

**NATIONAL REPORT**  
**ON THE IMPLEMENTATION OF THE ALMATY**  
**PROGRAMME OF ACTION**  
**(2003-2013)**

**REPUBLIC OF ARMENIA**

**Yerevan 2014**

## 1. Introduction

The absence of sea, remoteness from markets, weak transport infrastructure, border crossing administration and procedures, high transportation costs remain a real challenge for Landlocked developing countries on their way to integration to global markets and benefiting from international trade. The transportation costs put landlocked countries in a relatively disadvantaged position compared with the countries that have a continuous access to the sea.

The Republic of Armenia is a landlocked mountainous country. The average height above sea level is 1800 square kilometers. The country covers a territory of 29,743 square kilometers. The neighboring countries are Georgia in the North, Azerbaijan in the East, Iran in the South and Turkey in the West and South-West. The population of Armenia is 3.2 mln. person (according to de jure population indicator), or 3.0 mln. person (according to de facto population indicator). About five percent of the country's territory is covered by lakes, the biggest which is Lake Sevan. Automobile roadways and railways via Georgia and Iran are the principal land routes to/from the country, and the aviation system features extensive international network coverage. The nearest seaport is Poti in Georgia, through which Armenia has access to the countries of the Black Sea region. The distance from Yerevan to Poti is 559 km. The new railroad project connecting Armenia to Iran should provide routes all the way out to the Persian Gulf, providing access to neighboring Central Asia, the Middle East, India And China. Armenia also has a highway with Iran.

Traditionally a way station along the Great Silk Road, Armenia is located at the historic crossroads of Asia and Europe. The country is engaged in the construction of a number of large infrastructure projects to restore its importance as a commercial link between the countries. The mitigation of negative effects resulting from having no access to the sea is still an ongoing priority for the Armenian Government. In this regard, trade liberalization, infrastructure development, capacity building activities, business climate

improvement and active participation in facilitating international trade are considered to be the major instruments in achieving the general goal.

## 2. Fundamental Transit Policy Issues

The main objectives of the *Almaty Programme of Action* are considered while implementing the transport policy of the Republic of Armenia. Furthermore, which the purpose of ensuring the development of transport sector, it envisaged to develop transport sector strategy for the period 2009-2019 with the assistance of Asian Development Bank. Amongst other related issues, the transport sector strategy:

- recommend the best ways to respond to the challenges and opportunities of the sector including among others the development of the logistics sector and the domestic construction sector
- set the sector's strategic agenda and development priorities
- recommend necessary reforms in transport policies, regulations, organizational structures and procedures and standards
- develop projects and programmes for NCSEs and procedures for private sector participation
- develop appropriate criteria for selecting public investment projects in the sector, etc.

The major challenge for landlocked countries' trade and access to new markets is the development of the transport infrastructure. In this area, one of the ongoing projects of Armenia is the construction of the North-South road corridor. The "**North-South Road Corridor Investment Programme**" is a major infrastructure project which aims at connecting the Southern border of the country with its Northern point by means of a highway to be built or reconstructed in accordance with the highest international standards and at providing access to international markets. The reconstruction and development of North-South Road Corridor will enable facilitation and intensification of both domestic and foreign transport and trade. The Project implementation will lead to the development of efficient transit roads. It is planned to reconstruct 556 km of roads in

the framework of the project. Its implementation period is from 2009 to 2017. After reconstruction these strategic roads will provide facilitated traffic from Armenia's southern border to the Georgian boarder, and further on to the Black Sea ports.

*North-South Road Corridor:*

- Provides access to the Black Sea through the territory of Armenia and Georgia and then to European countries
- Crossing the territory of Armenia from the South to the North (Meghri-Yerevan-Ashtarak-Gyumri-Bavra) the corridor connects to the Georgian road leading to Poti and Batumi ports
- The implementation of the Project results in improving Europe - Caucasus – Asia road communication at the intersection of West Asia and East Europe.

*Project objectives:* facilitating communication with neighboring countries; expanding and facilitating access to foreign market towards Central Asia and Europe; developing major economic spheres and export expansion (industry, agriculture, mining industry, construction, tourism) etc.

*Main Project Goals:* improving safety and comfort, reducing time and financial costs, integrating possible necessary telecommunication and other infrastructures. Project implementation will result in the following outcomes:

- Improved road corridor in compliance with international standards
- Four-lane Category 1 road section (Yerevan-Gyumri)
- Other road sections meeting Category 1 standards with the possibility to be widened up to four-lane road in the future
- Modern border and customs infrastructure
- Efficient road corridor management system.

