Trade Barriers of the Economy of the Republic of Armenia: a Challenge of a Single Nation or the Geopolitical Reality of the Region?

A Critical Analysis of Internal and External Trade Barriers Affecting Imports and Exports of Armenia

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Candidate for the Bachelor of Science (BSc)

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Summary

The thesis explores barriers to trade of Armenia with the world, addressing every trade agreement of Armenia, the local legislation pertaining to trade and statistics related to them.

It then analyzes and assesses the effects of the Turkish embargo on Armenia, followed by insight into the EAEU and its role as a trade barrier in the economic life of Armenia.

The thesis progresses to scrutinize the untold reality of the Armenian economy – the corruption, improper implementation of law, incompetence and infrastructure as factors affecting competitiveness and productivity of Armenia on the global market.

The thesis concludes with recognition of challenges posed by the Turkish embargo and the EAEU membership as barriers to trade, while juxtaposing them to the issues that overshadow them, in the form of flaws in the economic environment and infrastructure of Armenia, concluding that the latter have much more weight in determining the economic condition of the country, then the apparent trade barriers.

Chapter 1: Main Question

Background of the Problem

The economy of the modern Republic of Armenia is small, with a GDP of 10.5 bln USD. The Republic of Armenia, having four neighboring countries (Iran, Turkey, Azerbaijan and Georgia), does not have diplomatic relations with two of them (Turkey and Azerbaijan). Moreover, Armenia has had an economic embargo imposed on it by Turkey and Azerbaijan since 1993 (Hale, 2000: 273), which restricts its access to nearly 64% of the total economy of the neighboring countries (combined GDP of Turkey and Azerbaijan of 771 bln USD).

Research objective

Nonetheless, the existing reality begs the question – to what extent is the current trade reality of Armenia shaped by the trade barriers imposed on Armenia, and what other factors are there, affecting trade relations of Armenia with the world? Hence, the research objective is to analyze the tariff and non-tariff barriers to trade of Armenia as well as the barriers it faces by its neighbors and the extent to which the trade barriers contribute to the economic reality of Armenia.

Relevance of the Research Question

Firstly, with the accession of Armenia into the Eurasian Economic Union 2015, Armenia took a new course in its economic policy, practically undoing the progress made towards closer economic cooperation (through DCFTA) with its largest trade partner – the European Union, which had started over 10 years ago with the Neighborhood Action Plan (WTO, 2010: 13). Hence, it is necessary to assess the extent to which the new economic policy Armenia has found itself in, affects the prospects of economic development of Armenia, especially through trade with the outside world.

Secondly, currently, after over half a century of relative global stability, the world is undergoing changes which are bound to shape the political and economic reality of the century. With the recent exit of the Great Britain from the European Union and the talks of the United States contemplating exiting NAFTA, the European migrant crisis, the speculation of France exiting the EU, prospects of global rearrangements in the global trade are apparent.

More importantly, history is about to be shaped worldwide, unavoidably affecting the South Caucasus region, with China's nearly imperialistic aspirations to reshape the global markets with the new Silk Road, as was evident from Chinese president Xi Jinping's speech during the forum "One Belt, One Road" in May of 2017 (The Guardian, 2017), planning on investing 900 billion USD in creating a new infrastructure for global trade, with China as the centerpiece, connecting Asia and Europe with hyper-fast trains and trade routes. Armenia and all four of its neighboring countries are located on the prospective roadmap of the new Silk Road. Therefore, it is imperative to analyze the existing trade barriers in order to understand the future opportunity cost of the current political and economic situation of the region and the extent to which the existing trade barriers can be removed in order to give way to perspectives of unprecedented global trade and global access. Moreover, if any significant barriers to trade are identified that cannot be attributed to local geopolitics, they can be addressed accordingly, instead of having the local politics become the scapegoat of lack of progress for the economy of Armenia.

Methodology and Sources

Primary Research: For the purposes of academic and factual accuracy, both primary and secondary research have been conducted. For primary research, the author contacted high ranking officials with requests for academic interviews, three of which succeeded. The three interviews, transcripts and links to raw audio of which are presented in the Appendices (24, 25, 26), were conducted with the former Prime Minister of Armenia and a former Member of the National Assembly (Parliament) Mr. Hrant Bagratyan, who is regarded as one of the most reputable economists in Armenia. One of the leaders of the institutional opposition in Armenia; the former Minister of Economy of Armenia and a former Member of the National Assembly (Parliament), the current Minister of Nature Protection Mr. Artsvik Minasyan, who is a reputable economist in Armenia; and a former Head of the Department of Violation Detection and Administrative Procedure Implementation of the Customs Service of Republic of Armenia Mr. Gevorg Nersisyan, who has extensive experience in customs violation prevention.

Secondary Research: Secondary research is focuses mainly on obtaining the quantitative data and facts, such as statistics of trade of Armenia, as well as the details of effective trade agreements that Armenia has signed. Furthermore, Charters of trade organizations, where Armenia is a member country, have been analyzed in order to identify the tariffs and terms of the membership of Armenia. Moreover, secondary research included articles and reports of international organizations, such as the World Bank, the WTO, the EAEU, the ADB and others pertaining to trade relations of and between Armenia, Turkey, Azerbaijan, Georgia, Iran and Russia, which had scarce analysis of the trade reality of the region.

Key Terms

Trade barrier: Trade barriers, within the framework of this thesis, are defined as "measures that governments or public authorities introduce that prevent or restrict overseas trade and investment" (Trade Council, 2017). **Tariff trade barrier**: A trade barrier, achieved through government-induced import or / and export taxes on goods and services, tradable between two countries. **Non-tariff trade barrier**: A trade barrier, achieved through means other than customs tariffs, such as technical regulations, standards, embargos, quotas and other means.

As such, trade barriers can also be characterized as being **legal** or **illegal**, depending on whether or not they violate international agreements, such as those of the WTO (Trade Council, 2017). Moreover, factors, other than tariff and non-tariff barriers, negatively affecting trade between countries, are defined as **trade restrictions**, which are defined as obstacles that imposed by authorities or governments, hence, cannot be removed the same way as trade barriers can (Trade Council, 2017). Examples can be cultural, linguistic differences, specificities of the local business environment as well as geographic location and terrain.

Chapter 2: Facts

The Official Trade Policy of Armenia

In order to assess tariff trade barriers of Armenia, official trade relations with the world will be addressed. Trade of the Republic of Armenia (henceforth - Armenia) with other countries, including import and export is formed through trade agreements with other countries and local legislation. The first of the two - trade agreements, trade arrangements and free trade agreements, can generally, be categorized into three sets – unilateral, bilateral and multilateral[1].

Part 1: Official Trade Arrangements with Other Countries

a. **Unilateral trade agreements** of other countries, unilaterally affecting export and import tariffs of these countries relating to trade with Armenia. These are the Generalized System of Preferences of the United States, Canada, Japan, Switzerland and the Generalized Scheme of Preferences GSP and GSP+ of the European Union and Norway.

b. **Bilateral agreements** between Armenia and other countries. These are bilateral free trade agreements (henceforth - FTAs) with two countries (Turkmenistan and Georgia), another FTA with Vietnam through the EAEU-Vietnam FTA as well as the Partnership and Cooperation Agreement between the EU and Armenia (with its subsequent European Neighborhood Policy ENP Action Plans, also known as Association Agendas for Eastern partner countries)[2].

c. **Multilateral trade agreements**. These are the Organization of the Black Sea Economic Cooperation (BSEC), the World Trade Organization (WTO) Agreements, the Commonwealth of Independent States Free Trade Area (CISFTA) and the Eurasian Economic Union (EAEU).

A. Unilateral Trade Arrangements

Unilateral trade agreements are preferential terms provided by one nation to another, without reciprocity (Amadeo, 2016). Armenia, being considered a developing country, reaps the benefits of several countries and economic unions providing competitive advantage to imports from developing countries. The Generalized System or Scheme of Preferences (henceforth GSP) programs are trade preference programs, allowing developing countries to pay less or no duties on their exports to the implementing country. (EC, 2017) (USTR, 2017). GSP allows for a formal way of exemption from the general provisions of the World Trade Organization (henceforth – WTO), and has "The Enabling Clause" of the WTO, officially known as the

[1] Comprehensive and clear chronology of unilateral, bilateral and multilateral FTAs of Armenia can be found in

[2] The EU and all agreements pertaining to cooperation with it shall be discussed in a separate chapter, while Vietnam-EAEU FTA will be discussed in a separate chapter dedicated to the EAEU.

"Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries", adopted under GATT in 1979 as the legal basis for it (WTO, 2017).

Under the GSP Program, Armenia can export around nearly any product duty free (within the HS chapters 1-97) to the US, Canada, Japan, Switzerland, Norway[3] and the EU[4] (please see Appendix 22 for details). Nonetheless, in order to unravel the entire picture of the reality and prospects of trade relations with these trade partners, the dynamics of political and trade negotiations between them and Armenia need to be analyzed, which will be thoroughly elaborated on by the author.

Overall, unilateral trade agreements allow Armenian producers and exporters preferential and competitive terms for entry, with significant customs tariff exemptions, to a market with a combined GDP of around 44 trillion USD, which is over 56% of the world economy, with the EU market of 16 trillion USD the US market of 19 trillion, Canadian market of 1.6 trillion, Japanese market of 4.8 trillion, Norwegian market of 391 billion and Swiss market of 659 billion USD (IMF, 2017; Appendix 11).

B. Bilateral Trade Agreements

In the first decade of its independence, between 1991 and 2001 (Appendix 12), Armenia signed and ratified eight bilateral FTAs with Russia, Tajikistan, Kyrgyzstan, Moldova, Turkmenistan, Ukraine, Georgia and Kazakhstan[5]. The fact of the bilateral FTAs being the first FTAs in the history of Armenia are evident from the contents of the texts of the bilateral agreements (WTO CRTA, 2004).

Firstly, all of the eight bilateral FTAs have virtually identical texts, with an identical number of Articles, expressing the same ideas and provisions, with negligible amount of grammatical differences and points. Side-to-side comparison makes it apparent that all of bilateral FTAs,

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[3] Norway applies a reduced duty rate of 10-100%.

[44] The European Union, much like Norway, provides a generous tariff GSP+ tariff scheme to Armenia, resulting of removal of over 66% (two thirds) of tariff lines

[5] After the formation of the Commonwealth of Independent States Free Trade Area (CIS FTA) in 2011, however, the latter replaced bilateral FTAs with CIS FTA member states (USDA, 2012: 2). As a result, the FTAs of Armenia still in effect as of the moment of publication of the thesis are those with Turkmenistan and Georgia, replacing the other six bilateral FTAs with the CISFTA.

which Armenia has signed, were reminiscent of the first and original bilateral agreement of Armenia with Russia (WTO CRTA, 2004). Hence, it is reasonable to argue that if FTAs bear no significant differences, then the content of theirs was not created through thorough negotiation between the two parties involved is not of material importance in an economic discourse. Rather, beside the waiver of the customs tax, the fact of signing and ratifying an FTA could be seen as a political gesture or event, which, however, takes the discussion outside of the research question of the thesis.

Secondly, (the identical) Articles of bilateral FTAs between Armenia and five of the eight countries have not been updated in the past 15-20 years (while the EAEU treaty has "updated" the trade arrangements between Armenia, Kazakhstan, Kyrgyzstan and Russia) leaving significant relevant areas out of the agreements (WTO CRTA, 2004), that would usually be present in more recent FTAs between countries, such as intellectual property rights (IPR), sanitary and phytosanitary (SPS) measures[6], leaving the FTAs vulnerable to modern challenges. Moreover, after examining the bland nature of the FTAs, the author came to the conclusion that, taking into account the fact that all bilateral FTAs of Armenia mimic the first FTA with Russia, there is a sense of a top-down imposed nature of the bilateral FTAs, as a measure of political control and influence by Russia[7].

Overall, taking into account the political turbulences (including embargos by two of the four neighbor countries), the urgent need of Armenia to establish itself in the local economic and political arena, it becomes apparent that the eight bilateral FTAs serve as less of Free Trade Agreements and more of anti-embargo agreements, establishing regular non-preferential economic relations with the Parties in an official and ratified form. Unraveling such an unorthodox circumstance in a purely economic agreement allows for a deeper awareness of the local geopolitical situation, through the prism of which the theme of trade barriers of Armenia can be analyzed with more insightful outcomes. After such a conclusion it is understandable why

[6] Even though through the Eurasian Economic Union (EAEU), Armenia, Russia, Kazakhstan and Kyrgyzstan do have provisions of having common regulations on phytosanitary requirements (EAEU, 2017: Annex 12) and intellectual property rights (EAEU, 2017: Annex 26) besides the bilateral FTAs.
[7] This shall be elaborated on further in the thesis with a dedicated chapter.

the World Bank omitted these eight FTAs from the list of "main tariff agreements" of Armenia, deeming them less significant (WITS, 2017).

C. Multilateral Trade Agreements

Organization of the Black Sea Economic Cooperation (BSEC)

In the spirit of the argument above, historical political pretext can be found in another of the multilateral trade agreements of Armenia – the Organization of the Black Sea Economic Cooperation (henceforth BSEC), which unites twelve countries around a cooperation framework, that includes trade, customs matters and tourism (BSEC, 2017). Turkey and Azerbaijan are in the member list as well, with Turkey as the country coordinator for both the Working Group on Customs Matters (one of the targets of which is to promote and facilitate movement of goods between the member countries, harmonizing customs regulations) and the Working Group on Trade and Economic Development (tasked at promoting regional trade cooperation).

The Customs Service of Armenia has included the organization on its official page of import and export procedures and international cooperation along with descriptions of GSP programs and the WTO, stating that currently BSEC members consider possibilities of arranging preferential trade, including FTAs. Nonetheless, taking into account that Armenia entered the organization less than a year after its declaration of independence in 1991, and the strategic placement of the fact of membership even in the current Customs web page as well as the lack of diplomatic relations or trade with two of the member countries – Turkey (practically leading the organization) and Azerbaijan, it becomes evident that this is yet another politically motivated (possibly – as a matter of national security) membership in an organization aimed at free trade facilitation, that does not serve its true purpose.

Commonwealth of Independent States Free Trade Area (CISFTA)

The multilateral FTA between the countries of the post-Soviet space – the Commonwealth of Independent states called the CIS FTA, signed in 2011, allowed for a multilateral FTA of Armenia with Russia, Ukraine, Belarus, Kazakhstan, Kyrgyzstan, Moldova and Tajikistan, replacing bilateral FTAs with most of them (USDA, 2012). Moreover, Armenia maintained a full customs tax waiver on all types of imports to these countries, just as in the bilateral FTAs

(USDA, 2012: Appendix I; CIS Executive Committee, 2011). The FTA also covers areas such as antidumping and countervailing, subsidies, technical barriers to trade, sanitary and phytosanitary measures, through which even more barriers would be removed or prevented, to the point that the USDA report of 2012 asserts that for Russia, the CIS FTA is a "complex balance of political and economic costs and benefits", putting its agricultural market to a risk, while gaining geopolitical influence in a large part of the post-Soviet CIS space (USDA, 2012: Summary). Taking into account the analysis and arguments regarding bilateral FTAs and BSEC, it becomes clear that trade agreements are far from purely practical for Armenia.

