

Eastern chessboard: Geopolitical Determinants and Challenges in Eastern Europe and the South Causes, KSIĘGARNIA AKADEMICKA, Krakov 2015 pp. 231-247

*Author's name:* Hayrapetyan Grigor

*Academic affiliation:* PhD in Economics, Associate Professor, Department of International Economic Relations, Faculty of Economics, Yerevan State University, Armenia

*E-mail address:* grigor.hayrapetyan@yahoo.com

*Mailing address:* Yerevan State University, Faculty of Economics, Department of International Economic Relations. 52 Abovyan str., Yerevan, 0025, Armenia

*Author's name:* Hayrapetyan Viktoriya

*Academic affiliation:* PhD in Economics, Senior Lecturer, Department of Economics and Finance, Russian-Armenian (Slavonic) University

*E-mail address:* hayrapetyanv@rambler.ru

*Mailing address:* Russian-Armenian (Slavonic) University, Institute for Economics and Business, Department of Economics and Finance. 123 Hovsep Emin str., Yerevan, 0051 Armenia

### **Economic Relations between Armenia and the EU within the framework of Eastern Partnership**

*Abstract:* In the nearest future a new agreement will be concluded between the EU and Armenia that aimed at further developing and strengthening their comprehensive cooperation in all areas of mutual interest taking into account the other international commitments of Armenia, in particular its decision to join the EEU. In our paper we analyze the present conditions of the bilateral trade flows between the RA and the EU, and the flows of investments from the EU to the RA aiming to reveal the base for further development of economic relations between the RA and the EU. The EU has always been one of the leading economic partners of Armenia since its independence. We found that the main characteristics of the RA-EU economic relations are 1) geographical (by-country) concentration – 5 European countries covered in 2014 above 95% of the total Armenia's export to the EU; and 7 EU countries covered in 2013 about 94% of gross inflow of foreign investments from the EU into the RA; 2) raw-material orientation of both export flows from Armenia to the EU and investments from the EU into the Armenian economy. Thus Armenian government should make efforts in the line of reimagining of Armenia for European business from raw-materials base to provider of manufactured products.

*Key words:* Eastern Partnership, trade flows, investment.

The Eastern Partnership (EaP) is a European Union foreign policy launched in 2009 and addressed to six partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Although the EaP involves both Eastern European and Southern-Caucasian countries, these countries are considered as one region on account of their common historical experiences, their economic ties and the similar economic problems facing them.<sup>1</sup> The main goal of the EaP is to create the necessary conditions to accelerate political association and further economic integration between the European Union and interested partner countries.<sup>2</sup>

The EaP supports and encourages reforms in the partner countries for the benefit of their citizens. The pace and scope of reforms depends primarily on the partner countries themselves. Georgia, Moldova and Ukraine in 2014 concluded the Association Agreements/Deep and Comprehensive Free Trade Areas that have brought the relations between them and the EU to a new level. The agreements cover trade in goods and services, and alignment of the regulations of the partner countries to the EU standards. Through these agreements partner countries have the possibility of economic integration with European market, to benefit fully from the influx of EU investment and capital, as well as access to modern technology necessary for conducting modernization processes.<sup>3</sup>

Armenia, Azerbaijan and Belarus did not conclude these agreements; the reasons were different for each country. One of the conditions of participation in European economic integration is membership in the World Trade Organization, but Azerbaijan and Belarus haven't joined the WTO yet.<sup>4</sup> Now the EU is discussing a closer relationship with Azerbaijan, which reflects their respective interests and values. Belarus has been participating in the Eurasian integration processes since they came into existence. Today the EU is deepening, in carefully calibrated mutual steps, its critical engagement with Belarus.<sup>5</sup>

Armenia is a WTO member. The EU and Armenia have completed negotiations on an Association Agreement, including a Deep and Comprehensive Free Trade Area, but in 2013 during the third EaP Summit in Vilnius the EU and Armenia acknowledged that they would not proceed with its initialing due to Armenia's new international commitments: early in 2013 Armenian President announced Armenia's plans to join the Russian-led Customs Union,