North-South Road Corridor Investment Programme will be implemented by international construction companies ensuring introduction of construction experience and culture of developed countries in Armenia. The Project is implemented by multi-tranche financing. It is subdivided into Tranches and separate loan agreements are signed in the framework

of each Tranche. Financing of a part of the Project (in the amount of USD 500 million) is implemented by the Asian Development Bank.

**International North-South Transport Corridor (INSTC)** will play a key role in improving the region's transportation and economic development along the corridor taking into account the region's significant natural resources.

- International North-South Transport Corridor (INSTC), is a multi modal transportation established on the 12<sup>th</sup> September 2000 in St. Petersburg, by Iran, Russia and India for the purpose of promoting transportation cooperation among the Member States. This corridor connects India Ocean and Persian Gulf to the Caspian Sea via Islamic republic of IRAN, then is connected to St. Petersburg and North European via Russia Federation.
- Since 2005 Armenia is actively participating in the activities of the High Level Group on the Extension of Major Transport Axis towards neighboring countries and regions, which is organized in the framework of European Commission.

Armenia is member of the **Transport Corridor Europe-Caucasus Asia** (TRACECA corridor) Programme since 1993, when TRACECA Programme was launched at a conference in Brussels. Armenia is one of the original eight TRACECA countries (5 Central Asian republics and 3 Caucasian republics), which agreed to implement a Programme of the European Union funded technical assistance to develop the transport corridor of west-east axis from Europe, across the Black Sea from the Caucasus and the Caspian See to Central Asia. Armenia participates in all important events in the framework of TRACECA Programme (TRACECA countries Summit, IGC TRACECA Annual Conference, IGC TRACECA Working Group Meetings, etc.), supports all projects to further regional cooperation and economic development, proposes several projects for improving the road and rail connections between three South Caucasian countries. Armenia has signed and ratified "Basic Multi-Lateral Agreement on International Transport for the Development of the Transport Corridor Europe-Caucasus-Asia" and its Technical Annexes. The principal national TRACECA body - TRACECA National

Commission was established in accordance with the resolution RA Prime Minister Resolution N381A /dated on August 13, 2003/.

For a landlocked Armenia the railway transport has an important strategic significance. The length of the entire railway of the Republic of Armenia is 1328,6 km, out of which 780 km are the main routes. The length of the presently operating rail line is 726 km. The exploited rail lines are fully electrified, furnished with semi-automated blocking system and modern technology systems of communication. The railway system involves 75 stations 4 out of which are nodal.

It must be mentioned that at present a railway connection operates only with Georgia. As a result of the unilateral border closure from Turkey and Azerbaijan there is no operating connection with the mentioned countries, as well as with the Islamic Republic of Iran since 1993, because the rail line from Armenia to Iran crosses the territory of Nakhichevan which is also unilaterally closed by Azerbaijan.

In 2008 the Armenian railways system was transferred to the **Russian Railways Ltd's subsidiary company South Caucasus Railways (SCR)** for concession management for the period of 30 years. The main objectives of the Company include the modernization of the Armenian railway infrastructures, the development of the interstate and international passenger and cargo transportation communications. From 2008-2013 the company made an investment of nearly 220,2 millions USD aimed at upgrading Armenia's rail infrastructure.

Ever since 2008 the Company has realized extensive volumes of rehabilitation works of the rail lines, the works of capital rehabilitation of the longest and oldest railway bridge "Zamarlu" on the railway sector from Armenia to Georgia were realized. On April 21, 2012, the official opening ceremony of the bridge took place. Besides the rehabilitation and modernization programs there are also new ongoing projects on rail lines

construction. Those involve the construction of the direct rail line Armenia-Iran and the rail line Vanadzor-Fioletovo.

In January 2013 in Armenia started the **Armenia's Southern Railway** project with a most important strategic and economic significance for the Republic of Armenia. As a result of project implementation Armenia will have the shortest transportation route from Black Sea ports to Persian Gulf ports, it will lead in significant savings in time and transportation costs, the use of potential of Armenia's strategic position making Armenia a transit country. Armenia's Southern Railway Project initial selection and feasibility study of the construction works are completed. The Public-private sector cooperation will develop the Southern Railway project justification and project-end technical documents.

Armenia joined **TIR Convention** on 27 of September 1993 by the Decision of Armenian Parliament. For the implementation of TIR Convention provisions "Association of International Road Carriers of Armenia" (AIRCA) was founded in 1998, which was recognized by the Government of the Republic of Armenia and International Road Union (IRU) as TIR Carnets issuing and guaranteeing organization. In 1999 AIRCA became IRU member. The introduction of TIR System in Armenia has significantly assisted to international haulers and their integration. The introduction of TIR System is of vital importance for Armenian economy development; TIR System has much facilitated transit through Georgia and enabled transit through Iran to Middle Asian Republics and Russia. As result transportation decreased and the quality, security and time of transport improved.