Eurasian Economic Union (EAEU)

Armenia became a member of the Eurasian Economic Union in 2015 (ADB ARIC, 2017). Unlike the CIS FTA, which had established a mere Free Trade Area, the EAEU is an economic union with a common single internal market and a customs union (EAEU, 2014: Article 1). The EAEU is an organization of regional economic integration and has an international legal personality, like the European Union and unlike the CIS FTA or the bilateral FTAs of Armenia, which do not have a legal personality (Article 1.2). The single internal market of the EAEU provides for the "free movement of goods, persons, services and capital" between the parties (Article 28:2), and as a customs union, all customs duties are waived between the member states (Article 28:3). Additionally, a Common Customs Tariff of the EAEU is applied to all goods entering and exiting the EAEU as a single economic entity (Article 25:1-5), while the goods are distributed customs-free between member states after the Customs Tariff of the EAEU has been applied to a product when entering the single internal market[8].

Moreover, the parties are obliged to carry out economic policy in coordination and agreement with the EAEU (Article 5:1-3), resulting in great limitation of bilateral economic negotiations with third parties imposed on Armenia and all other states.

World Trade Organization (WTO)

Armenia began the process of its accession to the WTO in 1993 (to GATT, and to WTO in 1995) with the support of the IMF (WTO, 2010: 13). However, it was accepted to the WTO in 2003

[8] Please, note that the VAT upon importing from one member state to another still applies with no exceptions.

(Appendix 12). Armenia complies with all of WTO requirements, including the 60 agreements, annexes, decisions and understandings in WTO (Global SPC, 2017), has submitted all required notifications throughout its membership, confirming its compliance with thirteen of the WTO Agreements, and has never been involved in any disputes through the WTO dispute settlement mechanism (WTO, 2010: 20). It is with the help of membership to the WTO that Armenia optimized its customs legislation to facilitate imports and exports, for instance, by replacing customs processing *ad valorem* fees with fixed prices. The only exceptions to the commitment of Armenia to the WTO are postal services, maritime services (due to being landlocked), and some limitations on the amount of land foreign nationals can own in Armenia (WTO, 2010: 18). Overall, membership at the WTO is the major factor behind the import and export policies of Armenia.

Moreover, with the help of its membership at the WTO, Armenia enjoys the "most-favoured-nation" (MFN) status, allowing it to trade with 164 member-countries without being discriminated relating to customs fees and procedures (WTO, 2017). Hence, overall, Armenia does not suffer from tariff trade barriers from the vast majority of the world economy and even enjoys preferential trade with more than half of the global market.

Part 2: Official Data

Official Armenian Legislation on Imports and Exports

Having assessed international agreements and relations pertaining to trade, the chapter will now address the local legislation of Armenia, relating to trade. Customs Code of the Republic of Armenia relating to customs duties for imports to Armenia is fairly straightforward – *ad valorem* customs fee of 0-10%, depending on the product (Parliament of RA, 2000: Article 102). There are also customs fees relating to various procedures, such as formalities, cargo processing, customs brokerage fees (Customs Service of RA, 2017). The average customs tariff applied is 2.7%, which is one of the lowest tariffs among the WTO members (Invest in Armenia, 2017). It should also be noted that in addition to the customs duties, imported goods and services are subject to Value Added Tax (VAT), which is set to 20%, the same VAT rate which operates for local organizations (Customs of RA, 1997: Part 3, Article 9).

As for exports, there are no export restrictions, nor export taxes for goods produced in Armenia. Moreover, exportable goods are zero rated (for VAT purposes) (Invest in Armenia, 2017). There are mere formality fees, such as brokerage and processing (Parliament of RA, 2000). The "Doing Business" Project by the World Bank ranked Armenia significantly higher on "Trading Across Borders" rank compared to Azerbaijan, Georgia, Turkey and the Russian Federation with the lowest combined cost to import / export, and the lowest combined time required for documentary compliance[9] (Appendix 5). Hence, overall, the Armenian Customs Code is in complete compliance with the requirements of the WTO, making the official legislation pertaining to imports and exports non-problematic and within global requirements and expectations (International Business Publications, 2016: 76). Thus, it is reasonable to assert that local legislation of Armenia does not impose any tariff trade barriers. The thesis will address the question whether official legislation and regulations match the reality of the matter further into the discourse.

Official Trade Statistics of Armenia

As for the result which is achieved through the multitude of international agreements and local legislation, the thesis will outline below the trade statistics of Armenia. Armenia has an extremely small economy, with a GDP of around 10 billion USD, GNI per capita of under 4,000 USD, exports of 1.5 billion USD and imports of 3.3 billion USD (Appendix 3; Appendix 4). Armenia does not have diplomatic or trade relations with two of its neighbors – Turkey and Azerbaijan.

Exports: The main export partners of Armenia are the European Union (39.4%[10]), the EAEU (15.95%), China (11.14%), Iraq (8.81%), Georgia (7.69%), Canada (7.56%), Iran (5.26%), the United States (3.64%), which amount to 99.5% of the total exports of Armenia (Appendix 7).

Imports: The main import partners of Armenia are the EAEU (31.48%[11]), the European Union (26.5%), China (9.69%), Iran (6.09%), Turkey (4.19%), Ukraine (3.83%), the United States (3.23%), Georgia (2.05%), Brazil (1.89%) and India (1.61%), which amount to 90% of the total imports of Armenia (Appendix 8).

[9] In par with Georgia.
[10] Of the total exports from Armenia to the world.
[11] Of the total imports from the world to Armenia.

Moreover, the author, striving to provide a better mind map for the correlation and causation between trade agreements and trade statistics, has devised an unorthodox table, which groups trade statistics with countries, based on the trade agreement that exists between the latter and Armenia (Appendix 14: A, B). As a result, it was discovered that the agreement contributing most[12] to exports is the GSP+ program of the EU, with more than double trade fostered when compared to WTO MFN, the EAEU and GSP, which have nearly equal amounts of trade associated with them, with bilateral FTAs being of lesser significant in regards to exports. On the other hand, statistics showed that the EAEU contributed to imports slightly more than WTO MFN and GSP+ programs, which had nearly equal amounts of trade associated with them too, with GSP and bilateral FTAs having a comparably small effect on imports. Hence, as for any country with an extreme trade deficit, it can be argued that the EU, with its GSP+ program, has the greatest positive impact (i.e. exports) on the economy of Armenia, while the most adverse effect comes from the EAEU of Russia (i.e. imports). This assumption will be further elaborated on in the following chapters.

Chapter 3: Discussion

Part 1: The Good, the Bad, and the Ugly: The Turkish Problem, The Georgian Proxy and the Azerbaijan Crisis

In order to understand, assess and analyze the trade barriers present in the economic reality of Armenia, first and foremost, the relations of Armenia with Turkey and Azerbaijan need to be addressed. Azerbaijan and Armenia have an ongoing armed conflict regarding the Nagorno-Karabakh region, rendering any economic relations practically impossible pending resolution of the conflict. As for Turkey, currently Armenia has no diplomatic or official trade relations with this neighbor either. Official absence of trade relations with Turkey is a major handicap for the Armenian economy as it loses access to a market of over 850 billion USD (World Bank, 2017) in close geographic proximity.

[12] There is sound basis for assumption of causation, rather than correlation, due to the trade agreements being aimed at facilitating and fostering trade between the parties. Moreover, the European Commission states that Armenia's GSP utilization rate is around 90% (EC, 2017), and according to the US Department of State (IIP, 2015: 1) GSP utilization rate with the US is 85.2%.

Absence of official trade relations with Turkey is based on a quagmire of political and historical disputes encompassing the refusal of Turkey to officially recognize the Armenian Genocide of 1915, the refusal of Armenia to officially recognize the 1921 Treaty of Kars (European Parliament, 2007: 7) and accept the territorial integrity of Turkey and the political solidarity of Turkey towards Azerbaijan regarding the Nagorno-Karabakh conflict. In essence, the author would like to argue that Armenia, even though in an economically disadvantageous situation due to absence of trade, is not a victim, but rather an equally accountable party to the disputes that lead to the closed borders.

Moreover, quite surprisingly, there is a dispute regarding the legal definition of the act of Turkey of closing the Turkish-Armenia border[13], as, according to international law, closure of the border cannot be qualified as a blockade or an embargo, as Turkey argues, while Armenia refers to free trade provisions of the WTO regarding guaranteed access to the sea for landlocked countries[14] (EP, 2007: 9). Complimenting to the dispute of the concept of an embargo is the fact that Turkey has opened its air corridor to Armenia since 1995 (NARA, 1998: 288) as well as the fact that Turkey is seventh largest import partner for Armenia (Appendix 8) with over 130 million USD in imports to Armenia and allows free movement of Armenian citizens to Turkey[15]. In simple terms, Armenia and Turkey do not have direct land communications and diplomatic relations, but they have trade and movement of people through proxy countries and proxy land communications. Citizens of both countries can visit the other via flights and roads through other countries, with electronic visas legally obtained at the international border crossings (Kirişci, K. et. al.: 2015). Moreover, this has opened a way for Armenian citizens to travel to Turkey for informal work, especially domestic work, while the Turkish government tolerates this on an official level (Kirişci, K. et. al.: 2015). Stark proof of normalization and wide-spread nature of Armenian citizens traveling to Turkey as expats for work is the poignant documentary by Aljazeera (2016) about such Armenian families[16], torn between poverty and informal work in Turkey. Moreover, there is a large number of informal sole traders travelling from Armenia

[13] Official closure of Dogu Kapi / Akhourian crossing on April 3, 1993 resulted in land communications between Armenia and Turkey to seize (European Parliament, 2007: 7).
[14] Even though the fact that Armenia has guaranteed access to sea through Georgia weakens the case.
[15] Every summer there are direct charter flights from Armenia to Turkish resort cities tourist cities, such as Antalya.
[16] According to the documentary, there are over 25,000 Armenian citizens working in Turkey undocumented.

(through Georgia) to Turkey to purchase clothes and other products, reselling them in Armenia (Aljazeera, 2016), so much that one of the major wholesale street markets in Yerevan[17] is named Malatya Pazari after the famous market of the same name in Turkey (EP, 2007: 9).

With apparent informal trade relations and expat workforce movement in existence, lack of coordination and information sharing between the two governments is of great risk in terms of preventing fraudulent activities in trade, resolution of trade-related disputes, especially in the light of the fact that Turkey does not officially recognize existence of trade with Armenia. The Turkish Statistical Institute (2017) claims close to zero exports to Armenia[18], while Armenia reports over 130 million USD worth of imports to Armenia from Turkey (WITS, 2017). Last, but not least, lack of official relations between Armenia and Turkey create risks of not protecting Armenian citizens from human trafficking and other expat work-related risks that would not be present in case of formal employment and appropriate visa status.

The Georgian Proxy and the Azerbaijani Factor

In this trade relation of over 130 million USD per annum Georgia has a monopoly as a proxy country. Armenian companies willing to import from Turkey, need to register or pay for the services of a proxy company in Georgia. Goods, which are to be imported from Turkey to Armenia, travel to Georgia[19], go through customs not as a transit shipment but as an import to Georgia, after which the goods are exported to Armenia as Georgian produce. There are a number of problems that arise from this situation.

Firstly, transportation, customs and proxy company costs add up to the cost of the goods, increasing the cost for the Armenian market. Secondly, this exchange of goods is falsely registered as trade with Georgia[20], resulting in impractical and misleading statistical data.

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[17] Capital city of Armenia.
[18] 2017 – 1,000 USD, 2016 – 83,000 USD total exports to Armenia claimed.
[19] Most of the time, to its port Poti.
[20] Even though goods do maintain a document of the country of origin, which allows Armenia to report trade statistics with Turkey, while Turkey considers it trade with Georgia.

Thirdly, this creates dependence of existing informal[21] trade relations between Turkey and Armenia on the political situation in Georgia and Armenia-Georgia relations in general.

This risk of dependence became apparent in 2008 Russian-Georgian war, which disrupted the operation of the Armenians' sole trading route to Turkey and underlined the strategic risk of having closed land border with Turkey (Kirişci, K. et. al.: 2015). This grave need of a solution led the Armenian president Serzh Sargsyan to try to reinitiate negotiations on reopening land communications between Turkey and Armenia[22], resulting in signing bilateral protocols "On the Establishment of Diplomatic Relations between the Republic of Turkey and the Republic of Armenia", most commonly known as the Zurich Protocols, in 2009. According to the protocols, the common border between Turkey and Armenia was due to be opened 2 months after the Protocol came into force (MFA of Turkey, 2009: 3). Nonetheless, the Protocol could not be ratified on the Turkish side due to extensive pressure from Azerbaijan, in the form of well-financed lobbying, PR and media campaigns (Kirişci, K. et. al.: 2015), promoting the decade-old idea that lifting the "embargo" imposed on Armenia will ease socioeconomic hardships of Armenia, effectively strengthening its bargaining position in the Nagorno-Karabakh conflict resolution process (RFE/RL, 2004). Nonetheless, the Armenian side was not without blame in the failure to ratify the Protocols, as the Armenian diaspora and local nationalists were quick to declare any dealing with Turkey that lacked recognition of the Genocide, capitulation (Kirişci, K. et. al.: 2015), effectively freezing the Protocols indefinitely. It is notable that ex-Prime Minister Hrant Bagratyan confirms, through his personal recollections of meetings with numerous top level officials of Turkey[23] (Appendix 24), that it is in the economic interest of Turkey to resume relations, especially economic ones, with Armenia, if it was not for the pressure from Azerbaijan and the unpredictable state of affairs in the East of Turkey with the self-governance agenda of Kurdish population.

[21] Please, note that informal in this case is not illegal. All trade between Turkey and Armenia is legal, yet Turkey does not recognize the existence of a large portion of it, attributing it to trade with Georgia, making it informal.
[22] A process, known as the "soccer diplomacy", due to it starting with an Armenia-Turkey soccer game, where the president of Armenia invited the president of Turkey to the match.
[23] Ex-Foreign Minister Yaşar Yakış, ex-President and ex-Prime Minister Süleyman Demirel, ex-President Mesut Yılmaz.

Additionally, dependence from Georgia is not the only major negative factor in closed borders with Turkey. Due to this closure of borders, Armenia has to resort to trading with much more distant countries, making the trade more expensive due to transportation costs. Moreover, the transportation costs of delivering to and receiving goods from the main trade partners to Armenia substantially increase due to the closed borders with Turkey. Instead of using railway connection to the Mediterranean Sea with Turkey to connect to the EU, the US, Canada and other major partners, Armenia has to use a more costly Georgian route. And as over 90% of trade of Armenia crosses the territory of Georgia, the latter imposes disproportionately expensive transportation tariffs on Armenia. In this way, transportation of a container from Yerevan to the Georgian port of Poti[24] costs as much as transporting a container between New York and Seattle[25], which is nine times the distance (EP, 2007: 11).

Hence, even though, closed borders between Armenia and Turkey are not legally defined as an embargo, the great adverse effect of the closed borders on the realization of trade potential of Armenia in the region and the negative impact of increased costs on transportation of goods between Armenia and its largest trade partners results in a reality where the government-level decision of Turkey creates great socioeconomic hardship for Armenia and limits its international trade greatly. For the reasons listed above, it is reasonable to name the closed borders an embargo on Armenia from the Turkish side, lifting of which is more dependent on politics of the region rather than economic interest of either of the parties.

