and Batumi.

FACING NEW CHALLENGES AND OPPORTUNITIES FOR THE ECONOMIC COOPERATION

RECOMMENDATIONS OF THE ARMENIAN-GEORGIAN EXPERT FORUM

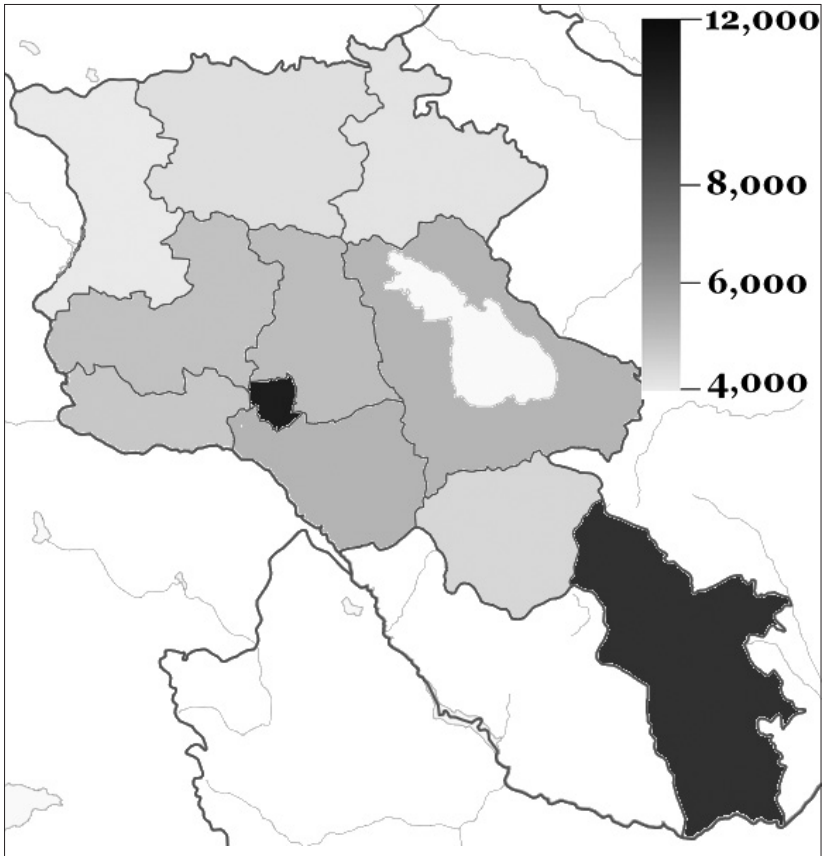
- Georgia and Armenia need to make every effort to maintain the free trade scheme in their bilateral relations regardless of any external integration vectors.
- It is crucial to understand that the different integration vectors of the two countries, with Armenia integrating into the Eurasian Economic Union and Georgia, into the EU Free Trade Area based on the Association Agreement with the EU, while creating challenges, also create new opportunities for the two countries' economies and business operators to benefit from the preferences offered by the two unions.
- For Armenia, an effective method to use the benefits of Georgia's association with the EU would be certifying Armenian goods in Georgia prior to selling them in Europe. This would be the easiest way for Armenian goods to enter European markets. In their turn, Georgian businesses could obtain certification

for their goods in Armenia prior to export to the Eurasian Union.

- Another method of using the two countries' different integration vectors to the benefit of their economies is to set up joint Armenian-Georgian ventures and projects that would fall under the preferential treatment of both the European and Eurasian unions.
- Armenia and Georgia should already start implementing the phytosanitary standards of the European Union in order to be able to export goods to the EU. This will prove especially useful given the convergence of EU and EEA regulations in the mid-term perspective.
- Armenia and Georgia can invest in each other's economy thus contributing to each other's development. For example, Armenian investments into Georgia would be best made into energy production, mining and agriculture.
- Georgia and Armenia can and should actively cooperate in the sphere of tourism. The two countries' travel agencies could sell their clients and other agencies tours passing via both countries. Armenian and Georgian agencies should also participate in tourism expos conducted in the other country.