For providing the requirements of the Agreement "About International road transport carrying vehicles staff work" the *Digital Tachograph System* has been introduced in the Republic of Armenia since 2011. Research Joint Centre of the European Commission provided the Republic of Armenia the necessary certificates for the system operation and keys for the cards' identification in June. Since July 2011 the system has been successfully operated, applications are accepted, and freight transportation companies and drivers

are provided with Digital Tachograph Cards, which provide them free access to the EU countries.

It should be noted that the transport policy of the Republic of Armenia is implemented toward the integration of the below mentioned regional and subregional transport Infrastructures:

- Asian Railway Network
- Asian Highways Network
- Trans European Railways
- Trans European Motorways
- High Level Group on the Extension of Major Transport Axis towards neighboring countries and regions
- Black Sea Transport Ring initiations, implemented in the framework of Black Sea Economic Cooperation (BSEC)

For the road construction and maintenance activities there are the following financial sources available:

- State Budget of the Republic of Armenia
- Lincy Foundation
- Loan provided by Asian Development Bank for rural roads sector project
- Loan provided by Millenium challenges corporation for rural roads project
- JBIC loan for rural roads (presently is in the phase of discussion)

For the development of transport system extensive legislative reforms were implemented during last 5 years as a result of which transport regulatory procedures have been simplified and reduced, safety and service quality in freight and passenger areas increased, excessive administration costs were reduced and business environment was improved. On purpose of providing transport means and a higher level access the transport sector regulatory framework has been studied and appropriate modifications



have been made to a regular passenger, cargo and taxi passenger cars areas regulatory legal acts.

*The road construction and maintenance activities* are carried out by private specialized companies, based on tendering and competitive basis. The process is regulated according to the RA Law on State procurements.

In the framework of legislative reforms some amendments have been made in “Transport Law” of Republic of Armenia, “Motor Vehicle Law” of Republic of Armenia, “Licensing Law” of Republic of Armenia, “Road Law” of Republic of Armenia, “Road Fee Law” of Republic of Armenia, “Administrative Violations” Code of Republic of Armenia, “State Tax Law” of Republic of Armenia as well as in other legal acts.

In 2012 the Republic of Armenia approved the concept on Rehabilitation and Reconstruction of the Main Transit Highways of the Republic of Armenia. The concept envisages the rehabilitation of the three main roads connecting Armenia to its Northern neighbor Georgia with a total length of about 550 km.

With the purpose of ensuring alternative road for transport operation with Iran, in the year of 2007 was completed the construction of around 93 km of new road, which reduces the time required for passing the previously existing segment by 1 hour.

Armenia signed the *Intergovernmental Agreement on Dry Ports* on the November 7<sup>th</sup> 2013.

### **3. The national development planning process, assessment of key economic, social and environmental development trends**

After the severe downturn in early 1990s, the economy expanded for more than three times. The annual average growth rate in 1995-2008 comprised about 9%. In the meantime the growth rate has significantly increased after 2001 and in 2001-2007 made

up to 13% in average. In the last quarters of 2008 the growth rate in Armenia considerably slowed down comprising the annual 6.9% as the result of the world economic crisis impact.

Due to the crisis impact in 2009 the Armenian economy shrank severely registering 14.1% decline. The reasons behind were mainly the structural characteristics of economic growth in the before crisis period. The unprecedented growth of non-tradable sectors<sup>1</sup>, especially the construction, has continuously been the major source for growth with concentration of capital inflows into the construction sector. The proving evidence is that 10.5 percentage points of the 14.1% decline was the share of the construction sector.

During 2009 and aftermath the crisis the macroeconomic stability has been successfully maintained due to strong monetary and fiscal management. This resulted in an acceleration of growth recovery in 2010-2011, which continued positively in 2012-2013. The pattern of economic growth has changed moving towards a larger share of exporting sectors. This makes grounds for future growth sustainability and shock-resistance pace, in that transmitting the country to its mid-term growth trend of around 5%.

In the pre-crisis period the double-digit growth rates has been accompanied with large volumes of remittances inflows, which has brought changes to the ratio of consumption and savings. The resultant increase of national savings, which in 2008 comprised 32% of GDP, has basically bypassed the financial sector, and the volumes of private investments has been increasing (40.9% in relation to GDP), including those in the housing construction.

During the crisis the investments-to-GDP relationship has declined sharply mainly because of private monetary remittances inflow decreases, and the national savings declined even to a larger extent. In 2010-2011 the investments continued shrinking in parallel with decreasing volumes of housing construction.