---

<sup>1</sup> Eastern Partnership. Ministry of Foreign Affairs of the Republic of Poland. At [http://eastern-partnership.pl/pw\\_en/index.php](http://eastern-partnership.pl/pw_en/index.php), p. 5

<sup>2</sup> Joint Declaration of the Prague Eastern Partnership Summit (Prague, 7 May 2009). European Union – EEAS (European External Action Service) at <http://eeas.europa.eu>

<sup>3</sup> Eastern Partnership from Prague to Riga – leaflet. European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>

<sup>4</sup> Understanding the WTO: the organization. Members and Observers. At [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)

<sup>5</sup> Eastern Partnership from Prague to Riga – leaflet. European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>, p.2

followed by succession into the Eurasian Economic Union (EEU).<sup>6</sup> Since January 2015 Armenia is a member of the EEU.<sup>7</sup>

In the “Joint Declaration of the Eastern Partnership Summit” (Vilnius, 2013) it was declared that “the EU and Armenia have today reconfirmed their commitment to further develop and strengthen their cooperation in all areas of mutual interest within the EaP framework, stressing the importance of reviewing and updating the existing basis of their relations... the Summit participants reaffirm the sovereign right of each partner freely to choose the level of ambition and the goals to which it aspires in its relations with the EU”.<sup>8</sup>

During the next EaP Summit that took place in Riga in 2015 it was declared the “future agreement between the EU and Armenia aimed at further developing and strengthening their comprehensive cooperation in all areas of mutual interest”. Future contractual relations will take into account the other international commitments of Armenia, in particular its decision to join the EEU. The European Commission adopted on 19 May a proposal to the Council for a new mandate, paving the way for negotiation of a new agreement between the European Union and Armenia soon.<sup>9</sup>

Thus the Armenia’s membership in the EEU doesn’t restrict the economic, political and cultural relations between Armenia and the EU. Analysis of economic perspectives for Armenia in the context of EaP is on the agenda today. Economic cooperation between Armenia and the EU cover both trade in goods and services and the influx of EU investment and capital. Taking into account all above-mentioned the aim of our paper is to reveal the base for further development of economic relations between the Republic of Armenia (RA) and the European Union in the context of Eastern Partnership by studying the present condition of the bilateral trade flows between the RA and the EU, and the flows of investments from the EU to the RA.

### ***Trade Relations between the Republic of Armenia and the European Union<sup>10</sup>***

Armenia is a small, landlocked and economically blockaded country. The main foreign trade problems that Armenia has been facing since its independence are the trade balance deficit

---

<sup>6</sup> Armenia-EU Joint Statement at Eastern Partnership Summit. Independent Journalist’s Network E-press.am. 29 Nov., 2013. At <http://www.e-press.am/en/2013/11/29/armenia-eu-joint-statement-at-eastern-partnership-summit.html>

<sup>7</sup> Armenia becomes full member of Eurasian Economic Union. NEWS.am. 02 Jan. 2015. at <http://news.am/eng/news/246730.html>

<sup>8</sup> Eastern Partnership: the way ahead. Joint Declaration of the Eastern Partnership Summit (Vilnius, 28-29 November 2013). European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>

