

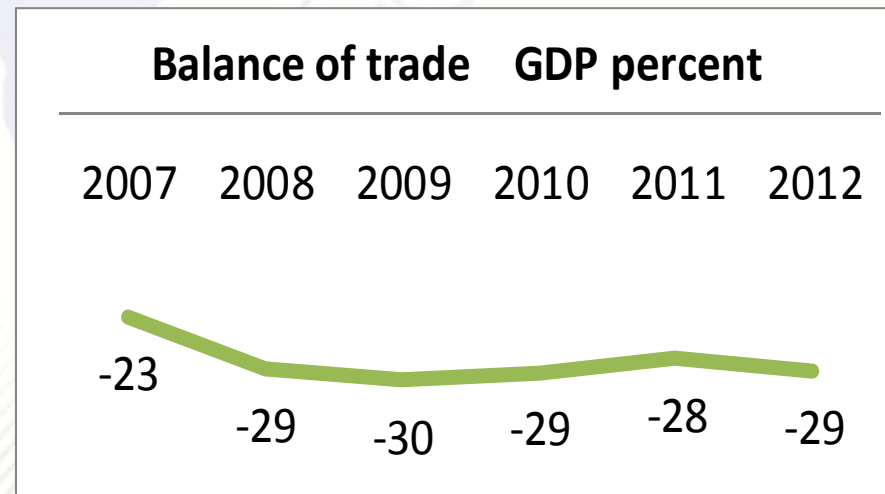
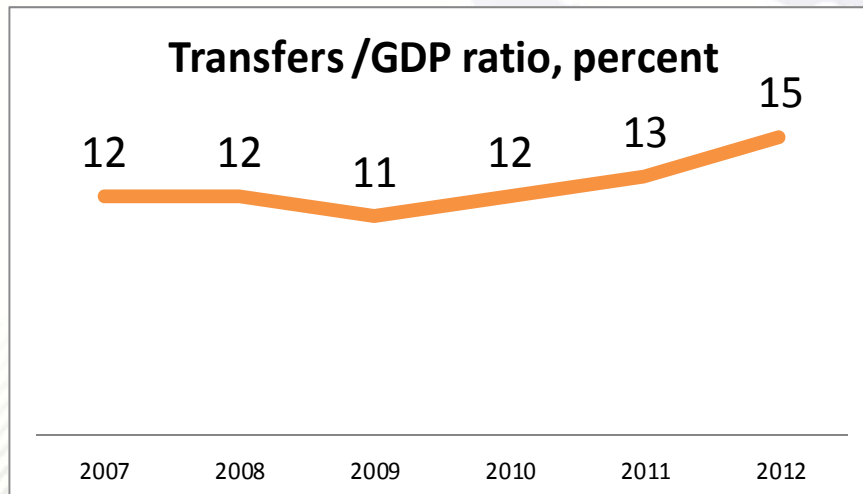
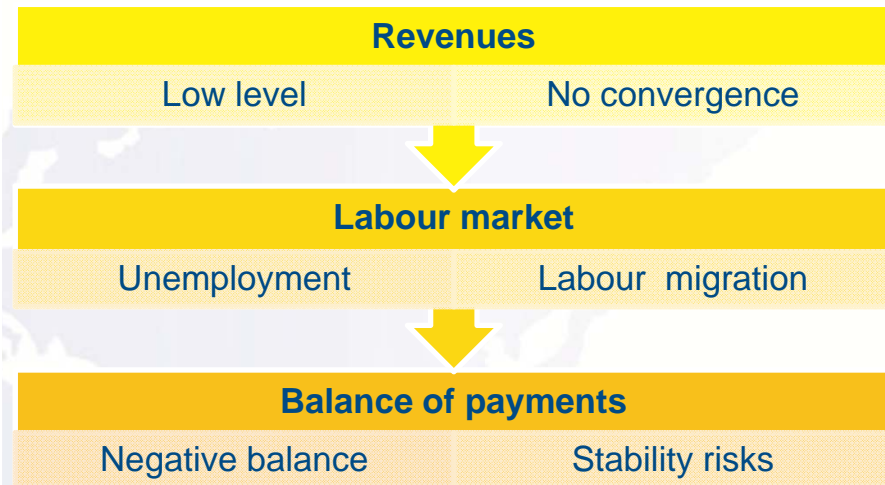
**ARMENIA AND THE CUSTOMS UNION:  
IMPACT OF ACCESSION**

EDB Centre for Integration Studies

2013

# Armenia – potential challenges

| Countries  | 1999 |      | 2012 |       | Index<br>Russia =100 |      |
|------------|------|------|------|-------|----------------------|------|
|            | rank | \$   | rank | \$    | 1999                 | 2012 |
| Russia     | 1    | 1760 | 1    | 14037 | 100                  | 100  |
| Kazakhstan | 3    | 1290 | 2    | 12007 | 73                   | 86   |
| Belarus    | 2    | 1400 | 3    | 6685  | 80                   | 48   |
| Armenia    | 4    | 610  | 4    | 3338  | 35                   | 24   |
| Kirgizia   | 5    | 300  | 5    | 1160  | 17                   | 8    |
| Tajikistan | 6    | 180  | 6    | 872   | 10                   | 6    |