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<sup>1</sup> Services and construction are considered as non-tradable sectors.

The economic developments have been paralleled with continuous institutional reforms. The implementation of inspection reform, the reduction of red tape, and the easing of tax administration burden have been reflected in tangible improvements of the country's business climate. The establishment of a one-stop-shop mechanism the procedures of starting a business has been markedly improved both in terms of administration, time and cost. In 2013 the company registration fee has been eliminated.<sup>2</sup> In the World Bank 2014 Doing Business report Armenia has ranked 37<sup>th</sup> of 189 countries.

According to 2014 "Index of Economic Freedom" Report conducted jointly by the Heritage Foundation and The Wall Street Journal, Armenia is the world's 41<sup>st</sup> freest economy and the 18<sup>th</sup> in the Europe's region with the score above both the world and regional averages. Over the 20-year history of the Index, Armenia has improved its economic freedom score by 26.7 points, the fourth largest score increase.

In the pre-crisis period of 2003-2008, mainly the non-tradable sectors of the economy, with an annual average of 8.3%, were contributing to 12 percent annual average economic growth. Consequently, during the mentioned period the share of non-export sectors in GDP increased significantly from around 47% to 59%.

However, during and after crisis the economic structure was adjusted marked with the increase of the exporting sectors. The post-crisis economic structure has been characterized with relatively higher diversification. The 7.2% and 3.5% economic growth rates respectively in 2012 and 2013 have been driven by these developments.

The share of **the construction sector** in GDP increased and reached 25.3% in 2008, with an accelerated increase of the share in GDP (on average 26.3% in 2003-2008). The unprecedented growth of construction in the pre-crisis period was mainly due to private

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<sup>2</sup><http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf>

investments, especially the increase in the volume of housing construction. In 2009 the construction sector recorded a serious drop of 41.6%. After the crisis, the construction sector did not recover its former high levels and still continued to decline. As a result, in 2013 the share of construction in GDP amounted to only 10.3%.

The share of **the services** in GDP in 2008 amounted to 33.7% as derived from the high demand for services in the preceding five years due to high rate of incomes growth. In the pre-crisis period (2003-2008), the average growth rate of the sector amounted to 12.2% mainly based on the non-tradable subsectors, trade, transport and communication, financial mediation. The decline in services during the crisis was relatively modest at 3% with the main impacts on trade and transport and communications. In 2010-2013 services with 5.8% average growth rate were one of the engines for economic growth.

**The industrial sector** had the smallest share in the GDP in 2008 (the average growth in 2003-2008 amounted to 3.3%). In the crisis period, the industrial sector had a 6.9 percent decline, mainly as a result of the reduced demand in the global and domestic markets and the decline in foodstuff and construction material productions. After the crisis, growth in foodstuff and beverages production, as well as mining and metallurgy, contributed to the industrial growth. In 2010-2013, industry increased on average by 8.7 percent. The share of industry in GDP in 2013 amounted to 17.4 percent, compared to the 13.3 percent in 2008.

The share of **agriculture** in the GDP in 2008 was 16.3 percent. During the crisis, agriculture was the only sector with positive growth rate of 6%. The sector is highly dependence on climate conditions and the growth dynamics is mostly vulnerable. In 2011 the sector registered the highest contribution to economic growth due to favorable climate and targeted government policy<sup>3</sup>. The sector continued to grow in 2012 and 2013. The share of agriculture in GDP in 2013 amounted to 19.2 percent.

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<sup>3</sup> In 2010-2011, the government initiated a number of measures – the subsidizing of interest rates on credits, ensuring the market chain for agricultural products, seed production for wheat and barley,

*The investment policy* of the Republic of Armenia and the support to the investments are one of the core directions of RA Government economic policy and are stipulated in the investment policy activity Programme of RA Government.

The investment policy is targeted at the development of favorable investment and business climate, advancement of the transparency of regulating environment, revelation of competitive advantages of the country, increase of the volume of investments in Armenia, development of market infrastructure, and as a result the insurance of economic development based on all the mentioned factors.

The further course of industrial and technological development of the country is mostly conditioned by the development and effective implementation of targeted investment policy. The provision of increase in the volume of the investments in Armenia will solve several key issues, such as creation of new workplaces, involvement of know-how specific to market economies (general and financial management, marketing, new technologies, skills, etc.), revelation of new markets and their accessibility, opportunities for entering them, etc.

Armenia has a positive and open attitude towards foreign investments. The reforms related to the economy and infrastructure, macroeconomic stabilization and economic growth have contributed to the development and implementation of the country's foreign investment policy.