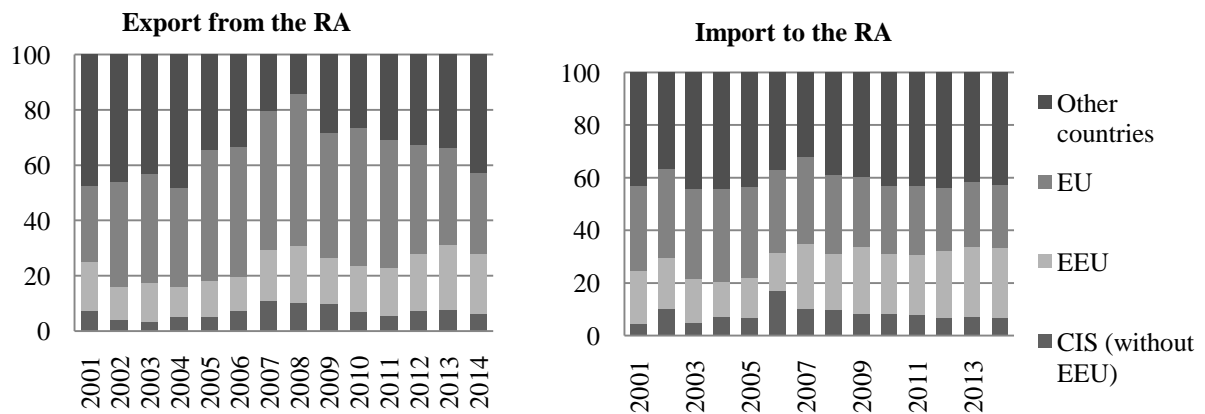
<sup>9</sup> Joint Declaration of the Eastern Partnership Summit (Riga, 21-22 May 2015). European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>; Eastern Partnership: a policy that delivers. Brussels, 21 May 2015. European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>; Eastern Partnership from Prague to Riga – leaflet. European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>

<sup>10</sup> All trade data are taken from or calculated by the authors on the database of International Trade Center // [www.trademap.org](http://www.trademap.org)

and the raw-materials export. Having not sufficient national market in order to provide dynamic economic growth Armenia has to extend its trade flows in geographical and product directions.

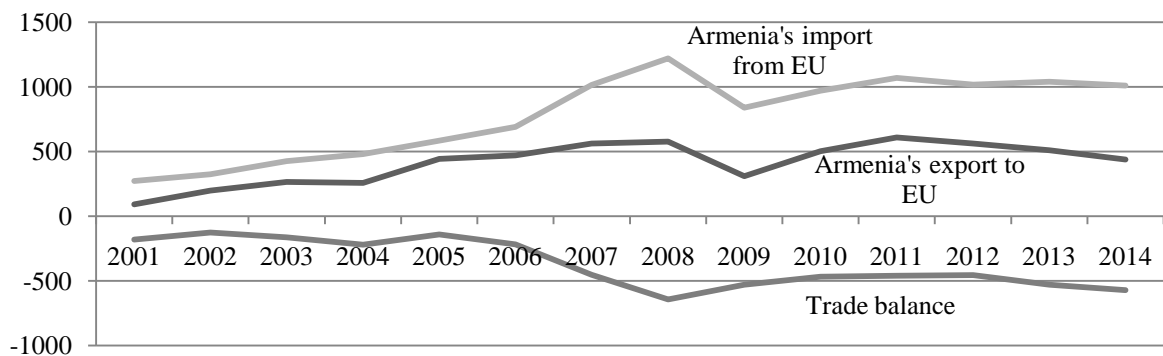
Key trading partners of the RA are EU countries and EEU countries (Figure1). EEU countries covered about 22% of total Armenian export and 27% of Armenian import in 2014. But these trade flows are very concentrated: Russia is a leading partner of the RA in the EEU: 20% of Armenian export in 2014 went to Russia and about 26% of Armenian import came from Russia.

**Figure 1: Geographical Composition of Foreign Trade Flows of Armenia, as a share to total trade flow, %**



The EU is one of the leading trading partners of Armenia all over the world. For last 14 years EU countries has covered on the average above 40% of Armenia’s export and above 30% of its import. But for a few years we can observe the decreasing of the EU markets’ share in Armenian export (from 55% in 2008 to 30% in 2014), as well the share of the EU products on Armenian market has also reduced from 33% in 2001 to 24% in 2014.