Part 2: To Be or Not to Be: The EA[EU] Dilemma

The recent accession of Armenia in the EAEU resulted in some significant changes for the trade negotiations for Armenia, which need to be addressed within the scope of barriers to trade. The Eurasian Union, which Armenia joined in 2015, is an economic union between Russia, Kazakhstan, Kyrgyzstan, Belarus and Armenia, with Vietnam as a free partner to the union (EEC, 2016). There has been much criticism from within Armenia and from the international community regarding the level of economic reason behind joining the EAEU. Hence, economic factors need to be addressed.

[24] 550 km
[25] 4600 km

Membership of Armenia in the EAEU creates no new free trade arrangements for Armenia, as it had previously enjoyed free trade with all of the EAEU members through bilateral FTAs or the CIS FTA. Moreover, trade with members of the EAEU, other than Russia, is negligible[26] (Appendix 8). Taking into account that 2.5 years (Appendix 12), including two full fiscal years (2015 and 2016) have passed since the accession of Armenia to the EAEU, it can be assumed that the EAEU does not foster trade for Armenia with the other member-states. Moreover, trade with Russia has been on a decline since accession the EAEU, with a decline in trade with Russia of over 10% since 2015 (Appendix 21). Hence, as of the moment of publication of this thesis, the EAEU had not had neither a positive effect on trade dynamics or Armenia, nor did it present, through the two complete fiscal years of 2015 and 2016, any prospect of economic interest of retaining membership for Armenia.

As an economic union that does not bring any benefits to the economy of Armenia, unfortunately, membership at the EAEU bears grave repercussions for Armenia relating to its economic relations with the rest of the world.

We Could Have Had It All: The European Union

Relating to the EAEU, the thesis will take an unorthodox approach by arguing that the EAEU, even though an economic union aimed at fostering trade, is, in practice a real trade barrier for the economy of Armenia.

Firstly, the EAEU effect is significant relating to the EU, the main trade partner of Armenia in regard to exports (39.4%). For a country with considerable trade deficit, the main export partner is pivotal for the economic stability and survival of the economy of Armenia. Hence, increased cooperation and trade with the greatest export partner are a priority in any struggling economy. Armenia is not an exception. For over 20 years Armenia has been investing considerable efforts towards European integration, with the Partnership and Cooperation Agreement (PCA) between Armenia and the European Union (signed in 1996), the European Neighborhood Action Plan (ENP), adopted in 2006 (WTO, 2010: 13) and the Eastern Partnership (EaP) in 2009 (EC, 2016).

[26] Belarus 1.04% share of total imports of Armenia, Kazakhstan – 0.01%, Kyrgyzstan – 0.00%.

The next step was going to be Association Agreement (AA), which includes the Deep and Comprehensive Free Trade Area (DCFTA), providing preferential trade terms with the EU, unprecedented for Armenia. While the talks of AA and Armenia were in process, Tarr (2014), upon the request of the Ministry of Economy of the Republic of Armenia, conducted an extensive modeling of the consequences of DCFTA for Armenia through a 21-sector small open economy, comparative static computable general equilibrium model of Armenia. The results of the model were that the gains to Armenia from the DCFTA will yield three times more than of cooperation with the CIS countries (Tarr, 2012). Moreover, they concluded that it would lead to overall liberalization of barriers in services, harmonization of standards, trade facilitation and reduction in border costs. Nonetheless, the accession of Armenia to the EAEU delegated trade policy competence from Armenia to the EAEU, halting the process completely (EC, 2016), as DCFTA negotiations are incompatible with accession to the EAEU (EC, 2017). Hence, the membership of Armenia at the EAEU, practically serves as a trade barrier within the framework of EU-Armenia economic cooperation.

Furthermore, with Georgia as part of the AA and, consequently, the DCFTA, there is high risk that in case of any sanctions of the EU against Russia, Armenia, as a member of the EAEU, will be greatly affected, if Georgia bans or imposes sanctions on Armenian exports and imports, travelling through Georgia, which amounts to 90% of the total volume of trade of Armenia (Kirişci, K. et. al., 2015:11). Therefore, any sanction of the EU towards Russia could potentially have a devastating economic effect of Armenia, far too great to neglect, as long as Armenia is part of a single economic space with Russia.

Additionally, when considering the prospects of trade with neighboring Georgia in the light of the EAEU membership, there are concerns for imminent long-term reduction in trade between Armenia and Georgia due to the EAEU tariffs, which are, on average, higher than the current tariffs applied by Armenia, and which Armenia will have to transpose by early 2020s (Saha, D. et.al., 2016:2). Hence, it is reasonable to assert that the EAEU tariffs, which Armenia needs to impose, are a tariff trade barrier, with real potential to harm the economy of Armenia in the long run. Similarly, ex-Prime Minister of Armenia Hrant Bagratyan (Appendix 24) does not see any reason to enter an economic zone with an average customs fee of 8%, while the average outbound customs fee of Armenia before the EAEU was 3-4%.

Further Repercussions

To further the point, having discussed the economic significance for Armenia of the prospect of improving trade relations with Turkey, there is academic discourse that joining the EAEU was a blow to the prospects of normalization with Turkey and the West in general (Kirişci, K. et. al.: 2015).

Moreover, another significant trade partner of Armenia, the US, through the State Department of the US (ITA, 2016) considers the membership of Armenia in the EAEU as the main trade barrier for the US citizens, wishing to do business with Armenia. It characterizes import licensing, customs procedures, falling under the jurisdiction of the EAEU as "unclear, complex, lacking clarity and highly redundant" (ITA, 2016), giving the EAEU membership complete characteristics of a non-tariff trade barrier.

Taking into account all of the facts presented, there can be no sound economic reasoning behind the choice of Armenia to join a union, which acts as a real tariff and a non-tariff barrier. Just like Armenian government officials have openly admitted, the choice of the ruling regime to join the EAEU was forced by economic and security concerns, resulting in economic and political dependency on Russia (Kirişci, K. et. al.: 2015) with no benefits. Moreover, all three high profile interviewees concurred over the opinion of unnecessary and harmful political-economic influence of Russia through the EAEU (Appendix 24, 25, 26).

Part 3: The Elephant in the Room: Corruption, Incompetence, Culture and Geography as Trade Restrictions

Having identified the embargo imposed by Turkey and the membership at the EAEU as the main tariff and non-tariff trade barriers of Armenia, and having assessed the devastating effect it has on the potential of the trade relations of Armenia with the world, the situation still begs the question: If Armenia enjoys preferential status with over half of the world economy, and a fair

MFN status with the other half, how can it have such a weak economy and so much void in trade relations with countries close by?

Incompetence, Improper Implementation of Laws and Extortion

Firstly, even though Armenia is officially in compliance with the WTO requirements, improper implementation of the Customs Code of the country remains a real issue (ITA, 2016). Moreover, the ambiguity of the law and procedures, along with poor and inconsistent administration, with frequent extortion and unofficial payment requirements, create obstacles to businesses importing to and exporting from Armenia (ITA, 2016). For instance, there is an informal requirement to submit a special permit, which is provided by the head of the Customs Office, for which a written petition, is needed, which there is no legal framework for such a practice (ITA, 2016). Another complication is the certificate of origin, which complicates the procedures for exporters. In order to get the certificate from the Armenian Chamber of Commerce and Industry - the ACCI, a private firm – "ArmExpertiza" LLC needs to examine samples of the exports, which is a very costly procedure and has no alternatives. As a result, exporters of goods in small quantities are completely discouraged to export goods (IRA, 2016). However, the most atrocious example of improper implementation of laws in customs procedures is the evaluation of customs value. The legal way of evaluating the goods is through provisions of Chapter 14, Article 87.1 and 87.2 of the Customs Code of Armenia (Parliament, 2000) which implies that in case of absence of illegalities, evaluation is made based on invoices and transaction prices, which is in compliance to the WTO requirements and local legislation. The Customs Office, however, makes due process of this procedure extremely complicated through making it obligatory to present each case to the head of the State Revenue Committee for approval, which takes around 5 working days (Eurasia Partnership Foundation, 2011:4). Having made the legal procedure complicated, instead, more often customs officers use a method which is prohibited both by the Armenian Law and international agreements – they evaluate goods based on indicator prices (Eurasia Partnership Foundation, 2011:4), even though WTO prohibits using minimum or maximum market value to establish the value of goods. Hence, improper implementation of the law on an official level of a government office is a serious barrier to trade for Armenia.

Lessons Learnt from High Profile Interviews

Moreover, the unwritten and undocumented reality of illegal trade is apparent in Armenia. Ex-Minister of Economy Mr. Artsvik Minasyan, in an interview with the author (Appendix 25), noted that illegal trade is an issue. Moreover, he pointed out the problem of vertical integration in the supply chain of goods, where a company owns all of the links leading from the producer/importer to the retailer/end customer, resulting in exclusive dealing, price fixing and refusal to deal with competitors.

Former Head of the Department of Violation Detection and Administrative Procedure Implementation, the Customs Service of Republic of Armenia Mr. Gevorg Nersisyan, who has spent years detecting customs code violations, pointed out that there is an element of criminality in the process of importing goods, where the goods are registered as different ones, which are exempt from VAT and other taxes. And as these goods are not documented properly, they cannot be sold in the white market, inadvertently creating black market as a chain reaction (Appendix 26).

Ex-Prime Minister Mr. Hrant Bagratyan, on the other hand, pointed out the issues that can arise even with legally operating leaders of a certain industry, where, due to the small market, it becomes hard to avoid quality and price-based oligopolizaiton and monopolization (Appendix 24).

Other Trade Restrictions

Overall, Armenia, with the current state of affairs, has a low competitive economic potential with the world, as proven by the Global Competitiveness Report at the World Economic Forum (2017:100), where Armenia occupies the Global Competitiveness Index ranking of 79[27]. Most problematic factors, creating this state of affairs, are outlined in the World Economic Forum Executive Opinion Survey (Appendix 19) and the World Bank Enterprise Survey (Appendix 9), according to which Armenia has bribe incidence rate of 7.1%, 11.8-13.5% of firms identifying corruption as a major constraint and 15-25% identifying a problem of lack of access to financing and 10.6% complaining about the inefficiency of government bureaucracy.

[27] With institutions on 66, infrastructure on 82 and macroeconomic environment on 82.

Moreover, there are other factors affecting the profitability, ease and volumes of trade of Armenia, which are condensed in the "Logistics Performance Index" (LPI), which is the way of the World Bank (2017) of evaluating the logistics of a country based on six factors, which are: a. the efficiency of clearance process by border control and customs, b. quality of trade/transport infrastructure, c. ease of shipping and pricing, d. quality and competence of customs brokers and transport operators, e. ease of tracking and tracing, timeliness of shipments in regards to estimated delivery dates (The World Bank, 2017). In this indicator Armenia is on rank 141, lagging behind all of its neighboring countries and trade partners (Appendix 6). Moreover, in the past ten years since 2007, the World Bank has indicated virtually no improvement in the LPI of Armenia, with a minor positive change in the infrastructure score (refer to Appendix 17 for better visualization).

In addition, research conducted by the International Trade Centre (2017) concluded that Armenia has over 90% unrealized potential in trade with Europe and Central Asia, in goods ranging from cattle to fruits, to clothing, to construction materials to mineral waters to jewelry and much more (Appendix 20). Hence, Armenia is wasting great economic potential of around 900%, meaning that the external trade barriers, however significant, are not in the root of economic reality of Armenia.

Conclusion

Assessment of the trade agreements of Armenia indicated that Armenia is not disadvantaged in any way in the global scene of international trade. Quite the opposite: it has preferential access to over half of the world economy and a fair "most-favored-nation" arrangement with the other half.

The embargo, imposed by Turkey, has a significant negative effect on the cost and access to main trade partners of Armenia. In spite of efforts to resume official economic relations from both sides, the factor of Azerbaijan and the membership of Armenia in the EAEU hinders the process indefinitely. Moreover, unofficial trade route exists between two countries through Georgia, putting the economic relations of two countries at the discretion of Georgia.

The membership of Armenia in the EAEU is a political hostage situation for Armenia, acting as another trade barrier for Armenia, nullifying the prospects of closer economic interaction with the EU through the DCFTA or with any trade partner outside of the Russian area of influence

Nonetheless, it was discovered that, even in the given circumstances of trade barriers, the greatest barriers to trade and increased economic activity of Armenia are on the inside, in the form of improper implementation of laws, illegal trade, corruption, monopolization and logistical trade restrictions. These factors affect the trade reality of the economy of Armenia so much more than the international trade barriers that Armenia can increase its economic performance exponentially without addressing the external trade barriers, making the blame-game for the hard socioeconomic situation in the country on outside factors exhaust itself.

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Appendices

Appendix 1: EU-Armenia Trade in Goods

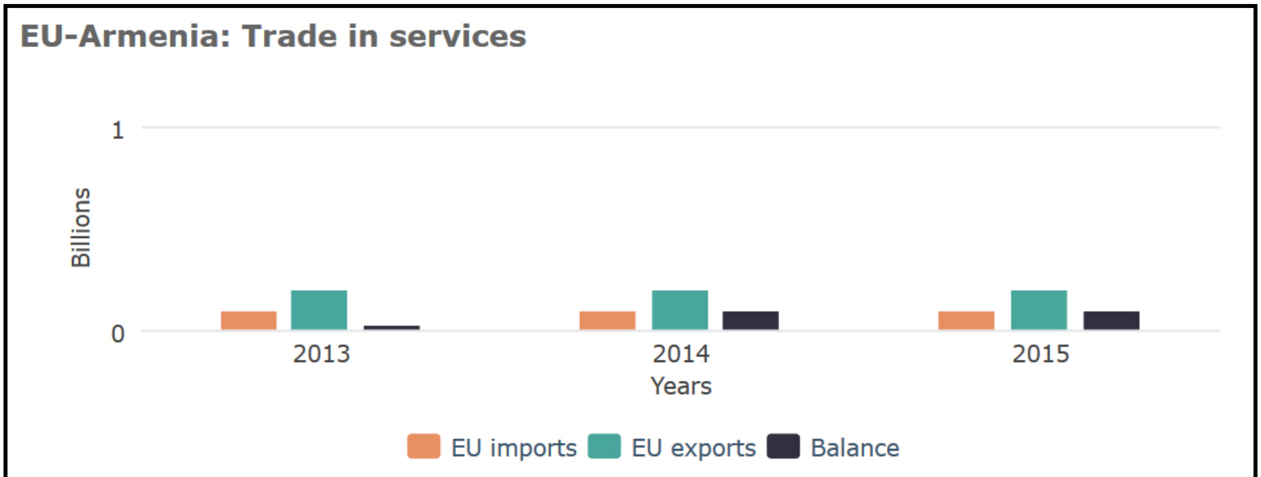
EU-Armenia: Trade in goods

Trade in goods 2014-2016, € billions

Year	EU imports	EU exports	Balance
2014	0.3	0.7	0.4
2015	0.3	0.6	0.3
2016	0.3	0.6	0.3

Source: European Commission (EC) (2017) *Trade: Counties and Regions: Armenia*, (Online), Available: http://ec.europa.eu/trade/policy/countries-and-regions/countries/armenia/ [10 Apr 2017].