Having the objective of effective implementation of investment policy, the Republic of Armenia has announced and is carrying the policy of "Open Doors". The main legal acts regulating the investment sector in Armenia are the 1994 RA law "On Foreign

Investments”, as well as other provisions of legal acts regulating the economic sphere and related to the investments.

According to the above mentioned law, in the event of amendments to the foreign investment legislation of the Republic of Armenia, the legislation that was effective at the moment of implementation of investments shall be applied, upon the request of a foreign investor, during a five years period from that moment. Currently several other amendments are planned, the purpose of which is the equitable, stable and predictable development of investment and business environment, both for local and foreign investors.

The main principles of the investment policy may be summarized as follows:

- A liberal attitude towards foreign investments
- An “Open door” investment principle
- Protection of investors’ rights
- Provision of equal conditions for foreign and domestic investors.

There are virtually no restrictions concerning the sectors in which a foreign investor may invest, except in certain national defense-related sectors. A prior approval for making an investment is generally not required, except for the investments made in regulated establishments, such as banks, investment companies and certain public utilities.

Foreign investors can benefit from the following investment incentives:

- 100% ownership permitted
- Companies registered by a foreigner in Armenia have the right to buy land. Although foreign citizens are not allowed to own land in Armenia, they are offered long-term lease contracts
- For investment projects, VAT payments for imported goods exceeding 300 million AMD are deferred for 3 years
- Free exchange of foreign currencies
- Free repatriation of profit

- Zero rating in Armenia applies to goods and services exported under “Free Turnover” and “Re-exportation” customs regimes
- In case of any changes in legislation foreign investors can choose which law to use for up to a five-year term
- Free Economic Zones (NO income tax, NO property tax, NO profit tax, NO custom duties)
- No screening and specific authorization required for making investment
- No export duties and restrictions
- No restrictions on remittances
- No restrictions on staff recruitment
- No sector-specific or geographic restrictions on investments, except in certain national defense-related sectors.

Armenia has signed bilateral treaties on reciprocal promotion and protection of investments with 40 countries and is currently negotiating more such treaties with an additional 28 countries. Armenia is also a signatory of the International Convention of Investment Disputes (ICSID), CIS Multilateral Convention on the Protection of Investor Rights. In addition, it has double taxation treaties with 35 countries as of 2012. The benefits of these particular treaties are easy to access by providing supporting documentation of residency from foreign tax authorities.

The share of companies with foreign capital participation has considerably increased in Armenia. Since 2000 the share has steadily increased from 3.3% to 7.4 % with higher growth rates compared with the rate of establishment of “purely local” companies. During 2005-2011 the total number of companies established in Armenia has grown by 3.4% Compound Annual Growth Rate (CAGR) while the growth of companies with Foreign Direct Investments (FDI) participation reached 8.6%. This can be described as a rough indication of increased dynamism of business interest by foreign investors.

In the post-crisis period the changing structure of FDI shows certain trend towards larger share of reinvested earnings compared to the new equity capital component. These changes highlight the fact that in the post-crisis period the FDI volumes were driven mostly by reinvested earnings of the existing foreign owned companies, while the inflows of new investment declined substantially.

The distribution of FDI by sectors indicates that five sectors of the economy - telecommunication, utilities, transport, warehousing and banking - have been the major drivers for FDI attraction and accounted for 77.5% of total cumulative FDI in 2000-2008 and 83.9% in 2009-2011. Four of these sectors sustained a leading position also in post-crisis period. In the pre-crisis period mining was in the top three, however, the negative impact of the crisis drove the sector out of the FDI targeted sectors. Increased interest toward manufacturing sector made the sector 4<sup>th</sup> in cumulative FDI in 2009-2011 period.

During 2012 the flows of foreign investments into the real sector amounted to 751.8 million USD, out of which, FDI was 567.4 million USD; investments have declined compared to the previous year by 7.5 and 10.1 percent respectively.

During 2012 foreign investments were mostly directed to communications (314.7 million USD), mining industry and operation of open mines (201.4 million USD), real estate activities (56.1 million USD) and process mining (45.6 million USD).

As already mentioned, the external public debt of Armenia significantly increased during the crisis and post-crisis years, amounting to 35.7 percent of the GDP in 2009 and 34.7 percent and 37.5 percent in 2010 and 2013 respectively, but, due to external assistance, it became possible to avoid shocks in the financial system, as well as create conditions for restoring economic growth rates.

The Republic of Armenia has established a strong and effective collaboration with international financial institutions, multilateral and bilateral development partners



covering a wide spectrum of socio-economic, institutional and infrastructure development spheres.