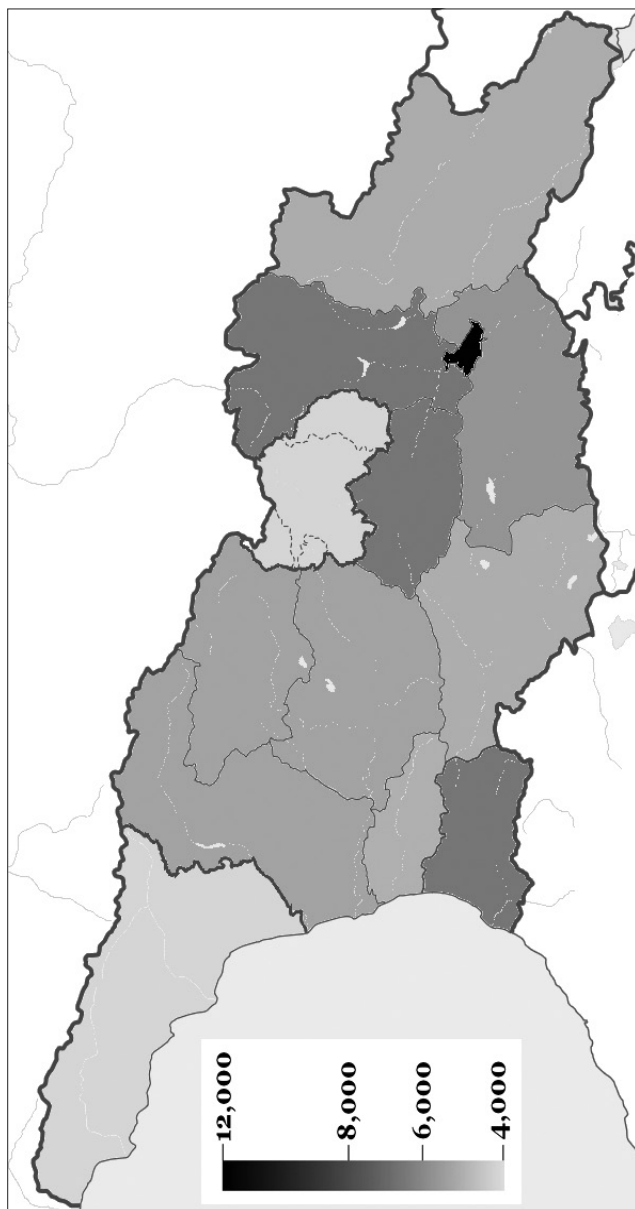
APPENDICES

Appendix 1. The Gross Regional Product of Armenia's provinces



** Based on our own calculations made using data of the National Statistical Service of Armenia, the World Bank and the 2011 population census in Armenia.*

Appendix 2. The Gross Regional Product of Georgia's provinces



**Based on our own calculations made using data of the National Statistical Office of Georgia and UNFPA-Georgia.*

***The National Statistical Office of Georgia does not provide data on Abkhazia or Northern Ossetia.*

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The Previous publication of the Armenian-Georgian Expert Forum.

The first report of the Armenian-Georgian Expert Forum saw light in January 2015. It presented the results of the Forum's first conference held in Tbilisi, Georgia, by the Caucasus Institute and the Republican Institute on December 5-6, 2014 with the support of the Friedrich Ebert Foundation. The report included papers by Georgian

and Armenian experts, and recommendations for the future operation of the Armenian-Georgian Expert Forum based on ideas expressed by the participants of the conference.



THE CAUCASUS INSTITUTE

The Caucasus Institute (CI) is one of the leading think-tanks and educational centers in Armenia and the entire region. It implements research in the areas of political science, social sciences and media studies with regard to the Southern and Northern Caucasus. The CI also engages in regional studies on a wider scope.

Founded in Yerevan in 2002, the CI offers a neutral platform for non-politicized debate on acute issues of the region's political and social development. Based on research, the CI conducts expert consultations, roundtable discussions and conferences. CI produces publications in various formats, including Caucasus Yearbooks which sum up various aspects of politics, social life and economics in the Southern and Northern Caucasus every year.

The CI is special in that it combines research and debates with close ties to the news media, actively engaging the media in order to inform the region's societies and political elites of the results of policy research. Its wide public outreach enables CI to influence the public opinion as well as professional discourses, and to propose recommendations to political decision-makers.

After its founding in 2002 and until mid-2008, the institute was called the CMI, or Caucasus Media Institute, stressing its media ties. The changeover to just "Caucasus Institute" reflects the broadening scope of CI activities and its focus on politics, economics and society in the wider Caucasus region.

THE REPUBLICAN INSTITUTE

The Republican Institute is a body with a long record of successful research and advocacy.

The Republican Institute is a civil society organization established in Georgia in 2008 as a result of a merger between two organizations: the Center of Development and Cooperation (CDC) and the Civic Development International Center (CDIC).

The Republican Institute's main avenues of activity are civic education, human rights, protection of minority rights, peaceful settlement of conflicts, promotion of peace, security, good neighborly relations and cooperation in the South Caucasus.

Projects implemented by the RI include the Democracy School (seminars for students), Liberal Evenings (public policy debates), Dialogue Via Research (parallel policy research by Georgian and Abkhazian experts) and the publication of a collection of papers on Georgian Democracy and Culture.

Experts from the RI regularly participate in cross-border cooperation projects with Russia, Armenia, Abkhazia and Ossetia, and have published numerous papers and articles on these topics.



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THE ECONOMIC DIMENSION OF COOPERATION BETWEEN ARMENIA AND GEORGIA: FACING NEW CHALLENGES AND OPPORTUNITIES

This publication is the result of the Second Armenian-Georgian Expert Forum held in Yerevan on February 26-27, 2015 with the support of the Friedrich Naumann Foundation in the framework of a joint project of the Caucasus Institute in Yerevan, Armenia and the Republican Institute in Tbilisi, Georgia. The publication contains papers by Georgian and Armenian experts on the prospects of economic cooperation between Armenia and Georgia in view of their integration into different economic unions.

