

HOW GEOPOLITICAL EVENTS RESHAPE ARMENIA'S EXPORT COMPETITIVENESS

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Against the background of the Russia-West conflict, Armenia's foreign trade has experienced substantial structural shifts in both product composition and geographical distribution. The significant rise in exports is mainly driven by the re-export of gold and high-technology products. Although re-export has low value-added, it significantly impacts the economy.

The present paper evaluates the changes in Armenia's export competitiveness following the Russo-Ukrainian war. The analysis reveals a decline in the competitiveness of Armenia's main export products, including ores, beverages, and several agricultural products. An increase in competitiveness was observed only in the sectors of tobacco, iron and steel, and certain textile products.

In recent years, the Armenian economy has experienced a significant growth, accompanied by changes in the volume and structure of foreign trade. Following the Russian-Ukrainian war, Western powers started enforcing unprecedented sanctions on Russia, and the list of these sanctions keeps growing. The Russia-West confrontation has created opportunities for Armenia's trade, positioning the country as a mediator between the world and Russia.

Figure 1 shows that both exports and imports have increased sharply since 2022. In 2021, the export volume was 3.0 billion USD, while by 2023, it had increased to 8.4 billion USD. A similar trend is observed in imports, which rose from 5.3 billion USD to 12.0 billion USD during the same period.



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FIGURE 1

Armenia's foreign trade 2014-2023, billion USD¹

It is beyond Armenia's economic capacity to scale its resources to a level that would sustain such a significant increase in export volumes in the short term. In this context, it is important to highlight that the majority of trade flows consist of re-exports. On the one hand, re-exports bring significant financial inflows, on the other hand, they weaken the economy by decreasing the competitiveness of exports produced in the country due to the appreciation of the dram exchange rate.

Both the geographical and product structure of Armenia's trade have undergone significant changes. Russia's share in Armenia's exports rose from 27.4% to 40.4%, while the EU's share dropped from

22.1% to 8.5%. The UAE and Hong Kong have emerged as major export markets for Armenia. Armenia has primarily re-exported gold to these countries.

Regarding imports, the key factor is the increase in Russia's share from 29.3% to 32.3%. In addition, imports from Vietnam have surged by approximately 14 times, making it the 4th largest import partner of Armenia.

The share of traditional sectors in the export structure has declined, including ores, beverages, tobacco, and iron and steel. Meanwhile, the share of the "Precious and semi-precious stones; precious metals" category, as well as automobiles, machinery, and

TABLE 1

Geographical structure of RA trade in 2019 and 2023¹

EXPORT					IMPORT				
	Partner	2019	Partner	2023		Partner	2019	Partner	2023
1	Russia	27.4%	Russia	40.4%	1	Russia	29.3%	Russia	32.3%
2	EU	22.1%	UAE	26.6%	2	EU	18.6%	EU	15.1%
3	Switzerland	17.5%	EU	8.5%	3	China	14.8%	China	13.5%
4	China	7.4%	Hong Kong	8.0%	4	Iran	6.4%	Viet Nam	6.8%
5	Iraq	6.8%	China	5.1%	5	Türkiye	5.2%	Iran	5.0%
	Other	18.8%	Other	11.5%		Other	25.7%	Other	27.4%

¹ <https://comtradeplus.un.org/>

² <https://comtradeplus.un.org/>

TABLE 2

Commodity structure of RA trade in 2019 and 2023³

EXPORT					IMPORT				
	Commodity group	2019	Commodity group	2023		Commodity group	2019	Commodity group	2023
1	Ores, slag and ash	25.4%	Precious, semi-precious stones; precious metals	38.4%	1	Mineral fuels, oils and products of their distillation;	15.1%	Precious, semi-precious stones; precious metals	19.1%
2	Precious, semi-precious stones; precious metals	15.8%	Electrical machinery and equipment and parts thereof	11.8%	2	Machinery and mechanical appliances; parts thereof	9.7%	Vehicles and parts and accessories thereof	12.5%
3	Beverages, spirits and vinegar	11.2%	Ores, slag and ash	9.6%	3	Electrical machinery and equipment and parts thereof	7.3%	Electrical machinery and equipment and parts thereof	11.8%
4	Tobacco	11.1%	Vehicles and parts and accessories thereof	6.2%	4	Precious, semi-precious stones; precious metals	5.8%	Mineral fuels, oils and products of their distillation	8.8%
5	Iron and steel	5.7%	Tobacco	4.5%	5	Vehicles and parts and accessories thereof	5.8%	Machinery and mechanical appliances; parts thereof	8.6%
	Other	30.8%	Other	29.5%		Other	56.2%		39.1%

equipment, has increased. Moreover, these products also dominate imports.

Thus, amid geopolitical conflicts, Armenia's foreign trade has experienced significant transformations. Along with the sharp increase, the commodity and geographical structure of trade has changed. Let us examine how these changes have impacted the country's export competitiveness.