### **Free Economic Zones in Armenia (FEZ)**

The Republic of Armenia adopted the Law on Free Economic Zones on May 25, 2011. The goal of creation of the FEZ is to:

- Promote Foreign Direct Investments
- Develop new and advanced technologies
- Generate employment
- Increase export from Armenia
- Contribute to sustainable economic development

Armenia has already two Free Economic Zones:

- *"Alliance" Free Economic Zone*

The Free Economic Zone "Alliance" based on "RAO Mars" CJSC (closed joint stock company) and "The Yerevan Computer R&D Institute" CJSC is established and given the right to operate by the decree N785-A of the Government of the Republic of Armenia of July 18, 2013. "SYTRONICS ARMENIA" CJSC is recognized as the operator of the zone.

"Alliance" Free Economic Zone is oriented to the production and export of high and innovative technologies in the field of electronics, precision engineering, pharmaceuticals and biotechnologies, information technologies, alternative energy, industrial design and telecommunications (elaboration and production of technological equipment, systems and materials for data/information transfer).

- *"MERIDIAN" Free Economic Zone*

"MERIDIAN" Free Economic Zone is established by the decree N 231-A of the Government of the Republic of Armenia of February 27. "AJA Free Economic Zone" CJSC is recognized as the operator of the zone.

"MERIDIAN" Free Economic Zone is specialized in jewelry, stones cutting and watch making. The Free Economic Zone (32,400 square meters, 12,750 of which will be used for industrial purposes) is situated in Yerevan's Aviacomplex plant territory.

#### **4. International trade and trade facilitation**

Armenia's accession to the WTO in 2003 consolidated a process of trade liberalization and institutional reforms that started soon after its independence from the Soviet Union in 1991. Since accession, reform has continued. Armenia has a liberal trade and investment regime. The average applied tariff, at 3.5%, is among the lowest of WTO Members. It grants MFN and national treatment to foreign investors, which are present in almost every economic sector. In many areas, particularly in services, Armenia's trade policies are more liberal than its WTO accession commitments.

In 2008-2009 exports were predominantly influenced by the decline in global demand for especially non-food products, worsening of Armenia's terms of trade and the reduction of foreign currency inflows and remittances. The current account deficit has worsened sharply factored with relatively lower level of consumption, relatively smaller decline of imports compared to export volumes, and the private remittances shortfall.

The situation has improved aftermath the crisis with revitalizing trends of progressive export growth. During 2010-2011 the average growth rate of merchandise exports was 37%, while imports grew by only 12%. This helped to narrow the trade deficit from 24.1 percent of GDP in 2009 to 20.5 percent in 2011. After shrinking by 30 percent during the crisis, the remittances revived with about 10 percent above the 2009's level. The current account deficit further reduced to 10.7 percent of GDP in 2012.

In 2013 the merchandise trade balance was -2996.8 million USD or 28.8 percent of GDP. Commodity trade turnover was 5956.8 million USD or 57.2 percent of GDP.

In 2013 the shares of CIS and EU group of countries in export volume were respectively 27.1% (in 2008 – 23.6%) and 33.4% (in 2008-54.2%). As for imports, the In volume of import separated by goods origin countries the share of the CIS countries was 31.0% (in 2008 – 28.5%), growth 3.8%, and the share of EU was 26.0 (in 2008 – 30.7%), growth 3.2%.

During the process of acceding to the WTO Armenia undertook considerable legal and institutional reform and made a comprehensive set of commitments. For example, it bound all tariff lines at rates between 0% and 15%, it replaced ad valorem customs fees with specific duties, and its services commitments covered almost all sectors.

Since it acceded, the process of legal and institutional reform has continued. Much of the reform is intended to improve the investment climate, governance, transparency and accountability.

In the negotiations under the Doha Development Agenda, Armenia is a member of the group of recently acceded Members (RAMs) and has participated in its proposals.

Armenia has free trade agreements in force with other members of the Commonwealth of Independent States (CIS) and Georgia.

The administration of customs procedures was significantly improved. Meanwhile, customs procedures were simplified and processing of imports made more efficient. The improvements included: the introduction of an on-line customs declaration system; the launch of a traffic light system for inspection of goods entering Armenia; and the reduction in the number of import documents required (from nine to three).

Armenia's average applied Most Favorite National regime (MFN) tariff is 3.5% with a simple tariff structure: no tariff quotas; 73% of tariff lines are duty free; and almost all the rest subject to a 10% tariff rate. There are 19 alcohol and tobacco items subject to

non-ad valorem tariffs, for which Ad Valorem Equivalent (AVEs) were impossible to calculate. These specific duties are expected to be converted into ad valorem charges in January 2011.