Appendix 2: EU-Armenia Trade in Services



EU-Armenia: Trade in services

Trade in services 2013-2015, € billions

Year	EU imports	EU exports	Balance
2013	0.1	0.2	0.0
2014	0.1	0.2	0.1
2015	0.1	0.2	0.1

Source: European Commission (EC) (2017) *Trade: Counties and Regions: Armenia*, (Online), Available: http://ec.europa.eu/trade/policy/countries-and-regions/countries/armenia/ [10 Apr 2017].

Appendix 3: WTO Trade Summary for Armenia

Overall Exports and Imports			
Exports		**Imports**	
Exports (in US$ Mil)	1,483	Imports (in US$ Mil)	3,257
No. Of products	1,627	No. Of products	3,684
No. Of partners	94	No. Of partners	172
Imports of goods and services (% of GDP)	41.96	Exports of goods and services (% of GDP)	29.80

Armenia top 5 Export partners		
Market	**Trade (US$ Mil)**	**Partner share (%)**
Russian Federation	226	15.23
China	165	11.14
Germany	145	9.78
Iraq	131	8.81
Georgia	114	7.69

Armenia top 5 Import partners		
Exporter	**Trade (US$ Mil)**	**Partner share (%)**
Russian Federation	991	30.43
China	315	9.69
Iran, Islamic Rep.	198	6.09
Germany	182	5.59
Italy	148	4.54

Source: World Integrated Trade Solution (WITS) of the World Bank (2017) Armenia: Trade at a Glance, (Online), Available: http://wits.worldbank.org/CountrySnapshot/en/ARM/textview [15 Apr 2017].

Appendix 4: World Development Indicators of Armenia by the World Bank

World Development Indicators (WDI) 2015	
Population	3,017,712
GDP (current US$ Mil)	10,529
GNI per capita, Atlas method (current US$)	3,880.00
Trade Balance (current US$ Mil)	-1,281.00
Trade Balance (% of GDP)	-12.17

Source: World Integrated Trade Solution (WITS) of the World Bank (2017) Armenia: Trade at a Glance, (Online), Available: http://wits.worldbank.org/CountrySnapshot/en/ARM/textview [15 Apr 2017].

Appendix 5: Trading Across Borders Ranking, Doing Business Project by the World Bank

Economy	Trading Across Borders DTF	Trading Across Borders rank	Time to export: Border compliance (hours)	Cost to export: Border compliance (USD)	Time to export: Documentary compliance (hours)	Cost to export: Documentary compliance (USD)	Time to import: Border compliance (hours)	Cost to import: Border compliance (USD)	Time to import: Documentary compliance (hours)	Cost to import: Documentary compliance (USD)
Armenia	86.45	48	39	100	2	150	41	100	2	100
Azerbaijan	72.28	83	29	214	33	300	30	423	38	200
Georgia	85.15	54	14	383	2	35	15	396	2	189
Russian Federation	57.96	140	96	765	25	92	96	1125	43	153
Russian Federation - Moscow	58.16		96	765	26	80	96	1125	43	160
Russian Federation - Saint Petersburg	57.5		96	765	24	120	96	1125	43	135
Turkey	79.71	70	16	376	5	87	41	655	11	142

Source: The World Bank (2017) Trading Across Borders, (Online), Available: http://www.doingbusiness.org/data/exploretopics/trading-across-borders [17 Apr 2017].

Appendix 6: Logistics Performance Index of the World Bank

Country	Year	LPI Rank	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Armenia	2016	141	2.21	1.95	2.22	2.22	2.21	2.02	2.60
Turkey	2016	34	3.42	3.18	3.49	3.41	3.31	3.39	3.75
Georgia	2016	130	2.35	2.26	2.17	2.35	2.08	2.44	2.80
Iran, Islamic Rep.	2016	96	2.60	2.33	2.67	2.67	2.67	2.44	2.81
Russian Federation	2016	99	2.57	2.01	2.43	2.45	2.76	2.62	3.15
Germany	2016	1	4.23	4.12	4.44	3.86	4.28	4.27	4.45
Luxembourg	2016	2	4.22	3.90	4.24	4.24	4.01	4.12	4.80
Sweden	2016	3	4.20	3.92	4.27	4.00	4.25	4.38	4.45
Netherlands	2016	4	4.19	4.12	4.29	3.94	4.22	4.17	4.41

Source: International LPI Global Ranking (LPI) of the World Bank (2016) *Global Rankings 2016*, (Online) Available: http://lpi.worldbank.org/international/global [15 Apr 2017].

Appendix 7: Exports of Armenia According to the World Bank[28]

Partner Name (World – 1,5 billion USD – 100%)	Export (US$ Thousand)	Export Partner Share (%)
European Union[29] (GSP+)	584000	39.4
EAEU (Russia, Kazakhstan, Kyrgystan, Belarus)	236539.9	15.95
Russian Federation (EAEU, CISFTA)	225870.68	15.23
China	165201.94	11.14
Germany	144983.23	9.78
Iraq	130691.86	8.81
Georgia (FTA)	114028.29	7.69
Canada (GSP)	112129.62	7.56
Bulgaria	78927.2	5.32
Iran, Islamic Rep.	77949.34	5.26
United States (GSP)	54010.09	3.64
Italy	48987.83	3.3
Belgium	47527.22	3.21
Netherlands	47311.04	3.19
Switzerland (GSP)	40773.51	2.75
Romania	38356.31	2.59
Belarus (EAEU)	5461.75	0.37
Kazakhstan (EAEU)	4857.68	0.33
Kyrgyzstan (EAEU)	349.79	0.02

[28] Source: World Integrated Trade Solution (WITS) of the World Bank (2017) Armenia Exports By Country and Region 2015, (Online), Available: http://wits.worldbank.org/CountryProfile/en/Country/ARM/Year/LTST/TradeFlow/Export/Partner/all/# [15 Apr 2017].

[29] Source: European Commission (EC) (2017) *Trade: Counties and Regions: Armenia*, (Online), Available: http://ec.europa.eu/trade/policy/countries-and-regions/countries/armenia/ [10 Apr 2017].

Appendix 8: Imports of Armenia According to the World Bank[30]

Partner Name	Import (US$ Thousand)	Import Partner Share (%)
World	3256964.79	100
EAEU (Russia, Kazakhstan, Kyrgystan, Belarus)	1025303.6	31.48
Russian Federation (EAEU)	991144.37	30.43
European Union[31] (GSP+)	863095.67	26.5
China	315469.83	9.69
Iran, Islamic Rep.	198301.22	6.09
Germany	182105.05	5.59
Italy	147974.68	4.54
Turkey	136513.96	4.19
Ukraine (CIS FTA)	124638.2	3.83
United States (GSP)	105091.12	3.23
Georgia	66668.79	2.05
France	64927.74	1.99
Brazil	61411.28	1.89
India	52286.62	1.61
Belarus	33,783.64	1.04
Kazakhstan	292.39	0.01
Kyrgyzstan	83.20	0.00

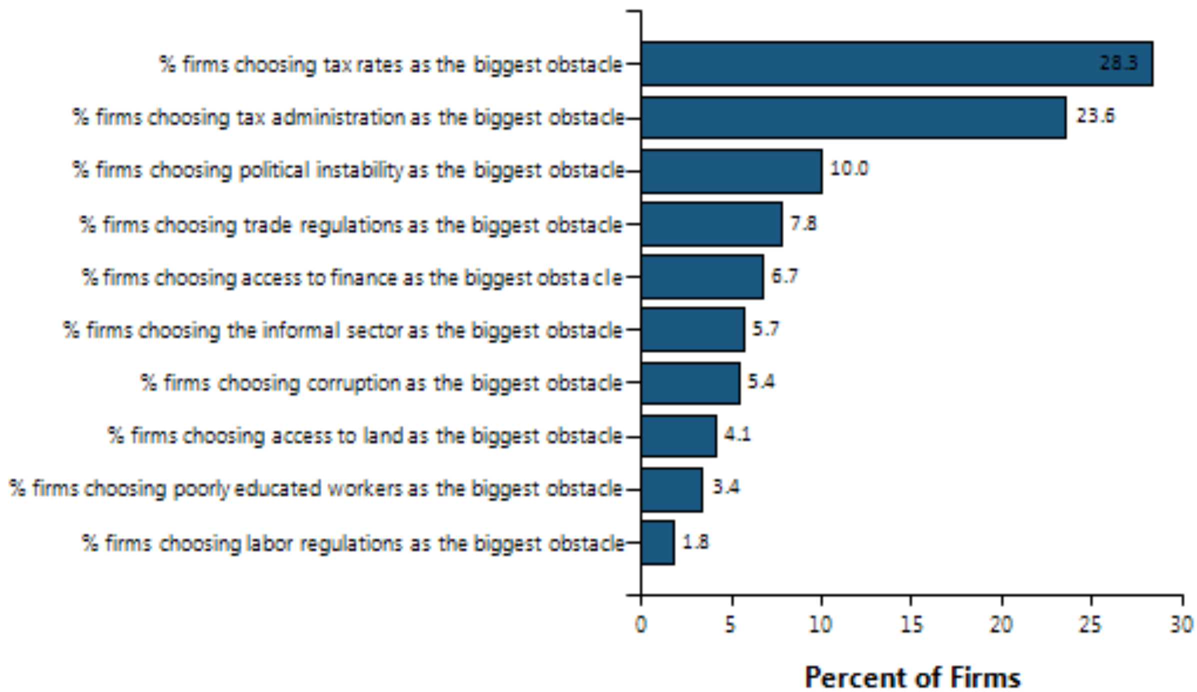
30 Source: Integrated Trade Solution (WITS) of the World Bank (2017) Armenia Imports By Country and Region 2015, (Online), Available: http://wits.worldbank.org/CountryProfile/en/Country/ARM/Year/2015/TradeFlow/Import# [15 Apr 2017].

31 Source: European Commission (EC) (2017) *Trade: Counties and Regions: Armenia*, (Online), Available: http://ec.europa.eu/trade/policy/countries-and-regions/countries/armenia/ [10 Apr 2017].

Appendix 9: Ranking of the Top Business Environment Obstacle for Firms, World Bank Enterprise Survey

Indicator	Armenia	Europe & Central Asia	World
Percent of firms exporting directly or indirectly (at least 10% of sales)	8.4	15.2	16.1
Percent of firms identifying customs and trade regulations as a major constraint	19.8	9.1	17.2
Days to clear imports from customs*	17.6	6.5	11.4
Days to obtain an import license	10.0	15.2	17.1
Days to clear direct exports through customs	8.6	4.9	7.8
Percent of firms identifying transportation as a major constraint	8.2	9.2	18.9
Percent of firms using material inputs and/or supplies of foreign origin*	80.6	61.9	61.5
Proportion of total inputs that are of foreign origin (%)*	53.1	38.0	36.5
Percent of firms with an internationally-recognized quality certification	23.6	21.2	16.6
Percent of firms using technology licensed from foreign companies*	23.3	17.0	14.7
Percent of firms expected to give gifts to get an import license	0.8	11.9	14.2
Bribery incidence (percent of firms experiencing at least one bribe payment request)	7.1	18.0	17.7
Bribery depth (% of public transactions where a gift or informal payment was requested)	6.1	14.0	13.8
Percent of firms expected to give gifts in meetings with tax officials	4.6	13.7	12.9
Percent of firms identifying corruption as a major	13.5	23.5	32.7

constraint			
Percent of firms identifying access to finance as a major constraint	25.9	18.1	26.3
Percent of firms with at least 10% of foreign ownership	7.4	6.9	11.7
Percent of firms with an annual financial statement reviewed by external auditors	20.1	33.2	49.6
Percent of firms identifying electricity as a major constraint	7.9	18.5	31.1
Percent of firms that spend on R&D	3.5	8.1	17.6



Source: Enterprise Surveys of the World Bank (2013) *Armenia 2013*, (Online), Available: http://www.enterprisesurveys.org/data/exploreeconomies/2013/armenia#trade [15 Apr 2017].

Appendix 10: World Trade Organization Agreements, With Which Armenia Complies

WTO Agreement	Description of requirement	Most recent notification	Date
1. Agreement on Agriculture			
Article 10 and 18.2	Export subsidy	G/AG/N/ARM/13	**27/02/2008**
Article 18.2	Domestic support	G/AG/N/ARM/16	**04/07/2008**
Article 18.3	Domestic support	G/AG/N/ARM/15	**26/03/2008**
2. General Agreement on Trade in Services			
Article III:3	Notification	S/C/N/464	**14/07/2008**
Article III:4 or IV:2	Contact and enquiry point	S/ENQ/78/Rev.9	**01/12/2006**
Article VII:4	Notification	S/C/N/304	**22/10/2004**
Article XXVIII(k)(ii)2	Notification	S/C/N/232/Corr.1	**10/10/2003**
3. Agreement on the Implementation of Article VI of the GATT 1994 (Anti-Dumping Agreement)			
Article 16.5	Competent authority	G/ADP/N/14/Add.22 G/SCM/N/18/Add.22	**10/10/2006**
Article 18.5	Laws and regulations	G/ADP/N/1/ARM/1/Suppl.2	**29/03/2007**
Article 16.4	Semi-annual report	G/ADP/N/173/Add.1	**21/10/2008**
4. Agreement on the Implementation of Article VII of the GATT 1994 (Agreement on Customs Valuation)			
Article 22.2	Notification	G/VAL/N/1/ARM/1	**06/08/2003**
	Checklist of issues	G/VAL/N/2/ARM/1	**06/08/2003**
GATT 1994			
Article XVII:4(a)	State trading enterprises	G/STR/N/12/ARM	**20/06/2008**
Article XXIV:7(a)	Free Trade Agreement	WT/REG171/N/1	**27/07/2004**
5. Agreement on Import Licensing			
Articles 1.4(a) and 8.2(b)	Notification	G/LIC/N/1/ARM/3	**05/09/2007**
Article 7.3	Questionnaire on import licensing procedures	G/LIC/N/3/ARM/5	**03/10/2008**
Article 8.2(b)	Notification	G/LIC/N/1/ARM/4	**24/09/2007**
6. Agreement on Preshipment Inspection			
Article 5	Notification	G/PSI/N/1/Add.10	**19/07/2004**
Market Access			
	Quantitative restrictions	G/MA/NTM/QR/1/Add.11	**11/04/2008**
7. Agreement on Rules of Origin			
Article 5 and paragraph 4 of Annex II	Notification	G/RO/N/41	**21/08/2003**
8. Agreement on Subsidies and Countervailing Measures			
Article 25.1 – Article XVI:1	New and full notification	G/SCM/N/155/ARM	**18/06/2007**
Article 25.11	Semi-annual report	G/SCM/N/178/Add.1	**21/10/2008**

Article 25.12	Competent authorities	G/ADP/N/14/Add.22 G/SCM/N/18/Add.22	**10/10/2006**
Article 32.6	Laws and regulations	G/ADP/N/1/ARM/1 G/SCM/N/1/ARM/1	**30/07/2003**
9. Agreement on Safeguards			
Article 12.6	Laws and regulations	G/SG/N/1/ARM/1	**08/08/2003**
10. Agreement on Sanitary and Phytosanitary Measures			
Article 7 Annex B	Notification	G/SPS/N/ARM/24	**03/12/2008**
11. Agreement on Technical Barriers to Trade			
Annex 3C	Notification of acceptance	G/TBT/CS/N/155	**19/02/2004**
Article 15.2	Communication from the Republic of Armenia	G/TBT/2/Add.75/Rev.1	**10/08/2004**
Article 2.9	Notification	G/TBT/N/ARM/64	**07/05/2008**
Articles 2.9 and 5.6	Notification	G/TBT/N/ARM/59	**25/10/2007**
Article 5.6	Notification	G/TBT/N/ARM/70	**21/10/2008**
12. Agreement on Trade-Related Investment Measures (TRIMs)			
Article 6.2	Notifications	G/TRIMS/N/2/Rev.11/Add.4	**06/09/2004**
13. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)			
Article 14.6 - Rome Convention Article 17	Laws and regulations	IP/N/1/ARM/1	**13/08/2003**
Article 63.2	Main dedicated intellectual property laws and regulations	IP/N/1/ARM/P/2	**14/04/2008**
Article 69	Contact points	IP/N/3/Rev.9/Add.1	**31/01/2006**
Article 9.1 – Berne Convention Article 14bis, paragraph 2(c)	Laws and regulations	IP/N/1/ARM/1	13/08/2003

Source: World Trade Organization (WTO) (2010) Trade Policy Review - Report by Secretariat - Armenia, (Online), Available: https://www.wto.org/english/tratop_e/tpr_e/tp328_e.htm [20 May 2017], page 19.