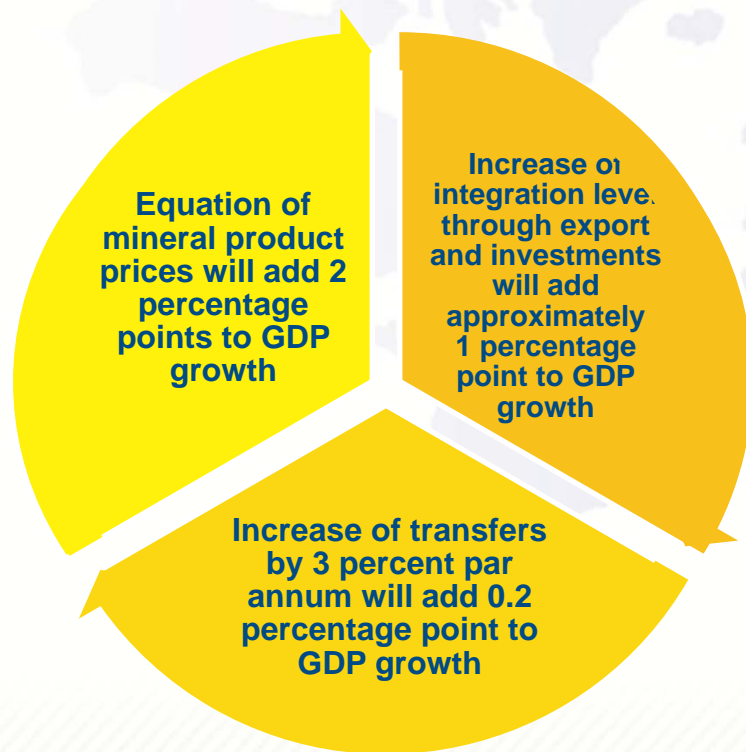
# CU-SES Integration: main conclusions

## Integration of Armenia with the CU is advantageous upon selection of any strategy:

- Developing the national economy based on the domestic demand expansion, Armenia is highly interested in the treaties guaranteeing free movement of workforce and capital, thus providing stable financing of the trading account of the balance of payments.
- Selection of export-oriented scenario opens a window of opportunities for Armenia:
  - *Enhancement of GDP growth rate, leading to higher living standards and convergence of revenues*
  - *Access to the large-capacity CU market*
  - *Inflow of investments into export sectors, focused both on the CU market and domestic market*
  - *Solution of transport deadlock problem in Armenia*
  - *Solution of strategic energy problems*

# GDP growth effect of Integration

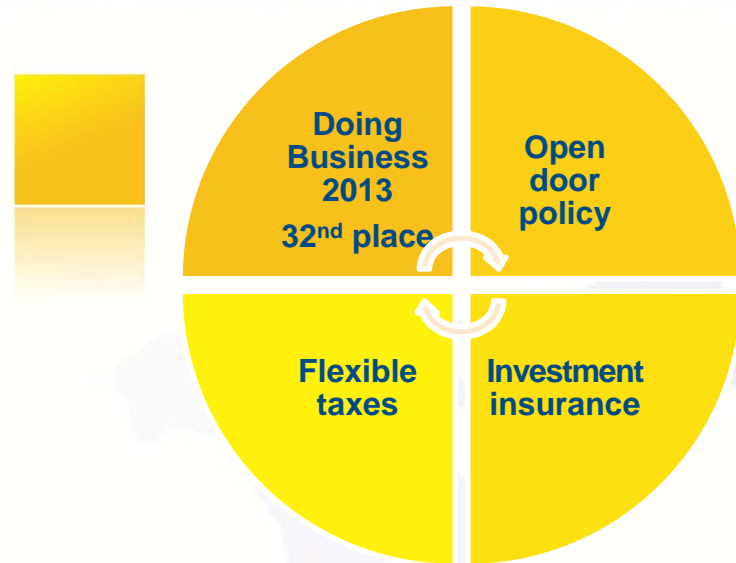
A short-term trading effect of \$140 million within one year due to reduction of gas price/



**In the course of CU integration, an additional growth may amount to 2 percent** (in 2015, the growth is forecasted to be about \$200 million, considering the fact that integration affects on the capital growth rate).

Counting for reductions of gas and oil prices, cumulative effect of **4 percent GDP growth** is expected in two years (about \$400 million increase).

Construction of a new nuclear power plant, construction of a railway to Iran, “North-South” corridor, and opening of railway communication via Georgia will add to GDP growth rate, thus enhancing the economic security of Armenia.



## Investments

Direct investments of the Customs Union countries in Armenia, according to EDB Monitoring of Mutual Investments project, are almost entirely represented by Russia's direct investments, which by end 2012 amounted to \$2.48 billion, Kazakhstan and Belarus account for another \$13 million.