**Figure 2: Trade Flows between Armenia and the EU, USD million**



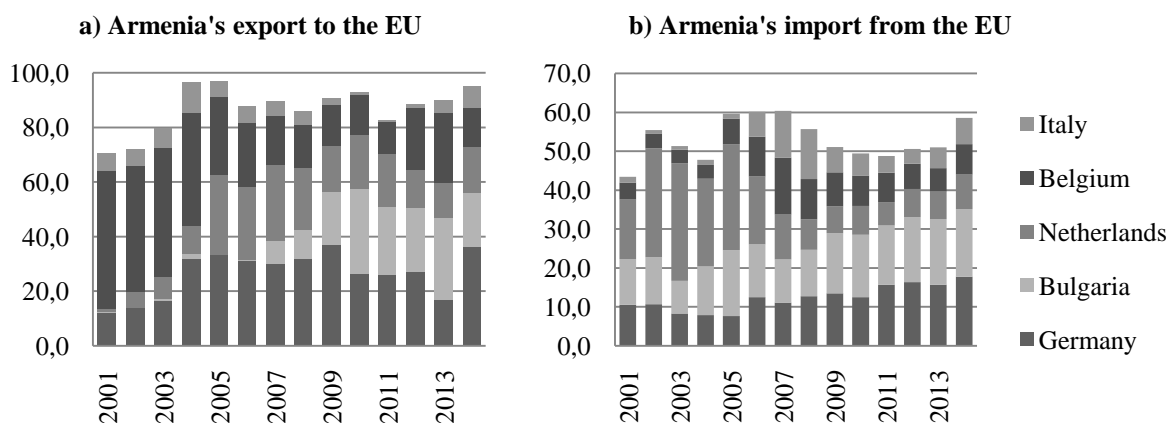
However in the absolute values trade turnover between the RA and the EU increased above 3.9 times from 0.4 USD billions in 2001 to 1.5 USD billions in 2014. The increasing has been observed on both export and import flows. Certainly, latest economic crises negatively influenced the trade volumes (in 2009 Armenia’s export fell on 45%, import – on 34%), but in 2010 the situation began to improve.

For the considered period the volumes of import from EU countries to Armenia significantly exceed the volumes of Armenia's export to the EU (Figure 2). In 2014 the trade balance deficit reached 0.6 USD billion.

Aiming to show the detailed picture of the trade between Armenia and the EU we'll consider the geographical (by-country) and product compositions of the bilateral trade flows. Five EU countries (Germany, Bulgaria, Netherlands, Belgium, and Italy) covered in 2014 above 95% of the total Armenia's export to the EU and 59% of Armenia's import from the EU (Figure 3). The leader is Germany: 36% of Armenian export to the EU and 18% of its import in 2014.

Taking into account that this tendency has been observed for the whole considered period we'll study the product composition of Armenia-EU bilateral trade flows on the base of these five EU countries.

**Figure 3: The Leading Trading Partners of Armenia in the European Union, as a share to total trade flow between the RA and the EU, %**



The main characteristic of Armenia's export product composition is its high concentration (Table 1). Five product groups cover 95% of total flows from Armenia to Germany; 99% Armenian export to Bulgaria is presented by one product group; 98% of export flows to Netherlands is covered by two product groups; three product labels present 98% of export to Belgium; and 94% of flows to Italy is two product groups.

The second characteristic is its raw-materials export orientation. Almost 99% of Armenia's export to Bulgaria is only one product group: "Ores, slag and ash". 71% of Armenian trade flow to Germany is covered by two product groups: "Iron and steel" and "Copper and articles thereof". 83% of Armenian export to Netherlands is presented by one product label "Iron and steel". Above 30% of Armenia's export to Belgium falls on two groups "Ores, slag and ash" and "Copper and articles thereof". Here is one more product group "Pearls, precious stones, metals, coins, etc" that covers 68% of Armenian export to Belgium. However we can see this product group both in export and import flows (Table1 and Table 2). The case is that Armenia imports from Belgium uncut materials, then they are processed at Armenian enterprises and later

they are exported to Belgium as a finished product. To Italy Armenian export on 92% is presented by product group “Articles of apparel, accessories, not knit or crochet”.