Appendix 11: GDP of the US, Canada, Japan, Norway, Switzerland the EU[32]

Country	Subject Descriptor	2017 (USD, Billions)
Canada	Gross Domestic Product	1,600.265
United States	Gross Domestic Product	19,417.144
The European Union	Gross Domestic Product	16,970.024
Japan	Gross Domestic Product	4,841.221
Norway	Gross Domestic Product	391.959
Switzerland	Gross Domestic Product	659.368
	Total combined GDP	43879.981

Appendix 12: Chronology of Armenian Unilateral and Multilateral FTAs

FTA Name	Signed and in Effect (Year)
GSP **Japan, Norway, Canada, US, Switzerland**	1970s, to Armenia qualifies automatically as a developing country
BSEC[33]	1992 (signed), 1994 (in effect)
WTO[34]	2003
GSP + of the European Union[35]	2009
CIS FTA[36]	2011 (signed), 2012 (in effect)
EAEU[37]	2014 (signed), 2 January 2015 (in effect)

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Appendix 13: Chronology of Armenian Bilateral FTAs

Parties to the bilateral FTA	Signed and in Effect (YYYY-MM-DD)
Armenia-Russia[38]	1993-03-25
Armenia-Tajikistan[39]	1994
Armenia-Kyrgyzstan[40]	1995-20-27
Armenia-Moldova[41]	1995-12-21
Armenia-Turkmenistan[42]	1996-07-07
Armenia-Ukraine[43]	1996-12-18
Armenia-Georgia[44]	1998-11-11
Armenia-Kazakhstan[45]	2001-12-25

[38] The World Bank (2017) *Armenia-Russian Federation Free Trade Agreement*, (Online), Available: https://aric.adb.org/fta/armenia-russian-federation-free-trade-agreement [15 Apr 2017].

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Appendix 14: Trade of Armenia, based on Trade Agreements and Arrangements[46]

Agreement Name	Export (US$ Thousand)	Export Partner Share (%)
GSP+[47]	584000	39.4
WTO[48] MFN	242600[49]	16.36
EAEU[50]	236539.9	15.95
GSP[51]	210440.14	14.19
Bilateral FTAs[52]	131042.19	8.84

A. In relation to Exports

B. In relation to Imports

Agreement Name	Import (US$ Thousand)	Import Partner Share (%)
EAEU	1025303.6	31.48
WTO MFN	886871	27.23
GSP+	863095.67	26.5
GSP	215950.98	6.63
Bilateral FTAs	67168.12	2.07

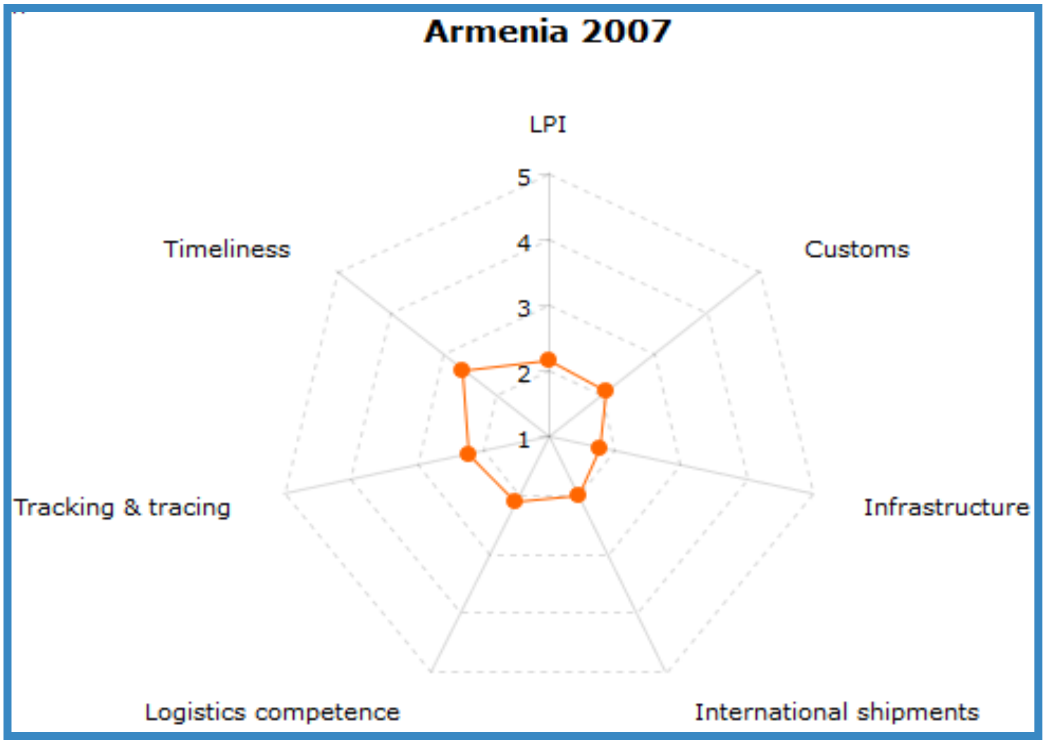
[46] Appendices 7 and 8
[47] Germany, Bulgaria, Italy, Belgium, Netherlands, Romania and other countries of the EU
[48] By way of exclusion (100% less other numbers less Iran).
[49] By way of exclusion, minus trade with Iran.
[50] Russia, Kazakhstan, Kyrgyzstan and Belarus
[51] The US, Canada, Switzerland and Japan
[52] Georgia and Turkmenistan

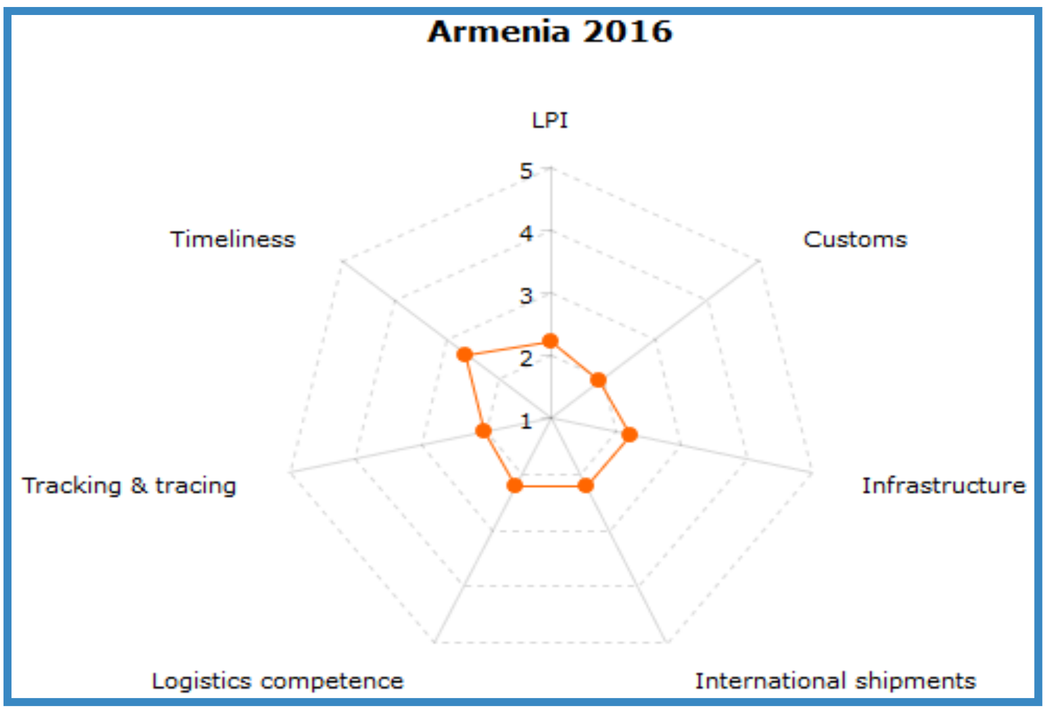
Appendix 15: Population of Armenia, According to the National Statistical Service

Year	Population of Armenia
2016	2992.5
2015	3004.6
2014	3013.8
2013	3022.0
2012	3024.1
2011	3027.9
2010	3044.8
2009	3066.0
2008	3087.1
2007	3107.4
2006	3127.1
2005	3146.4
2004	3164.9
2003	3182.5
2002	3199.8
2001	3211.8
2000	3221.1

Source: National Statistical Service of the Republic of Armenia (NSS) (2017) *Time Series: Average de jure Population Number*, (Online), Available: http://www.armstat.am/en/?nid=12&id=11001 [15 Jun 2017].

Appendix 17: Logistics Performance Index Armenia, the World Ban





Source: World Bank (2017) *LPI Country Score Card: Armenia 2007-2016*, (Online), Available: https://lpi.worldbank.org/international/scorecard/radar/254/C/ARM/2016#chartarea [10 May 2017]

Appendix 18: Aid to Armenia from the US: Economic Support Fund

Foreign Assistance to Armenia, the US Economic Support Fund (USD thousand)		
	Request	**Actual**
FY 2015	40,000[53]	11,482[54]
FY 2016	18,360[55]	pending[56]
FY 2017	22,412[27]	**-**
FY 2018 (Trump Budget)	4,000[57]	**-**

[53] ANCA Armenian National Committee of America (2015) Obama Budget Calls for Record Low Level of Aid to Armenia, (Online), Available: https://anca.org/press-release/obama-budget-calls-for-record-low-level-of-aid-to-armenia/ [15 Jun 2017].

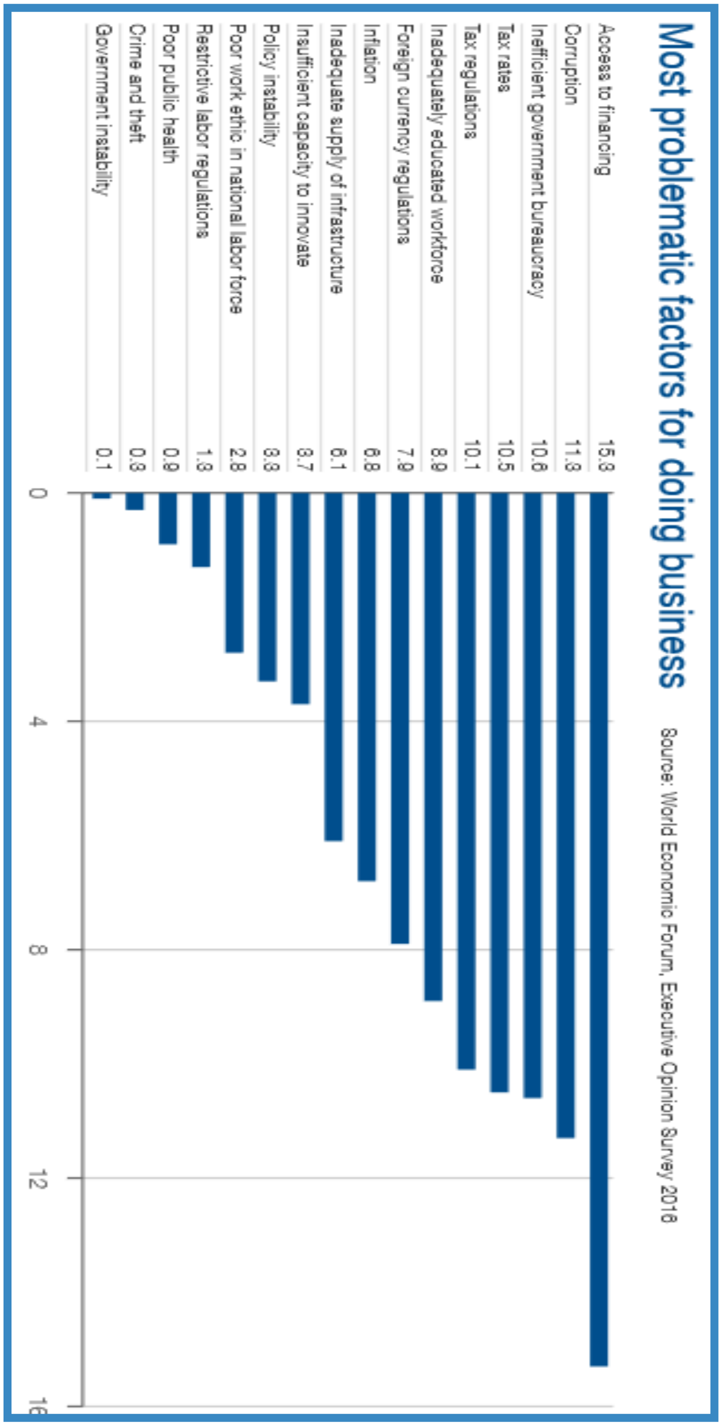
[54] US Department of State (2016), *Foreign Operations Assistance: Armenia*, (Online) Available: https://2009-2017.state.gov/p/eur/rls/fs/2016/261436.htm [15 Jun 2017].

[55] Page 14, US Department of State (2015) Congressional Budget Justification: Foreign Assistance: Summary Tables: Fiscal Year 2016, (Online), Available: https://www.state.gov/documents/organization/238223.pdf [12 Jun 2017].

[56] Actual Foreign Operations Assistance statistics for year 2016 are due on August 31, 2017.

[57] Asbarez News (2017) Trump's Budget Cuts Armenia Assistance by Almost 70 Percent, (Online) Available: http://asbarez.com/163725/trumps-budget-cuts-armenia-assistance-by-almost-70-percent/ [15 Jun 2017].

