

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. Prices were liberalized, the economy opened up, privatization of most small and medium-size enterprises and all land took place, and the private sector expanded. Since the early 2000s and related to the country's WTO accession, Armenia has a highly open and 100 percent bound trade regime, despite the jump in the maximum (ad valorem equivalent of an unchanged specific) rate from 10 percent in 2001 to 518.5 percent. Its 2006 MFN applied simple and trade-weighted tariff averages (3.0 and 4.4 percent, respectively) are both below the most recently available Europe and Central Asia (ECA) and lower-middle-income country group rates. Furthermore, 71.8 percent of Armenia's imports entered the country under MFN zero-duty status. The overall GATS commitment index is also very high relative to Armenia's regional or income group comparators.

Market Access

Armenian exports face comparatively low barriers, as the rest of the world export weighted average applied tariff (including preferences) is only 0.4 percent. However, its MFN duty-free exports of 33.2 percent and its exports to free trade partners of 8.4 percent (of total exports in 2006) are both lower than its comparators. It does not apply any export duties. It joined the WTO in February 2003. Regionally, it is a member of the former Soviet Union's Commonwealth of Independent States (CIS) and has free trade agreements (FTAs) with Russia, the Kyrgyz Republic, Moldova, Turkmenistan, Ukraine, Georgia, Belarus, Tajikistan, and Kazakhstan. After a depreciation of 2.1 percent in 2000–04, the currency appreciated by 17.2 percent in 2006, on an average, per year, real trade-weighted basis.

Behind the Border Constraints

In 2001, the Armenian government shifted its emphasis to strengthening the business environment, promoting exports, and advancing private sector investment. The country is ranked 39th out of 178 countries on the overall Doing Business index, scoring particularly well in the starting and closing a business subcategories. However, in trade facilitation (as measured by the Logistics Performance Index), Armenia ranks very low, in the ninth decile as 130th out of 150. Its rank in the Doing Business—Trading Across Borders subcategory (118th) is in line with other ECA countries, but it is worse than its income group comparators, largely due to the high transportation costs related to its geographic location. Armenia, however, improved its performance from the previous year on nearly all underlying indicators, dropping the cost and time required to import and export. Armenia's per capita rates for telephones and mobile phones (30 percent in 2005) and Internet users (5.7 percent in 2006) were substantially below the comparators', however, according to national sources, telephony penetration reached 62 percent by the end of 2007 due to significant liberalization in telecommunications. Less radical reforms in civil aviation are currently under implementation, but have a long way to go.

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

Trade Outcomes

Armenia's trade outcome rank is in the highest decile (11th of 160 countries) due to its high real growth in trade of goods and services (14.1 percent in 2007). This growth was largely import driven (17.1 percent) although exports also grew at a solid pace (9.1 percent).^{*} Such real trade growth compares favorably with the ECA average (8.6 percent) and is higher than for the lower-middle-income country group (8.3 percent). In spite of this, Armenia's trade share in GDP decreased to just 54.9 percent in 2007, an integration ratio substantially below the regional comparators' average (102 percent) and income comparators' average (99 percent). Its main merchandise exports in 2006 included diamonds, ferro-alloys, coppers, spirits, and jewelry; the services share in total exports was about 31.5 percent in 2006. The EU is Armenia's main trading partner, accounting for nearly 40 percent of trade, followed by Russia and Israel. Economic ties with Russia are particularly close in the energy sector.

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^{*} According to national sources, real growth in exports was –3.8 percent and real growth in imports was 21.8 percent in 2007.