Under Armenia's free-trade agreements with some CIS countries, all imports are duty free with no implementation period. Although 31% of Armenia's imports come from these countries, trade diversion is probably low given that duty-free rates also apply to most MFN trade.

Apart from import prohibitions applied to a number of products for health, security and environmental reasons, Armenia does not apply quantitative restrictions to imports. Anti-dumping and safeguard legislation has been in place since before accession to the WTO, but, so far, no investigations have been conducted and no contingency measures have been taken.

Certain imports are affected by a business licensing system applied to a list of economic activities, such as pharmacies and pharmaceuticals. Some of these licenses are non-automatic and only granted with the approval of a licensing commission.

As in other areas, Armenia is working towards bringing its technical regulations and standards into conformity with the international ones. Armenia did not adopt urgent measures during the review period and has notified to the WTO all the technical regulations that were considered to affect trade.

All exports of goods from Armenia are subject to a simple customs declaration system. During the review period, the documentation and the time required to export have been reduced. However, certification of origin is perceived by exporters as costly and complicated.

Armenia does not apply export taxes, although its legislation permits them. Export prohibitions apply only to a limited range of products such as weapons, ammunition, explosives, and narcotics. Armenia applies only those trade embargoes imposed by the UN Security Council Resolutions. Permission is required for exports of rare plants, animals, and objects considered of interest to the national heritage.

Since 2013, Armenia acceded to the *UN Convention on Transit Trade of Landlocked States* (New York, 8 July 1965).

Since 2003, Armenia has continued to update its intellectual property legislation with new laws on copyrights and patents and amendments to its law on trade marks.

## **5. Environmental development**

For the purpose of mitigating the negative impacts on the environment and ensuring efficient utilization of natural resources in the Republic of Armenia, as well as ensuring generation of financial resources for environmental investments and replenishment of the state budget a specific system of economic mechanisms has been in place, based on enforcement of the RA Law on Nature Protection and Nature Use Payments and relevant bylaws. Thanks to this fact a significant increase in the revenues accrued to the state budget of the country through execution of aforementioned economic mechanisms. Apart from this, in a number of instances the volume of environmental pollution has decreased. With a view to improving the *forest sector*, the RA Government approved the Action Programme to support issues associated with illegal logging, and the RA National Forest Policy and Strategy in its Protocol Decision No.38, dated September 30, 2004. The aim of the adoption of these documents is to decrease the level of illegal logging, to ensure the conservation of forest ecosystems, the restoration of degraded ecosystems, sustained and efficient use of forest resources, and the strategy for sustainable forest management.

Armenia is especially vulnerable to *desertification*, given its geographic and climate conditions. In 2002 the Government approved the National Action Plan to combat desertification, among them:

- The Millennium Challenges Programme covered the expansion of irrigable areas, as well as rehabilitation of drainage networks.
- The framework of Irrigation System Restoration Project, 260 km of water pipelines, a number of pump stations and water reservoirs were restored , etc.

Sustainable Land Resource Management to the Benefit of Reduction of Land degradation and Poverty Eradication in the Region of Eastern Caucasus Project has been implemented from 2010.

The RA "*Law on Atmospheric Air Protection*" 1994 and relevant bylaws, ensuring the enforcement thereof, regulate atmosphere management in the Republic of Armenia. With a view to updating the Law and preventing some negative impacts on atmosphere, amendments to the Law were made, the latest one being adopted in 2011.

To reduce emissions from motor vehicles the Government has adopted a Concept Paper and an Action Programme prohibited the use of leaded petroleum and the import of cars lacking emission neutralizers. In recent years, the permissible quantity of sulphur contained in petrol and diesel fuels has been decreased about ten times. Year in year out, the use of compressed natural gas prevails over petroleum. As a result, hazardous emissions from motor vehicles have been significantly deterred.

In 2007-2010, a number of Government decisions were passed to render the management of atmospheric air protection more specific and transparent.

The *water supply and sanitation system* has been significantly upgraded. Numerous projects co-financed by international donor agencies are aimed at providing better access to safe, reliable and sustainable water supplies to both urban and rural communities.

## **6. Additional policies and measures at national and international levels to eradicate poverty and achieve sustainable development**

The first strategic document for a long-term projection of economic policy was the *Poverty Reduction Strategic Programme (PRSP)* adopted by the Government of the Republic of Armenia in 2003. The PRSP is aimed at significantly reducing the level of income poverty. The PRSP goals included sustaining the existing human capital and further development thereof, reduction of expressions of human poverty, improvement of the population's health status, potential for reproduction and their living conditions, including the raising the level quality of general education and health care services and the level of accessibility for the poor decrease in child and mother mortality rates. The UN Millennium Development Goals (adopted in 2000) served as the basis for the adoption of these goals and targets. In essence, the country's first strategy aimed at reducing poverty in Armenia and ensuring equitable distribution of incomes focuses on sustaining and developing human capital as a critical prerequisite for sustainable economic growth.