Appendix 19: Most problematic factors for doing business in Armenia: World Economic Forum Executive Opinion Survey 2016[58]



[58] Source: Page 100, World Economic Forum (2017) The Global Competitiveness Report, (Online), Available: http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf [8 Jun 2017].

Appendix 20: Export Potential of Armenia and Level of Realization[59]

Product group code / description	Exports (US$ thousand)	What is the product's export potential in...? Europe and Central Asia – Unrealized potential	non-OECD – Unrealized potential	OECD – Unrealized potential	Technology level	Price stability	Prominence of SMEs	Female labour participation
220820 Spirits obtained by distilling grape wine or grape marc	124,870	27%	25%	95%	red	green	red	green
760711 Foil,aluminium,not backd,rolld but not further workd,not exceedg 0.2mm	77,773	94%	93%	58%	green	red	red	red
740200 Copper unrefined, copper anodes for electrolytic refining	84,051	13%	100%	21%	red	green	red	red
720270 Ferro-molybdenum	100,804	11%	49%	19%	green	green	red	red
080910 Apricots, fresh	7,584	72%	61%	100%	red	red		
701090 Carboys, bottles, flasks, jars, pots, phials and other containers, of	11,732	39%	40%	97%	red	red	green	green
030211 Trout, fresh or chilled excluding heading No 03.04, livers and roes	2,924	82%	81%	100%	green	red		
080610 Grapes, fresh	6,090	64%	17%	100%	red	red		
252329 Portland cement nes	6,499	43%	61%	100%	red	red	green	green
680291 Worked monumental/building stone nes, marble, travertine and alabaster	3,915	65%	69%	96%	green	green	green	green
711319 Articles of jewellry&pt therof of/o prec met w/n platd/clad w prec met	12,200	77%	29%	82%	green	green	green	green
0306Xd Other crustaceans, not frozen	7,528	20%	5%	52%	red	green		
220110 Mineral&aerated waters not cntg sugar or sweeteng matter nor flavoured	5,501	54%	46%	94%	red	red	red	green
010410 Sheep, live	7,175	100%	79%	100%	red	red		
392330 Carboys, bottles, flasks and similar articles of plastics	3,827	47%	47%	100%	red	green	green	green
620213 Womens/girls overcoats&sim articles of man-made fibres,not knitd	4,409	91%	98%	87%	red	green	red	green
620113 Mens/boys overcoats & similar articles of man-made fibres,not knitted	4,529	90%	97%	89%	red	green	red	green
880240 Aircraft nes of an unladen weight exceeding 15,000 kg	10,380	19%	47%	35%	green	red	green	red
2008XX Cranberries and other fruits, nuts and edible parts of plants, prepared or p	2,709	80%	30%	91%	red	red	red	green
620343 Mens/boys trousers and shorts, of synthetic fibres, not knitted	2,234	36%	93%	49%	red	red	red	green

[59] Source: International Trade Centre (2017) Armenia: Country Brief: Export Potential, (Online), Available: http://www.intracen.org/country/armenia/ [12 Jun 2017].

Appendix 21: Trade of Armenia with Russia, 2014-2016

Year	Exports	Imports	Total Trade	Change since previous year
2014	304,604.91	1,069,288.41	1,373,893.32	
2015	225,870.68	991,144.37	1,217,015.05	-11.42%
2016[60]	335,000	899,000	1,234,000	+1.39%
Total change since accession to the EAEU				-10.18%

Source: World Integrated Trade Solution (WITS) of the World Bank (2017) Armenia Imports / Exports By Country and Region 2014 / 2015 / 2016, (Online), Available: http://wits.worldbank.org/CountryProfile/en/Country/ARM/Year/2015/TradeFlow/Import# [15 Apr 2017].

[60] Page 8, European Commission (EC) (2017) *European Union, Trade in Goods with Armenia*, (Online), Available: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf [10 Jun 2017].

Appendix 22: Unilateral Preferential Trade Arrangements of Armenia

Country / partner	Scheme	Preferential trade for	Exception
The US	GSP	3500 products[61]	textiles, apparel, watches, footwear and leather products
Canada	GPT	a vast array of products[62]	textiles, apparel, chemical products, plastic and allied industries, specialty steels and electron tubes[63]
Japan	GSP	3559 products[64] HS chapters 1-24 HS chapters 25-97	N/A
Switzerland		Industrial goods[65] HS chapters 25-97	Most textiles and apparel
Norway	GSP+	All products[66] HS chapters 1-97	N/A
The EU	GSP+	All products[67]	N/A

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61 (IIP, 2015)
62 (CBSA, 2015)
63 (UNCTAD, 2011: 1)
64 (MOFA Japan, 2017) (Japan Customs, 2017)
65 (Swiss FCA, 2017).
66 (Toll, 2017)
67 (EC, 2017: 1)

Appendix 23: Initial Interview Question Sheet

Topic 1: Illegal Trade, illegal monopolization effects, hindering imports or exports illegally

i. Is there illegal trade in Armenia? Imports/exports?

ii. Are there any monopolization effects in the imports/exports of Armenia?

iii. How have trade dynamics of Armenia changed overtime?

Iv. What predictions would you make on the trade dynamics of Armenia?

Topic 2: Armenia-Turkey trade relations, Georgia as proxy, Zurich Protocols

i. How have Armenia-Turkey trade relations changed since Zurich Protocols?

ii. What role does local geopolitics play in the Turkish embargo on Armenian goods? Why is the embargo unilateral?

iii. To what extent are the embargos of Azerbaijan and Turkey interrelated or coordinated?

iv. What predictions would you make on the trade relations between Armenia and Turkey?

v. To what extent does the geopolitical tension between Armenia and Azerbaijan affect trade dynamics of Armenia worldwide?

vi. What predictions would you make on the trade relations between Armenia and Azerbaijan?

Topic 3: Eurasian Economic Union - temporary trade barriers

i. To what extent is it economically or politically beneficial for Armenia to be part of the EAEU.

ii. Has there been any economic or political coercion exercised towards Armenia to affect its decision to join the EAEU?

iii. To what extent have trade dynamics of Armenia, both exports and imports, change since its membership at the Eurasian Economic Union? What effect has it had on imports and exports?

iv. To what extent has the membership of Armenia at the EAEU create dependence of the Armenian economy on the economic / political decisions of Russia?

v. What predictions would you make on the dynamics of trade of Armenia pertaining to the EAEU?

Topic 4: Existing trade relations with neighbors: Georgia and Iran

i. To what extent is trade with Georgia and Iran meeting its full potential?

ii. What barriers to higher volumes of trade, both imports and exports, are there for Armenia pertaining to Georgia and Iran?

iii. What predictions would you make on the trade relations between Armenia and Georgia / Iran?

Topic 5: General questions

i. Are there other economic, cultural, geographic factors that positively or negatively affect trade dynamics of Armenia?

ii. What predictions do you have pertaining to competitiveness of Armenia in international trade?

End of Appendix 10

Appendix 24: Hrant Bagratyan: Interview Transcript

Hrant Bagratyan

Professor at Russian-Armenian University (2017 - present)

Member of the National Assembly (Parliament) (2012 - 2017)

Prime Minister of the Republic of Armenia (1993 – 1995)

Interview raw audio:

https://1drv.ms/f/s!AqK_VCONHcN6gQc9NeiGvW4-v1gx

1. **Is there illegal trade in Armenia? Imports/exports?**

Even though we have no official information on the matter, I believe there is such a problem. Back in the 90s we adopted ASYCUDA Automated system for Customs Data, so that no goods are imported or exported without proper registration, and the system currently employed is a modernized version of the latter, but I believe there is a problem of illegal imports and exports, especially when imports and exports of services are concerned. In Armenia, exports and imports of services are not recorded in a proper manner.

2. **Are there any monopolization effects in the imports/exports of Armenia?**

Yes. Sometimes, with monopolization of foreign trade one can provide such services, that the government cannot even notice its imports and exports. For example, a large company has registered in Armenia and is importing pesticides. Gradually, after a certain level of imports, this company becomes a company which has information and facilities to determine the quality of pesticides, naturally monopolizing the pesticide consumption industry. Another example, the quality control laboratory of the French Yerevan Brandy Company is the best in country, and if there is any need to check the quality of imported or exportable alcoholic beverages, any government laboratory does that several times worse than this laboratory. So we already have such cases. And sometimes, it is impossible to avoid centralization, monopolization and oligopolization, but along with them, problem like this arise, which had never existed.

3. **How have Armenia-Turkey trade relations changed since Zurich Protocols?**

Armenian statistics say that yes. But how do we record trade with Turkey? First, goods enter Georgia, and then are imported to Armenia as Georgian produce. Certainly, there is a certificate of origin, and our customs service records it in a way that Turkey is present in our annual statistical report of foreign trade. By the way, that report shows an increase in trade with Turkey. However, this is not a sustainable growth and is hard to record it. For instance, we easily oversee Armenia-Ukraine trade relations, because we can compare the import/export statistics of Ukraine and compare them to that of Armenia and do a cross-examination whether the figures match. Unfortunately, it is impossible to do this with Turkey. The Turkish Statistical Institute shows zero trade with Armenia. More importantly, we are unable to monitor and oversee imports and exports of services. For instance, Armenian tourists use charter flights to visit Antalya and other resort cities in Turkey. We do not record this as imports. For us one charter flight to Turkey is an instance of importing services, while for Turkey it is an export of services. Thus, due to lack of statistical data and the issues mentioned above, it is hard to provide a conclusive answer to your question.

4. **What role does local geopolitics play in the Turkish embargo on Armenian goods? Why is the embargo unilateral?**

We have geopolitical problems with Turkey. I have had a very pleasant meeting with Yaşar Yakış in December 15, 2016 in Berlin, who had been the Foreign Minister of Turkey for four years. It was a very long meeting, where we had an honest discussion. He was already retired, a seventy eight year old man, he was with his wife and he had also invited a former Foreign Minister of Azerbaijan to the meeting. And I brought this question up. The answer I received from Yaşar Yakış repeated the ideas I had heard twice, once from late Süleyman Demirel, a former Prime Minister and President of Turkey and once from Mesut Yılmaz, who had served three times as the Prime Minister of Turkey.

In 1996, which was the last year of my tenure as the Prime Minister of Armenia, Mesut Yılmaz was also the PM of Turkey, and it is thanks to his support that B-58 air corridor is open, the one that allows us to fly to Europe over Turkish airspace. Moreover, we were on the brink of opening the land border with Turkey in Margara, through a road bridge azross the Arax River to Turkey. We swiftly organized the refurbishment of the road bridge and even established a fully operational customs office there. We were due to have an official opening meeting on the bridge. I approached from our side of the bridge, while a representative of Yılmaz approached from the other, informing us that, regretfully, the bridge cannot be reopened due to a tense political situation in Ankara. Several months after that, Mesut Yılmaz resigned as the Prime Minister.

By the way, Mesut Yılmaz's mother was ethnically Armenian, and he was open about and proud of it. This still means he was a member of the Turkish political establishment and he served the interests of his country – Turkey.

Overall, whoever I have ever met from Turkish officials, Yaşar Yakış, Süleyman Demirel, Mesut Yılmaz, give me the same response that it is better for Armenia that the land corridor remains closed. They state that they do not know what will happen if the border opens, with likely negative consequences for Armenia.

In 1915 the government led by the Young Turks massacred the Armenian population of the Ottoman Empire. However, to realize the full context of the matter, one needs to remember that the population of the Ottoman Empire at the time was a mere fifteen million. 2,5 million Armenians, 3,5 million Kurds, and 9 million Turks, 2 million of whom lived in Anatolia. Nowadays there are no Turks living in Anatolia. And the Turks understand that it is the best time for them to improve relations with Armenia, were it not for the factor of Azerbaijan. After all, Turks would want to open borders as a deterrent for Kurds, as the Kurdish population currently occupies the lands of the Ancient Armenia.

As for Azerbaijan, yes, Azerbaijani lobbying has been strong in Turkey and is consistently increasing its influence there. The underlying reason could be that, according to some analysts, in the past 25 years Azerbaijan, transitioned from Shia to a Sunni country. Expressing this opinion in books have resulted in arrests of Arif Yunus and his wife, Leila Yunus. I am unaware of the truthfulness of the information provided in Yunus's books, but even 6-7 years ago he was arguing that Azerbaijan has a larger Sunni population compared to the Shia. Hence, the Aliev family swiftly turned Azerbaijan to Sunni. Statistically, I can confidently state that Baku has more Sunni mosques than Shia mosques. If Azerbaijan, being historically a Shia country, had some reservations regarding its relations with Sunni Turkey, now there are no reservations.

So yes, Azerbaijani lobbying creates a destabilizing effect in Armenia-Turkey relations.

5. **To what extent does the geopolitical tension between Armenia and Azerbaijan affect trade dynamics of Armenia worldwide?**

Very large and negative. However, this is our reality, unfortunately.

6. **What predictions would you make on the trade relations between Armenia and Azerbaijan?**

I cannot predict any significant change in trade relations of lack thereof between Armenia and Azerbaijan, for obvious reasons. As for Turkey, however, I see the potential for some improvement of relations. I believe that once Erdoğan establishes himself well enough, he will make positive improvements regarding our trade relations. One of those can be Yerevan-Van regular flights. I do not mean open borders for all trade, but open borders for retail or shuttle trade. I consider it possible that Margara land border to be opened. Not for heavy trucks, but for regular people to move freely. I believe such changes will not result in mass protests in Turkey.

7. **To what extent is it economically or politically beneficial for Armenia to be part of the EAEU**

The charter of EAEU states that it is not a political body and does not pursue political agenda. The political organization for the same group of countries is the CSTO. I have never expressed negative opinion about the membership of Armenia in CSTO and I believe that Armenia should continue cooperating within the framework of CSTO. Regarding EAEU, however, I find it hard to understand our role in it. We had had an average outbound customs fee of 3-4%, we entered an economic zone where the average customs fee is 8%, and trade has become much harder.

Overall, after the creation of the EAEU trade between its countries has decreased: during 2015-2016 it has significantly decreased, and only in the first quarter of 2017 it has increased slightly. This increase, however, is related primarily to the increase in gas and oil prices in the international market. Hence, whatever we do, we will not achieve the same volume of trade with member countries of EAEU that we had in 2014 before the EAEU. So firstly, EAEU does not have the best tariffs for Armenia to cooperate with it. Secondly, what worried me was halving trade of Armenia with the EU as a result. Thirdly, one of the greatest issues with EAEU is the addition of Iran, Moldova or Vietnam to the EAEU as a free partner, who do not pay any customs fees.

We pride ourselves that membership of the EAEU means a free trade agreement with Armenia. Free trade means trade without customs fees. Now if that is possible, why did we burden ourselves with exceedingly higher customs fees? The situation is utterly ridiculous. Turns out that Moldova was the smartest of the countries.

8. **Has there been any economic or political coercion exercised towards Armenia to affect its decision to join the EAEU?**

It is possible that there has been. However, a president of a country is legitimate for the precise reason – to be able to deter the foreign effort to affect our decision making process. And deterring such influences would not mean that Russia will start bombing Armenia. We had a similar precedent during my tenure as the Prime Minister. In 1993 a similar topic of a Customs Union was brought up by Russia. We made our calculations and analysis and presented the Russian side with the estimation of the prospective economic loss that Armenia would incur were it to join the proposed customs union, and we demanded a subsidy or coverage of the losses. And the customs union talk was halted with no repercussions.