Generally, export competitiveness is a stable concept, although it changes gradually over time. The reason for this is that a country's specialization is mainly determined by factors such as the availability of human capital, natural resources, and the quality of its institutions. These are factors that are difficult to change in a short time⁴. Other factors can either enhance or diminish competitiveness to varying extents.

To assess the export competitiveness of the Republic of Armenia, the Normalized Revealed Comparative Advantage Index (NRCA index) is used. The latter is the most recent and improved index and is comparable by products, countries and time⁵.

The analysis of the NRCA index has highlighted the following trends:

- In 2023, Armenia held comparative advantages in 17 out of 98 product groups within the 2-digit classification of the Harmonized System (HS). In the previous period, Armenia had comparative advantages in 18 out of 98 product groups. Armenia has lost its competitive advantages in 5 product groups and gained them in 4 new product groups.
- The group of precious or semi-precious

³ <https://comtradeplus.un.org/>

⁴ Hausmann, Ricardo, Jason Hwang, and Dani Rodrik. "What You Export Matters." CID Working Paper Series 2005.123, Harvard University, Cambridge, MA, December 2005.

⁵ Yu, R., Cai, J. & Leung, P. The normalized revealed comparative advantage index. Ann Reg Sci 43, 267–282 (2009). <https://doi.org/10.1007/s00168-008-0213-3>

TABLE 3

Commodity structure of RA trade in 2019 and 2023⁶

Code	Product group	NRCA 2019	NRCA 2023	Change	Export, mln USD, 2019	Export, mln USD 2023
71	Precious, semi-precious stones; precious metals	0.000017540	0.000133998	0.00011646	414.7	3211.6
85	Electrical machinery and equipment and parts thereof.	-0.000019875	-0.000010628	0.00000925	16.9	988.2
26	Ores, slag and ash	0.000034277	0.000031802	-0.00000247	665.1	802.9
87	Vehicles and parts and accessories thereof	-0.000010161	-0.000008179	0.00000198	23.6	517.1
24	Tobacco	0.000015409	0.000016653	0.00000124	290.5	380.7
22	Beverages, spirits and vinegar	0.000014929	0.000014916	-0.00000001	292.9	377.1
84	Machinery and mechanical appliances; parts thereof	-0.000015489	-0.000030247	-0.00001476	27.6	302.6
72	Iron and steel	0.000005290	0.000005984	0.00000069	149.7	291.0
62	Apparel and clothing accessories; not knitted or crocheted	0.000005102	0.000006875	0.00000177	124.2	226.9
90	Optical, medical or surgical instruments and apparatus; parts and accessories	-0.0000017	-0.000005857	-0.00000419	55.7	127.0
76	Aluminum and articles thereof	0.000004047	0.000000834	-0.00000321	99.6	104.5
61	Apparel and clothing accessories; knitted or crocheted	0.000000584	0.000000560	-0.00000002	41.0	97.4
27	Mineral fuels, mineral oils and products of their distillation; electrical energy	-0.000013191	-0.000040721	-0.00002753	68.9	74.4
20	Preparations of vegetables, fruit, nuts or other parts of plants	0.000000934	0.000001121	0.00000019	26.2	55.4
3	Fish and crustaceans, molluscs and other aquatic invertebrates	0.000000544	0.000000361	-0.00000018	26.9	53.8
7	Vegetables and certain roots and tubers; edible	0.000001470	0.000000672	-0.00000080	37.5	49.7
8	Fruit and nuts, edible; peel of citrus fruit or melons	0.000000747	-0.000000173	-0.00000092	32.0	48.5
18	Cocoa and cocoa preparations	0.000000620	-0.000000089	-0.00000071	18.4	20.8
6	Trees and other plants, live; bulbs, roots and the like; cut flowers and ornamental foliage	0.000000231	0.000000495	0.00000026	7.4	20.6
1	Animals; live	0.000000227	0.000000134	-0.00000009	7.4	12.7
25	Salt; earths, stone; plastering materials, lime and cement	0.000000141	-0.000000619	-0.00000076	8.9	10.4
16	Meat, fish or crustaceans, molluscs or other aquatic invertebrates; preparations thereof	0.000000039	-0.000000575	-0.00000061	8.0	10.1
91	Clocks and watches and parts thereof	0.0000018	-0.000000676	-0.00000245	40.3	9.1
92	Musical instruments; parts and accessories	-0.00000001	0.000000176	0.00000023	0.0	6.8
78	Lead and articles thereof	-0.000000051	0.000000088	0.00000014	0.1	5.0
43	Furskins and artificial fur;	-0.000000067	0.000000003	0.00000007	0.1	1.6
45	Cork and articles of cork	-0.000000012	0.000000007	0.00000002	0.1	1.0

stones and precious metals is the most competitive group, which has seen the largest increase in competitiveness during the mentioned period. It is also important to mention that this group is a major export sector for Armenia, as the country not only re-exports gold but also has a long tradition of exporting

- diamonds, precious stones, and metals.
- The country has lost its comparative advantages in agro-industrial products such as cocoa, fruits and nuts, meat and fish products, minerals like "Salt, earth, stone, plastering materials, lime, and cement," as well as in the export of watches.