Currently the *Sustainable Development Programme (SDP)* is the main document for a long-term planning of social and economic development in the Republic of Armenia. SDP, adopted by the Government on October 30, 2008, is basically a revised version of the Poverty Reduction Strategy Paper.

In order to reach the goals aimed at the poverty reduction the SDP strategy focused on three main priority directions: ensuring sustainable fast-passed economic growth, implementation of active and targeted social and income policies aimed at vulnerable groups of the population, and modernization of the country's governance system including increased efficiency of public administration and ensuring progressive growth of the resource package at the disposal of the country.

### *6.1 Sustainable rural and agricultural development*

The vector of the policy for agricultural development in the Republic of Armenia is directed toward effective use of the available resource base, increase in the level of food security, significant reduction of poverty in rural areas, protection of environment and development of rural communities.

In the past decade, the agricultural policy has been implemented through a number of government supported Programmes. These Programmes have been directed towards development of primary seed breeding and pedigree breeding, fighting against the most dangerous and quarantine plant diseases, maintaining health of the livestock, ensuring food safety, improving the ameliorative condition of land, maintaining and developing irrigation systems, agricultural zones, agricultural counseling and introduction of advanced technologies, etc.

As a result of the implemented policy and due to efforts put forward by agricultural business entities, significant progress has been recorded in the area of production of potato, various types of vegetables, fruits, grapes, meat and milk, which have to a certain extent increased the level of self-sufficiency with regards to the main food products.

One of the important achievements of the agricultural sector in the Republic of Armenia is the development of cooperation with international organizations. Membership in the World Trade Organization (WTO), United Nations Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD) and other international organizations is an important factor in terms of remaining in the field of world developments, as well as for the legal and technological regulation of the sector in line with universal requirements.

Along with the achievements mentioned above, numerous issues have arisen:

- Small sizes of rural farms still seriously impede the effective development of agricultural production.



- An overarching issue is the full and effective utilization of land resources. The next issue is related to the imperfections of the seed breeding system, insufficient and incorrect use of fertilizers and pesticides, violation of the rules of application of agricultural equipment. Serious problems have emerged in the area of availability of agricultural equipment and respective maintenance services as more than 95 percent of agricultural machinery and equipment has expired.

Agriculture as an area prone to risks, every year registers losses caused by natural disasters.

### *6.2 Development of small and medium size entrepreneurship*

Since 2000, development of small and medium size entrepreneurship (SME) in Armenia is considered as one of the major guarantees for sustainable development in the country, attaching great importance to the role of SMEs in the development of the country's economy, creation of new employment opportunities, raising the living standards of the population, shaping a middle class in the society, and ensuring social stability in the country.

SMEs play a decisive role in the GDP formation. In 2010, the share of small and medium size enterprises in GDP already reached 43.0 percent, in the total exports of Armenia- 17.9 percent, and in total imports – 26.4 percent. The SME development index in Armenia, as an aggregate economic indicator, equaled 4441.8 in 2010, increasing around 7.6 times in comparison to the 2002 figure.

Programmes for state support to small and medium entrepreneurship are based on the fundamental principles of the economic policy adopted by the Republic of Armenia and contribute to economic development and overcoming of disparities in the country, especially in remote and border areas. The majority of activities envisaged by those Programmes is targeted toward provision of support to start-up and acting SME entities in the regions of the Republic of Armenia, as well as toward increasing the level of economic and business activity in the regions of Armenia.

## **7. Obstacles and challenges in the implementation of the regional projects**

The countries of the region are engaged in a number of partnership structures and levels. From the perspective of economic cooperation, however, the region remains divided and devoid of encompassing and comprehensive mechanisms for stability and security. Among the main challenges still existing in the region are the following:

- Unsettled conflicts
- Unilateral closing by Turkey of Turkey-Armenia border: Azerbaijan and Turkey maintain a policy of blockade and isolation of Armenia from regional projects using unilateral coercive measures towards a landlocked country, which contradicts spirit and principles of UN Charter.
- Race of armaments: Azerbaijan, using the income from exploitation of the Caspian energy resources for the accumulation of offensive weaponry in massive scale seriously endangers regional and international security.
- Disproportionate development of democracy and democratic institutions in the countries of the region

With the presence of those problems and challenges Armenia will continue to remain a reliable partner and an inseparable member by promoting and supporting initiatives aimed at transforming challenges into opportunities both at global and regional levels.