9. **To what extent has the membership of Armenia at the EAEU create dependence of the Armenian economy on the economic / political decisions of Russia?**

Our economy, since its membership of the EAEU, has been adapting to the needs of Russia, as there are no customs fees for exports to Russia and exporting to Russia is a facilitated process. For instance, last year, we had an increase in exports of cheese, tomatoes, fish and goods of such sort due the needs of the Russian market. However, as now Russia reopened its borders with Turkey, our tomatoes are non-competitive to those of Turkey. Due to lack of real regulation on agricultural produce in Armenia, our agricultural goods to not meet the European safety standards when it comes to fertilizers and pesticides. Moreover, Turkey subsidizes agricultural goods, while Armenia does not. In the past month Russian markets have opened up to Turkey, making Armenian produce redundant.

This creates a risk of the industries in Armenia taking on a seasonal nature of investing in an area that would provide for the consumption needs of EAEU countries, Russia in particular, and with the winds of politics, make the same industry redundant in Armenia shortly afterwards, due to lack of competitiveness of our produce when it comes to pricing or quality. If Russia manages to sign any trade agreement with the EU with the same customs tariffs as with Armenia, any industry included in the agreement will become instantly redundant in Armenia.

This relates back to my comment in 2013, comparing the EU market with the EAEU market. If we are with the EU market, we are with a market of an aggregate GDP of 15 trillion USD, while with EAEU we are with a market with a GDP of 2 trillion USD. The level of diversification is 7 times smaller and the level of risk is 7 times larger. Hence there is 7 times higher likelihood of creating a stable economy together with Europe, than with Russia. The EAEU is a windy sea, when compared to the EU being a calm ocean.

Currently large investments are being made in Armenia to develop the shoemaking industry. Large factories of leather processing and shoemaking are being established. Tomorrow these factories can close, if Turkey provides the EAEU, especially Russia with similar goods with a competitive price.

Hence, due to our small landlocked geography and small population, we cannot make use of the economies of scale. Therefore, our only choice to create a stable economy is to make goods adhering to the EU quality requirements, so that we can compete regardless of political turbulences in cooperation between other countries.

I also hope that one day the EU will sign a trade agreement with the EAEU, where the EU will prevail over the EAEU market. I believe Russia has no alternative to this, because what is the EAEU if not Russia.

10. What predictions would you make on the dynamics of trade of Armenia pertaining to the EAEU?

This year and next year trade between Armenia and the EAEU will increase. However it will never reach the volume of 2014 before the EAEU. Afterwards, it is hard to predict, as it depends on the dynamics of the EAEU. If the EAEU tried to sign free trade agreements with many countries, Kazakhstan and Belarus may express willingness to exit the EAEU but maintain free trade status. Hence, free trade partners, which are not member countries of the EAEU cannot join forever.

Secondly, regarding EU – EAEU relations, imagine if the Generalised Scheme of Preferences (GSP+) system, providing preference for our exports, extends to encompass the EAEU. This is unlikely, as Germany will always do its best to keep Russia in check, but it is possible.

Thirdly, I expect that next year, after declining trade between EAEU countries, the member countries will start boycotting the trade with the Russian Ruble. Also Armenia may strive for a unified currency or adoption of the Russian Ruble, but I confidently state that this will not benefit the economy of Armenia in any way. No benefit will come to us because in the structure of production in Armenia, we can grow when it comes to added value. As I can see from the example of Russia and Kazakhstan (the first and second economies of the EAEU), they are trying to gain added value from the mining and natural resources industries. And they have at least thirty years' worth of work to be done in that area. Russia lacks development in the renewable energy sector, as it has gas and oil, decreasing its incentive to invest in renewables. And it is not surprising, therefore, that the agreements between Armenia and Russia, obliging Armenia to buy a certain amount of electricity from Russia-owned Hrazdan Thermal Power Station in Armenia or to buy a certain amount of gas, are hindering the development of our own economy, and the development of these renewables. Because if we are obliged to buy electricity from a thermal power plant or we are obliged to buy gas based on very long term contracts, we cannot invest as much in renewables too.

11. To what extent is trade with Georgia and Iran meeting its full potential?

We are not realizing the potential of trade with Georgia and Iran at all. With Iran, however, there is not much room for development of trade relations, as for that we need a proper connecting road. Turkey built a good road, and 70% of Iranian heavy trucks are bypassing Armenia, driving around us behind Mount Ararat through a high speed motorway.

If we do not build a high quality concrete road connecting Iran and Georgia with Armenia, we are doomed. Fortunately, North-South Highway project, connecting Georgia and Iran through Armenia is on the way of achieving this goal of creating a high quality road, allowing up to 50 ton heavy trucks to drive on it. However, I see many problems with implementation and successful completion of the construction of this highway. If it is properly completed though, we will not need a railway for at least 50 years to come.

With a good motorway, decreasing transportation costs and time, there is a prospect of increasing trade with Iran with a factor of 10 or 20, especially when it comes to exports. With this dynamic, the fuel market of Armenia will change as well, with the advent of thousands of trucks travelling through the country.

As for Georgia, it is hard for me to make any predictions, as Georgia is moving towards becoming an EU country and every month I expect a decision from the Georgian side restricting its trade with Armenia due to the demands of the EU, relating to its relations with Russia. Hence, the only way I see the prospect of remaining as a member of the EAEU is under the condition that we do not restrict the development of our economic relations with the EU market. Any restriction in trade between the EAEU and the EU are going to be matched with sanctions from the EU, which will be tenfold.

12. **Are there other economic, cultural, geographic factors that positively or negatively affect trade dynamics of Armenia?**

I do not think so. Armenia is interesting to everyone I know. Anyone I have ever met from abroad have been interested in visiting Armenia at least once. People know Armenia on the map. There is of course an issue of solving our issues with the Islamic world. Currently we are managing that with Shia countries, but it is only a matter of time for us to resolve our interaction and trade with Sunni states too, as I do not see what problem we have or can have with Afghanistan or Iraq that hinders our trade with them. I do understand why Islamic Fundamentalism is on the rise in Sunni countries, and this terrifies me. However, why do we have bad relations with Pakistan, where Urdu is one of the state languages and is unbelievably similar to the Armenian language? After all, we originated from somewhere too. When I was speaking with a Pakistani professor, he was speaking Urdu and I was speaking Armenian, and with slow speech and effort, we were managing to understand each other.

End of the Interview: Hrant Bagratyan

Appendix 25: Artsvik Minasyan: Interview Transcript

Artsvik Minasyan

Minister of Nature Protection of Armenia (2016 October - ongoing)

Minister of Economy of Armenia (2016 February – 2016 October)

RA Member of the National Assembly (Parliament) (2007 – 2016 February)

Interview raw audio:

https://1drv.ms/f/s!AqK_VCONHcN6gQU2soJx56NprhAd

1. **Is there illegal trade in Armenia? Imports/exports?**

Naturally, as any transitional country, Armenia is not exempt from flaw that hinder the maturity of the market economy in the area of development of free economic competition. One of the areas that is the simplest and provides the quickest returns is trade, especially foreign trade, when during imports, when getting a certain position, role and influence, after getting into certain corrupt relationships, obviously, certain individuals can easily achieve this unfair advantage. Unfortunately, this transitional period and the formation of market relations was also defined by unequal provision of state-owned property and rights, which also led to the emergence of individuals who gradually conquered the prerogative of access to a certain market and restricted access to others. And even though these restrictions have been significantly reduced, but, unfortunately, have not been fully eliminated. And the main issue remains securing of free access to the market.

The second important aspect of this question is the following: Armenia, being a country with a small consumer market, does not enable local goods to achieve a competitive position in Armenia compared to imported goods. As a result, we are creating fertile grounds for importers, as it is significantly easier for them to consolidate their position, in select cases to the level of a monopoly, with smaller investment and through shadow economy. Another significant factor, which, once again, is the result of a small economy, is that the supply chain of goods, from production or imports to the retailer or the end customer, instead of being separated, is unified and concentrated. A clear example of this is the sugar market in Armenia, where the raw material, in the form of sugar cane and sugar beet root are imported by a company, processed at a plant (with a coefficient of performance (COP) of over 95 percent), belonging to the importing company, and is subsequently distributed to the consumer through a chain of stores belonging to the same company or holding. Hence, the imports, even if in the form of raw materials, the processing and distribution is in a single chain, owned and controlled by a single company. Hence, evidently, if the company, owning the dominant market share in distribution of sugar also imports and processes sugar, a competitor, in this small economy, will have incremental chances of entering the market of sugar imports, resulting in the second company being forced out of the market through non-market rules.

All of this has resulted in the reality, where, even though from the legal perspective, there are no monopolies outside of natural ones in Armenia, but the factual influence is such that, in economic terminology, yes, there is complete control of the market.

2. How have Armenia-Turkey trade relations changed since Zurich Protocols?

If there have been any changes, then only negative ones. This is natural, because the Zurich protocols cannot take into account the processes and the relations developed between the two countries, or, more precisely, the lack thereof. If the Zurich protocols were meant to regulate our relations with Turkey on the political level, then the most important psychological issue cannot be ignored, which has been the case, with the question being “How should the Armenians and the Turkish interact with each other?” This question is of fundamental significance also in the economic sense, in the relations between the economies of the two countries. It is no secret that the best market is the one, where there is trust towards the producer, and the producer, through realization of its corporate and social responsibility, attracts the consumer to the fullest.

In our relations within the framework of the Zurich protocols, this could not be the case, due to the psychology of the Armenian consumer. Even though in the short-term, possibly, due to social conditions, a certain level of demand may be formed towards Turkish goods and services, but in mid-term and long-term matters these give way to the convictions of the consumer, which is reflected on the demand towards goods and services.

Based on all of this, economic relations between the two countries could not develop. And it is not a coincidence that the movement against Turkish goods gained momentum in Armenia, which had matters of national security at its core. Turkey, being perceived as an enemy country, is not regarded as a provider of the best goods and services due to this. Hence, the average Armenian consumer currently does their best to avoid consuming Turkish goods. Only in extreme cases do Armenian consumers turn to Turkish products. This also applies to companies, which import from Turkey. However much they are confident about the quality of the Turkish goods, especially goods produced by Turkish companies with American, Japanese or European investments, there is still this psychological / political barrier. And this barrier has brought about this reality, where economic relations between the two countries simply cannot move forward.

Another issue is that in case of the Zurich protocols coming to life, Armenia could suffer from expansion of Turkey into our economy, being a more economically developed and a more powerful country. And this not a mere theoretical assumption. Turkey is actively implementing policies of protection of their own producers. There are even select products, especially in the agricultural industry, which are subsidized up to 300 percent. This means that in regard to such products, Turkey is exercising strict protective policy of protection of its producers, in order to conquer secondary, tertiary markets. And a small market, like Armenia, will be easily consumed by the gigantic economy of Turkey. This was one of the reasons that Armenia, on the political level, identified an issue pertaining to certain protective initiatives. And if Zurich protocols were called to life, then it is evident that Turkish capital, the Turkish economy would dominate in the Armenian market, just like is the case with Georgia. Turkey would also be able to use the membership of Armenia in the EAEU to gain direct access to the Eurasian market through us. At first sight, this may seem to be beneficial for the Armenian economy, but as financial capital is very influential in politics of this region, this economic capital would quickly turn into political capital as well, in essence, into an area of influence. This, in turn, can bear the risk of economic autonomy of Armenia being compromised.

3. **Do you imply that resumption of trade relations between Turkey and Armenia is of economic and political interest to Turkey?**

Exactly. And it is not a coincidence that from time to time an opinion if vocalized regarding the reopening of the Turkey-Armenia border for retail trade turnover near the city of Kars, so that there is more active interaction in these regions of historical Eastern Armenia. At first sight, this may seem as the will of the Kurdish population of the region in question, but it is, in essence, dictated from Istanbul and Ankara, as this is a way for Turkey to overcome political challenges. As you may know, Turkey continues the policy of denial of the Armenian Genocide. Hence, with the resumption of trade and economic relations, Turkey may strive to achieve the silencing of this matter once and for all.

Another issue is that Armenian goods and services to not have the competitive quality to ensure a reciprocal flow of goods and services to the Turkish market. Except for very few goods and services, we are yet to create the broad area of goods and services, where we can pursue strategies of economic expansion to Turkey. Exceptions are the IT industry, where Turkey has demonstrated significant growth as well in recent years, and the industry of banking services, which can have a certain level of entry to the Turkish market. However, from the long-term perspective of productivity, these two industries do not have great prospects.

4. **What role does local geopolitics play in the Turkish embargo on Armenian goods?**

Just as Turkey and Azerbaijan have defined very clearly, Turkey-Azerbaijan relations are perceived under the format “two countries, one nation”. Hence, it is obvious that Turkey will avoid any activity that may harm the interests of Azerbaijan. It is not coincidental that Turkey constantly negotiates the prospect of resumption of economic relations with Armenia with the terms of pre-conditions relating to the Armenia-Azerbaijan conflict, such as – removal of the Armenian military from the liberated territories of Nagorno-Karabakh and surrender of the liberated territories to Azerbaijan. This is the official stance of Turkey. Azerbaijan as well, in every international body, through its anti-Armenian stance, is supporting the lobbying for various resolutions put forward by Turkey, which means that there is direct correlation and interdependence, and regardless of the dynamics of Armenia-Azerbaijan political relations, if the ultimatum of Azerbaijan has not been satisfied, partial progress cannot have positive impact on economic relations of Armenia with Turkey or Azerbaijan. And as the solution in the dimension of national self-determination, in essence, Turkey and Azerbaijan, using this issue as an excuse, do everything to hinder the development of the Armenian economy. This agenda is not kept secret and has been officially vocalized on numerous occasions. Having casualties on the battlefield, Azerbaijan is trying to defeat Armenia in an economic war, with the help of her older brother – Turkey. And in economic warfare, any tools can be utilized, from economic blockade to hindering any trade relations with any countries, including hindering participation of the business community of Turkey in the economy of Armenia. And even if the concept of national capital is not in the core of the economic activity in question, but rather, the matter pertains to allocation of non-strategic resources, which could be mutually useful to both Turkey and Armenia from the economic perspective, this investment does not take place.

5. **To what extent is it economically or politically beneficial for Armenia to be part of the EAEU.**

There are both political and economic answers to this question. Firstly, let me state that from the political viewpoint, the fact is that Armenia is located in a region, where the dominant role belongs to the Russian Federation. Hence, it is not a coincidence, that it is impossible to picture any significant activity without the participation of Russia. Even if Armenia was so powerful economically, technologically and in military terms, that it could preserve its independence and further its agenda all by itself, regardless, in the modern world, the system of influences is so strong that foreign influence would not reach zero. Hence, from the political viewpoint, taking into account the security factor, whether we like it or not, we find ourselves in this environment of Russian influence. Let us not forget that Russia remains the primary guarantor of security in the territories of the former USSR, and, in case of Armenia, as a counterpoise to Turkey and as a silencing factor for Iran. And even though due to religious differences, affecting relations between Turkey and Iran also allow Armenia to balance its interests in a way that does not put Armenia in a position of a victim, the only real solution, with no current alternatives at the moment, allowing Armenia to avoid the status of a victim, is its membership in the EAEU, which, regardless of its name, has a very significant security component to it. Hence, this is the main motivator for Armenia to be part of the EAEU, regardless of plans of Russia relating to the future of the EAEU.