⁶ <https://comtradeplus.un.org/>

- The country has gained comparative advantages in the following product groups: musical instruments, lead, cork, and products made from natural and artificial fur. However, it is worth mentioning that the export volumes of these products are small and do not even reach 0.1% of total exports.
- In 2023, several high-tech products exported from Armenia do not possess comparative advantages. These include the largest export categories: electrical machinery and equipment, primarily smartphones; vehicles; machinery and mechanical appliances; and medical or surgical instruments and apparatus. The export of these products significantly increased from \$123.8 million in 2019 to \$1.9 billion in 2023. These products are primarily re-exported to Russia, and in the case of machinery, also to Belarus.
- There has been an increase in

competitiveness in sectors such as tobacco, ferrous metals, clothing (not knitted or crocheted).

- Re-exports have distorted the structure of trade. Traditional sectors, such as ores, alcoholic and non-alcoholic beverages, and aluminum have experienced a decline in competitiveness.

Thus, it can be concluded that amid the Russia-West conflict, some of Armenia's key traditional export sectors have experienced a decline in competitiveness. The unprecedented increase in re-exports has led to a decline in the competitiveness of ores, beverages, and several agricultural products in exports. An increase in competitiveness has been observed only in tobacco, ferrous metals, and several textile categories. Despite having a significant share, the re-exports of high-technology products from Armenia lack competitive advantages.

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ՇՈՒՀԱՆ ՄՈՎԱՍԽԱՅԱԼ

ՀՊՏՀ «Ամբերդ» հեղափոխական կենտրոնի փորձագետը

ՀԱՅԱՍՏԱՆԻ ԵՎ ԱՇԽԱՐՀ

ԻՆՉՊԵՍ ԵՆ ԱՇԽԱՐՀԱՔԱՂԱՔԱԿԱՆ ԻՐԱԴԱՐՁՈՒԹՅՈՒՆՆԵՐԸ ՎԵՐԱՓՈԽՈՒՄ ՀԱՅԱՍՏԱՆԻ ԱՐՏԱՀԱՆՄԱՆ ՄՐՑՈՒՆԱԿՈՒԹՅՈՒՆԸ

Ռուսաստան-Արևմուտք հակամարտության խորապատկերում Հայաստանի արտաքին առևտուրը ենթարկվել է նշանակալի կառուցվածքային փոփոխությունների՝ թե՛ ապրանքային, թե՛ աշխարհագրական տեսանկյունից: Արտահանման շեշտակի աճը պայմանավորված է ոսկու և բարձր տեխնոլոգիական ապրանքների վերաարտահանմամբ: Թեև վերաարտահանումն ունի ցածր ավելացված արժեք, սակայն զգալի ազդեցություն է ունենում տնտեսության վրա:

Հոդվածում գնահատվել են Հայաստանի արտահանման մրցունակության փոփոխությունները 2019 և 2023 թթ.: Վերլուծությունը ցույց է տալիս, որ հանքաքարի, խմիչքների, գյուղատնտեսական մի շարք ապրանքների մրցունակությունը նվազել է: Մրցունակության աճ է գրանցվել միայն ծխախոտի, սև մետաղների, տեքստիլ մի շարք ապրանքների գծով:

Հիմնաբառեր. արտահանում, մրցունակություն, վերաարտահանում, ՆԳՀԱ ինդեքս

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АРМЕНИЯ И МИР

КАК ГЕОПОЛИТИЧЕСКИЕ СОБЫТИЯ МЕНЯЮТ КОНКУРЕНТОСПОСОБНОСТЬ ЭКСПОРТА АРМЕНИИ?

На фоне конфликта Россия-Запад внешняя торговля Армении претерпела значительные структурные изменения как в составе продукции, так и в географическом распределении. Существенный рост экспорта в основном обусловлен реэкспортом золота и высокотехнологичной продукции. Хотя реэкспорт имеет низкую добавленную стоимость, его влияние на экономику значительное.

В статье оцениваются изменения конкурентоспособности экспорта Армении после российско-украинской войны. Анализ показывает снижение конкурентоспособности основных экспортных товаров Армении, включая руды, напитки и некоторые сельскохозяйственные продукты. Увеличение конкурентоспособности было зафиксировано только в секторах табака, черных металлов и некоторых текстильных изделий.

Ключевые слова: экспорт, конкурентоспособность, реэкспорт, индекс NRCA