### Russia is a major investor in Armenia.

Russian FDI are allocated for modernization of systemic economy sectors:

- railway transport
- gas transportation
- electric power industry
- nonferrous metal industry
- banking and insurance
- cellular communication, the Internet and data transmission

Russian FDI amount to 41.5 percent

France ranks second (12.1 percent)

Greece ranks the third (6.0 percent)

## Russian FDI in Armenia

| Investing company               | Investee                                                | Project commencement year | Cost as of end 2012, million \$ |
|---------------------------------|---------------------------------------------------------|---------------------------|---------------------------------|
| Gazprom                         | 5 <sup>TH</sup> unit of Hrazdan TPP                     | 2006                      | 456                             |
| Inter RAO UES                   | 100 percent in "Electric Networks of Armenia" CJSC"     | 2006                      | 260                             |
| Inter RAO UES                   | 100 percent in OJSC "HrazTPP" (Hrazdan TPP - 4 units)   | 2011                      | 31                              |
| MTS                             | 80 percent in "K-Telecom" CJSC                          | 2007                      | 160                             |
| Vimpelcom                       | 100 percent in "Armentel" CJSC                          | 2006                      | 131                             |
| Gazprom                         | 80 percent in "ArmRosgazprom"                           | 2002                      | 402                             |
| Russian Railways                | 100 percent - 1 share in "South Caucasian Railway" CJSC | 2008                      | 187                             |
| Troika Dialog                   | "Ameriabank" CJSC                                       | 2007                      | 63                              |
| Prometey City, Zakneftegazstroy | "Prometey Bank" LLC                                     | 1991                      | 36                              |
| VTB Group                       | 100 percent in "VTB Bank (Armenia)" CJSC                | 2004                      | 35                              |
| Gazprombank                     | 100 percent in "Areksimbank" CJSC                       | 2007                      | 31                              |
| RUSAL                           | 100 percent in "RUSAL ARMENAL" CJSC                     | 2000                      | 57                              |

# Transport deadlock problem in Armenia

**“North-South” motorway corridor**  
**Construction of Iran-Armenia railway**  
**Opening of Armenia-Georgia-Russia railway**

**Will establish a very powerful communication hub of regional and international significance**

**Will establish reliable transport communication between the Customs Union countries and the markets of the Persian Gulf and South and Southeast Asia**

**Will become a strong factor attracting Armenia and Georgia to the Customs Union;**

**Will become the first international transport project in South Caucasus intended for support of Eurasian rather than European integration**

# Power engineering

The strategic interest of Armenia in power engineering is focused on creation of new energy infrastructure facilities, which will guarantee **stable operation of electric power system** after closing of Armenian nuclear power plant, and **increase the volume of electricity export**.

Construction of a new power supply unit of 1000 MW at the Armenian nuclear power plant

Construction of the 5th power generating unit of 440 MW at the Razdan TPP

Installation of a new gas turbine of over 200 MW at the Yerevan TPP

Construction of new hydropower plants

Construction of wind farms having total capacity of 200 MW





# Migration

- Migration is affected by visa-free regime, by difference between per capita GDP in the CU and Armenia and by the scope of Armenian diaspora.
- Considerable output growth in the CU, having the same level of output in Armenia, also results in migration increase.
- Remittances and other transfers make about 15 percent of the republic's GDP (\$9.9 billion), of which 85 percent come from Russia. In 2012, the transfers from Russia comprised an amount equal to 64.5 percent of the national budget of Armenia.
- The quarterly growth of transfers is estimated to be \$9 million, and annual growth is estimated to be about \$36 million, thus annually increasing the volume of transfers from the CU to the RA approximately by 3 percent (forecast).
- At the same time, lack of free movement, employment difficulties, financial and language problems are the main obstacles to migration from Armenia to the European Union.

# Effect of accession to SES upon liberalization of migration law

| Donor country | Currency remittances | GDP, \$ million | GDP share |
|---------------|----------------------|-----------------|-----------|
| Armenia       | 1450                 | 9622            | 14.6%     |
| Tajikistan    | 2960                 | 6522            | 45.0%     |
| Kyrgyzstan    | 1160                 | 5919            | 19.6%     |
| Kazakhstan    | 132                  | 186198          | 0.1%      |
| Belarus       | 375                  | 55136           | 0.7%      |

**The Russian budget only in terms of individual income tax fails to receive up to 40 billion rubles per annum (total figure for all labor migrants' flows)**

**CU countries**

- Increase of receiving country's revenues due to tax payment
- Reduction of migration control costs
- Optimization of workforce distribution within SES

**Armenia**

- Increase of remittances by 3 percentage points per annum
- Additional investment potential of savings

# Customs tariffs in Armenia and SES

## Tariffs

- Armenia's customs tariff is one of the lowest in WTO - 2.7%
- In the Customs Union - 7.6% in 2013, 6.9% in 2014, 6% in 2015

## Quotas

- Armenia does not use tariff quotas
- 73% of tariff lines are duty-free and the remaining ones are subject to 10% duty.
- The trade regime is even more liberal than that specified in the Armenia's commitments to the WTO

## Conclusions

- It would be required to improve the level of protection
- Problems with WTO, adjustment procedures will be required, in which the CU will participate
- It will result in certain reorientation of trade towards the CU countries



**Thank you for your attention!**

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