

Armenia Trade Brief

Trade Policy

Armenia experienced a steep decline in output in the early 1990s following the breakup of the Soviet Union, but a strong recovery set in from the mid-1990s as a result of a far-reaching liberalization and structural reform program. Since the early 2000s and related to the country's WTO accession, Armenia has had a highly open and 100 percent bound tariff regime. Based on its simple average of the MFN applied tariff of 3 percent, Armenia has one of the most open trade regimes in the Europe and Central Asia (ECA) region and among lower-middle-income countries (with averages of 6.8 and 11.4 percent, respectively). It is also ranked 9th out of 181 countries, where 1st is least restrictive. Moreover, the 73 percent share of tariff lines with zero MFN tariffs is among the highest in the region and in its income group. Similar to the majority of other countries in its comparator groups, Armenia continues to be more protective of its agricultural goods than of its non-agricultural ones (with tariffs of 8.1 and 2.2 percent, respectively). However, the value added tax exemption for the agricultural sector has expired, and since January 1, 2009 domestic agricultural producers are subject to VAT.¹ The maximum MFN applied tariff, excluding alcohol and tobacco, of only 10 percent is substantially lower than the regional average of 159.7 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), is 5.2 percent, which is higher than the regional average of 2.7 percent, meaning that Armenia has more flexibility in its trade policy.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at <http://www.worldbank.org/wti>.

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External Environment

The simple average of the overall rest of the world tariff (including preferences) faced by the country's exports is 9.7 percent. But when weighted by actual exports it drops to 0.9 percent, which is lower than the averages for its regional and income comparators of 2.1 and 3.1 percent, respectively. The weighted rest of the world tariff faced by agricultural products is 1.8 percent and by non-agricultural products it is 0.7 percent. Armenia, which is an exporter of non-ferrous metals, was on the receiving end of one antidumping investigation in 2008 initiated by the EU regarding Armenian exports of certain aluminum foil. The real effective exchange rate (REER) of the Armenian dram appreciated by 11.5 percent in 2008, making exporters less competitive abroad. Falling oil revenues, drops in remittances from Armenian workers in Russia, and dwindling reserves made the peg to the U.S. dollar unsustainable. Following a 20 percent devaluation, the currency was floated in March 2009.² In the second quarter of 2009, the REER reflected a 13 percent depreciation.

Armenia has free trade agreements with countries of the Commonwealth of Independent States (CIS). Also, while a beneficiary of the EU Generalized System of Preferences (GSP) for several years, Armenia has been a beneficiary of the GSP plus scheme since January 1, 2009. This scheme substantially extends duty-free access to the EU market for around 6,400 tariff lines until the end of 2011.³ Moreover, Armenia is preparing to begin formally negotiating with the EU towards a comprehensive free trade agreement, and a EU preparatory fact-finding mission visited Armenia in February 2009.⁴

Behind the Border Constraints

Armenia remained in the top 30 percent of institutional environments conducive to business in 2009, being ranked 43rd out of 183 countries in the Ease of Doing Business Index. However, Armenia's Logistics Performance Index score, which reflects the extent of trade facilitation in the country, is below the regional and income group averages, reflecting a less conducive climate for trade. Armenia scores 2.31 on a scale of 1 to 5, with 5 being the highest score, while

the regional and income comparator averages are 2.59 and 2.47, respectively. Armenia ranked 131st out of 150 ranked countries and 22nd in the ECA region (with Turkey leading the regional group). Its strongest logistics indicator is domestic logistics cost, while the most lagging one is the quality of transport and IT infrastructure for logistics.

Trade Outcomes

In 2008, Armenia could not maintain the trade growth momentum of 7.6 percent over the 2005–07 period, and real growth of trade (in constant 2000 U.S. dollars) in goods and services dropped to a low 0.4 percent and is expected to turn negative in 2009, with trade falling by 0.6 percent. The real growth rate of both imports and exports slowed, with a bigger decline in exports. Import growth decelerated from 10.6 percent over the 2005–07 period to 7.8 percent in 2008, while exports fell by 14.0 percent from an average rate of 2.8 percent over the 2005–07 period.

The dollar value of Armenia's trade decelerated to 21.2 percent in 2008 from 32.6 percent in 2007. Trade was temporarily disrupted during the August 2008 conflict in neighboring Georgia, as 70 percent of Armenia's imports are transported through Georgia.⁵ Further, the global recession reduced demand for exports and led to falling commodity prices. Nominal exports dropped by 1.1 percent, which reflected a 7.1 decrease in goods exports and an 11.2 increase in services exports. The export of non-ferrous metals, a main export for Armenia, had been declining in volume since 2006,⁶ and in 2008 further suffered from lower prices. In the first two quarters of 2009, exports dropped 47 and 44 percent, respectively, on a year-on-year basis, but the second quarter reflected a 28 percent increase over the first quarter of 2009. Total import growth slowed from 41.5 to 32 percent, with both goods and services imports marking a deceleration. In the first two quarters goods imports dropped by 22 and 31 percent respectively, but 8.8 percent positive growth was noted in the second quarter over the first quarter of 2009. Remittances are very important to Armenia and made up 8.9 percent of GDP in 2008. Although the dollar value of remittances increased, as a share of GDP it registered a fall from 9.2 percent in 2007. Remittances suffered toward the end of the year from the economic contraction in Russia (the destination of many workers) and the depreciation of the ruble against the dollar. FDI inflows in 2008 accounted for 7.9 percent of the GDP.

Notes

1. Armine Grigoryan, March 6, 2009.
2. World Bank, April 2009, p. 6.
3. European Commission, 2009.
4. European Commission, February 17, 2009.
5. IMF, January 2009, p. 4.
6. IMF, January 2009, p. 4.

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