Secondly, from the economic viewpoint, Armenia has three modes in its trade relations. One large mode is the bilateral agreements with countries, where a system of customs and taxation privileges exists. For instance, Armenia has such a trade mode with Georgia and with other countries, which are not enemies of Armenia, but cannot be called allies either, and where relations are based purely on mutual interests. The second large mode of trade is the GSP+ agreement with the EU, where Armenia has received the opportunity to export over 6500 products to the EU with zero or negligible tariffs. The third large mode of trade is the GSP system, which operates in trade with Canada, Japan and Norway. Our trade modes were limited to these three until the formation of the EAEU, even though before that there was a free trade agreement signed between the same countries of the CIS (Commonwealth of Independent States). The main aim of the EAEU providing Armenia with its current mode of trade with the EAEU was the free flow of goods, workforce and capital. Unfortunately, this union (the EAEU) has not yet been able to fulfill this aim. And it is even questionable whether we need that free flow of goods, workforce and capital, because, unlike Russia, Kazakhstan, Belarus or even Kirgizstan, the small market of Armenia may not withstand the expansion which can happen. On the other hand, however, in order to avoid this, it is necessary to develop the national economy to the level, where Armenia will be able to implement a policy of useful expansion in other economies. From this viewpoint, the EAEU can significantly open or hinder this opportunity, depending on our level of activeness of Armenia. And the recent developments show that we have a lot to do on this matter. If we do not prioritize attracting investment and creating a more competitive economy, (including an active anti-monopoly policy, development of our natural abilities and forming the economic model on that) then might not get any benefits from the EAEU. However, I am hopeful that, nonetheless, our membership of the EAEU cannot be an obstacle in the way of developing new economic relations with the EU, because if we limit ourselves with the EAEU, we will lose a great opportunity. A set of steps are needed for greatest results in this matter, in particular, creation of a more practical field for the representation of Armenian goods and services in the European market, in the American market, as well as creation of “Invest in Armenia” offices in these countries and a greater involvement of the Armenian diaspora in this process.

Another significant point in the agenda is to foster and support systems of organizing and providing Armenian goods and services as much as possible. Only in this case we can be the bridge for other countries into the EAEU market, which will trust the investment and political environment in Armenia, and will make large investments in our country. For this, significant reforms are needed, both economic and political.

6. To what extent is trade with Georgia and Iran meeting its full potential?

To a very small extent, because our trade-economic relations have not yet reached a level with both Iran and Georgia, where there would be an atmosphere of complete trust, due to all of three of the countries in question being in a transitional state. There is a problem of a complete lack of mutual cultural understanding and lack of trust when it comes to trade. Moreover, another issue is the relations different trade partners of Armenia have with each other. For instance, such relations exist between Russia and Georgia, or the United States and Iran, the tense relations between which hinder the complete realization of the full trade potential of Armenia. One of the clear examples of the adverse effects of such relations is the fact that the Georgia-Armenia railroad has ceased its operation, or that limitation of Iranian investment capital is due to the unclear and tense relations between Iran and the Western world, the United States in particular. If these issues were resolved, trade relations of Armenia with these countries could progress exponentially. After all, let us not forget that the involvement of Turkish capital in Georgia is one of the factors hindering the expansion of trade with Georgia.

7. What predictions do you have pertaining to competitiveness of Armenia in international trade?

I believe that we have several competitive areas, in which we can provide competitive goods and services on the international market. We need to foster the development of such areas and to present ourselves on the international market with such goods and services. This pertains to our natural resources, which we should use sustainably, with future generations in mind. This also pertains to tourism and the IT sector, as well as using the full potential of the Armenian diaspora. This can also relate to the production of next generation goods in Armenia, which are comprehensible, natural and humane. We cannot for instance dream of developing a competitive automotive industry, as we simply lack the economic base for it. However, we are able to information technologies, innovative technologies, the textile industry, ecotourism. Let us not forget that Armenia, is considered to be the country with the highest biodiversity in the region, and can interest fans of active tourism or ecotourism.

I am optimistic about our prospects and I believe that if we concentrate on our natural talents and potential, we can succeed at boosting out economy significantly compared to other transitional countries.

End of the Interview: Artsvik Minasyan

Appendix 26: Gevorg Nersisyan: Interview Transcript

Gevorg Nersisyan

Current Head of “Environmental Project Implementation Unit” State Institution, Ministry of Nature Protection of RA

Former Head of the Department of Violation Detection and Administrative Procedure Implementation, the Customs Service of Republic of Armenia

Interview raw audio: https://1drv.ms/f/s!AqK_VCONHcN6gQYizSEUsc4bUj-P

1. **Is there illegal trade in Armenia? Imports/exports?**

When one familiarizes themselves with several audios criminal cases, it is obvious that Armenia has a problem of certain individuals having the privilege of importing goods without properly documenting them, hence avoiding customs fees. There is also another problem that arises from such fraudulent activities. If a good has not been officially imported, then it cannot be officially sold, which leads to a chain reaction of a black market.

Also there is another unfair advantage one gets from this. For instance, if someone imports consumable goods and documents them as pesticides to be distributed among the rural population for free, they not only do not pay customs taxes, they are also exempt from the Value Added Tax of the Revenue Service. So they evade the import customs tax and the VAT, resulting in a ridiculously low price of their goods on the market, which pushes the honest, and even more efficient competitors out of the market. Eventually, the market is monopolized. The main trade barrier pertaining to imports to Armenia is lack of universal prevalence of law over all business organizations.

There is an issue of illegal imports to Armenia. Some physical and legal entities are merely entitled to unofficial exemptions from the import fees to customs, which creates a market for unfair competition. If you give unfair advantage to even one business organization, the entire market gets disrupted.

2. What predictions would you make on the trade dynamics of Armenia?

Currently production of agricultural goods prevails in Armenia. So it is likely that this sector will remain the main driver of imports and exports of Armenia.

Moreover, the United States recently announced that it is prepared to invest 8 billion USD in the economy of Armenia in the sector of renewable energy. If this investment is made, which would also decrease emission of greenhouse gases to the atmosphere by Armenia. With the prospect of this investment we could become a major exporter of renewable clean energy in the region. This, however, could impede some of the existing foreign trade. For instance, we have a barter agreement with Iran, where we import gas and pay for it with energy. With the advent of renewable energy, this barter would most likely cease to exist. Also, gas imports from Russia would decrease or complete seize too.

Additionally, I believe that with the increased cooperation of Armenia with the EAEU and the EU in particular, the agenda of the future of the international trade is the supply of environmentally friendly, clean produce, as the demand for such goods is increasing worldwide.

And of course, the more exports we have, the more foreign currency will be imported to Armenia, resulting in appreciation of our own currency.

Furthermore, if Armenia aims to compete worldwide, then we need to concentrate on quality of our produce. We cannot compete with China with its economies of scale and cheap labor. However, we can provide Europe with goods of European quality with prices lower than in Europe.

And also we could make good use of the Armenian diaspora in the future. If more than eight million Armenians live worldwide, targeting them with appropriate marketing could effectively create a great market for our exports.

3. **How have Armenia-Turkey trade relations changed since Zurich Protocols?**

There has not been much change in trade between turkey and Armenia for a simple reason. If two countries have no diplomatic relations with each other, there can be no economic relations officially, and the existing factual economic relations cannot be visible. If we were to try to record all imports from Turkey, it would be tricky. Turkish goods are imported to Armenia through companies, registered in Georgia. Moreover, Turkey does not write any invoices to Armenia. Hence, Georgia is not considered, legally, a transit country, so customs tax of Georgia is added to the cost of the goods, as well as the export tariff when exporting these goods to Armenia. There is also the cost of unnecessary lengthening of the trading route and the cost of operating the Georgian proxy company. All of this affects the formation of the price that Armenian consumers need to pay, resulting in lower purchasing power of our population.

4. **What role does local geopolitics play in the Turkish embargo on Armenian goods? Why is the embargo unilateral?**

I believe that the main, and even only reason for Turkey to put an embargo on trade with Armenia as well as to seize its diplomatic relations with us is Azerbaijan. Having open trade relations with Armenia is a beneficial prospect for Turkey. The best proof of that is the fact that Turkey does not, in any way, obstruct exports to Armenia through Georgia, when it is perfectly aware of the unofficial trade route. Moreover, Turkey welcomes Armenian tourists to Antalya and other resort cities every year.

However, Turkey would have resumed diplomatic relations and trade with Armenia, in particular, long ago were it not for the Azerbaijani lobbying, because resuming economic or political relations with Armenia would result in a fallout between Erdogan and Aliev.

And the reason for the establishment of lobbying of Azerbaijani interests in Turkey is the survival of the Aliyev clan in Azerbaijan. The GDP per capita of Azerbaijan is over four times greater than that of Armenia, however, according to the latest statistical data, salaries in USD value are identical to those in Armenia. Hence, unequal distribution of wealth is over four times a greater issue there, resulting in desperate efforts to create an artificial scapegoat for the state of affairs in Azerbaijan. And the Nagorno-Karabakh conflict is the excuse the Aliyev family provides to its people when the question of unbelievable levels of wealth concentration and unequal distribution of wealth arises.

Hence, the best diversion from the economic reality of Azerbaijan is the Armenia-Azerbaijan conflict, which they intentionally feed in order to maintain the regime in Azerbaijan.

5. **To what extent does the geopolitical tension between Armenia and Azerbaijan affect trade dynamics of Armenia worldwide?**

I believe that it has great impact as we are landlocked by two of our neighbors. Not having access to a railroad connection with Turkey and Azerbaijan, when we do have the railroads in place with them, harms our economy greatly. The same goods that could have arrived to Armenia on trains, have to instead be delivered by trucks, which greatly increases transportation costs, affecting the formation of the price for goods. This mere fact is enough to conclude that the effect is immense.

Same goes for exports. If Armenian exporters need to incur greater costs of exports due to the need to export using trucks or the airplane rather than a railroad, when they do not have access to direct routes that go through Azerbaijan or Turkey, the costs of our exportable goods are increased, making them uncompetitive on the international arena.

Armenia is not abundant in resources. So we import supplies, incur increased transportation costs for them, and then export the goods with increased transportation costs. However, if supplies could arrive on the train via direct routes and get exported the same way, the profit margins could be increased or prices could become more competitive.

6. **Has there been any economic or political coercion exercised towards Armenia to affect its decision to join the EAEU?**

It is hard to answer the question. I would doubt that there has been any foreign pressure to make Armenia join the EAEU, because this November Armenia is going to sign an agreement with the EU, increasing cooperation with the EU. If there was any political or economic pressure from outside, then it would extend to impeding development of the EU-Armenia cooperation. There are prospects of Armenia gaining a visa-free travel status to the EU and some improved terms of trade with the EU.

7. **To what extent have trade dynamics of Armenia, both exports and imports, change since its membership at the Eurasian Economic Union? What effect has it had on imports and exports?**

I would suggest you refer to official statistical data when researching on this matter. However, there is one factor that one needs to take into account when analyzing statistics of trade of Armenia – the continuous emigration of the population, which decreases the demand and consumption of goods and services in Armenia. Hence, there could be a decline in imports and exports, but it is not necessarily related to the EAEU, but rather to the decline in the population of Armenia. For instance, if each year, according to our official statistical data, forty thousand people permanently emigrate from Armenia, this means at least a decline in the population by a hundred thousand people. One person would consume, for instance, at least 1kg of meat per month. This means that at least 100,000 kilograms of meat did not get consumed and that demand for meat in Armenia has decreased by 100,000 kilograms a month, or by 1200 tons per year. Would the average consumer eat 2 eggs per month? That would mean a decline in the market for eggs by 2 million 400 thousand eggs. If there is no consumption and demand, there also is no production. Hence, the decrease in imports greatly depends on the emigration.

As for exports, the same factor will affect exports as well, as decreasing population makes it harder for Armenia to compete in the international markets as the benefits of the economies of scale are diminished annually.

8. **To what extent has the membership of Armenia at the EAEU create dependence of the Armenian economy on the economic / political decisions of Russia?**

I do not believe that the membership of Armenia at the EAEU limits Armenia in any way, as I provided the example of increased cooperation with the EU. However, there are some consequences that come with our membership to the EAEU. For instance, recently the Eurasian Economic Commission made a decision that cigarettes imported to the EAEU should have packaging that displays negative health effects of smoking with grotesque photos of health conditions caused by smoking. This could mean that the Armenian exporters of cigarettes need to adapt in order to have access to this market. However, limitations and dependence on the EAEU do not extend beyond such regulations that merely require adjustment.

However, as for dependence on the large markets to which we export are great. Dependence on the economic and political situation in Russia has always been great, as it is one of the prime destinations for Armenian exports, creates great dependency of Armenia on the economic and political situation in Russia. For instance, Armenian business organizations were hit hard by the decline in the value of the Russian Ruble. As the Armenian exporters' prime location for exports for many products, Russia dictates its own rules for importing to its country. And Russia pays with its own currency for the goods. For instance, Russia offers the same 100 Rubles for a certain brand of Armenian brandy or vodka even after the depreciation of the Ruble. If before that 100 Rubles would mean revenue of 3 USD for the Armenian exporter, now it is not even 2 USD, meaning a decline in the profit margins of the producers of Armenia. In addition to this, as much of the supplies needed to make brandy or vodka are purchased using USD by the Armenian producers, the situation is concerning.

I personally know numerous producers from Armenia who export to Russia, who are currently working with negative returns, sustaining the business in hopes of it becoming profitable in the foreseeable future, because if they cut the exports to Russia and lay off the majority of their staff, when the market is revitalized again, they will not be able to recover to meet the new demand. Hence, a significant part of the Armenian economy is based on the economic situation of Russia.

9. **To what extent is trade with Georgia and Iran meeting its full potential?**

It is not even close to its full potential. For instance, Georgia is concentrating greatly on its tourism industry. If I am not mistaken, last year the number of tourists visiting Georgia reached 6 million, according to official data. I believe we fall short of an optimal policy on and attitude towards tourism. In Armenia, the cost of services relating to leisure and tourism do not correspond to the quality of services provided. When a tourist or even a citizen pays for a service and does not receive the level of service expected from that cost, they never use that service again. In this regards, I would give a negative assessment to our attitude towards tourism and the leisure industry, where there is much potential.

For instance, when a tourist from Iran arrives, the hotel owner quotes a much higher price. The taxi driver demands a much higher taxi fare. Even regular groceries and retail stores quote higher prices, when they realize the customer is not local. Due to this situation, according to official statistical information, the Iranians use Armenia as a mere transit, to travel north to Georgia.

Even our own citizens prefer to travel to Georgia for leisure rather than paying our resorts. And even taking into account the transportation costs, they save money and receive much better service.

To solve this, the quality and the price of services need to match.

Overall, Armenian needs to adapt to the market reality of its neighbors and of the world in order to compete in the future.

End of the Interview: Gevorg Nersisyan