**Table 1: Product Composition of Armenia’s Export to some EU Markets, Value in 2014**

<i>Product Label</i>	<i>USD mln</i>	<i>%</i>	<i>USD mln</i>	<i>%</i>	<i>USD mln</i>	<i>%</i>	<i>USD mln</i>	<i>%</i>	<i>USD mln</i>	<i>%</i>
	<b>Germany</b>		<b>Bulgaria</b>		<b>Netherlands</b>		<b>Belgium</b>		<b>Italy</b>	
Ores, slag and ash			84.6	98.8	11.1	14.9	11.5	18.4		
Articles of apparel, accessories, knit crochet									0.9	2.6
Articles of apparel, accessories, not knit or crochet	11.8	7.4							31.7	91.7
Pearls, precious stones, metals, coins							42.6	68.3		
Iron and steel	48.1	30.4			61.8	83.3				
Copper and articles thereof	64.8	40.9					6.9	11.1		
Aluminium and articles thereof	6.8	4.3								
Other base metals, cermets, art. there	19.0	12.0								
<b>Mentioned articles</b>	<b>150.5</b>	<b>95.0</b>	<b>84.6</b>	<b>98.8</b>	<b>72.9</b>	<b>98.2</b>	<b>61.0</b>	<b>97.9</b>	<b>32.6</b>	<b>94.2</b>
<b>Total Armenia’s export to considered countries on mentioned product groups amounts 401.6 USD millions or 92% of the total Armenia's export to the EU</b>										

**Table 2: Product Composition of Armenia’s Import from some EU Countries, Value in 2014**

<i>Product Label</i>	<i>USD mln.</i>	<i>%</i>	<i>USD mln.</i>	<i>%</i>	<i>USD mln.</i>	<i>%</i>	<i>USD mln.</i>	<i>%</i>	<i>USD mln.</i>	<i>%</i>
	<b>Germany</b>		<b>Bulgaria</b>		<b>Netherlands</b>		<b>Belgium</b>		<b>Italy</b>	
Mineral fuels, oils, distillation products, etc			5.2	20.3						
Inorganic chemicals, precious metal compound, isotopes			2.0	7.7						
Pharmaceutical products	18.0	10.3	1.5	5.8	5.2	11.1	5.1	5.7		
Essential oils, perfumes, cosmetics, toileteries	9.3	5.3	2.1	8.1						
Soaps, lubricants, waxes, candles, modelling pastes			4.1	15.9						
Manmade filaments									10.3	5.7
Manmade staple fibres	13.5	7.7								
Other made textile articles, sets, worn clothing etc					5.3	11.2				
Pearls, precious stones, metals, coins, etc							58.0	65.1		
Machinery, nuclear reactors, boilers, etc	31.6	18.0	2.0	8.0	4.2	9.0	7.0	7.8	47.9	26.8
Electrical, electronic equipment	9.5	5.4	1.3	5.0						
Vehicles other than railway, tramway	17.9	10.2								
Optical, photo, technical, medical, etc apparatus	13.0	7.4								
Furniture, lighting, signs, prefabricated buildings					8.4	18.0			7.7	4.3
Miscellaneous manufactured articles			1.4	5.5						
<b>Mentioned articles</b>	<b>112.7</b>	<b>64.2</b>	<b>19.5</b>	<b>76.2</b>	<b>23.1</b>	<b>49.3</b>	<b>70.1</b>	<b>78.7</b>	<b>65.8</b>	<b>36.8</b>
<b>Total Armenia’s import from considered countries on mentioned product groups amounts 291.2 USD million or 29% of total Armenia's import from the EU</b>										

Resuming the analysis of the export flows from Armenia to five EU countries we can point out that Armenian export flows to Belgium and Italy differ from flows to Germany,

Bulgaria, and Netherlands and positively influence the development of Armenian economy as the more added values in these cases are generated; consequently the more profits remain at Armenian enterprises.

Looking through the product composition of Armenia's import from mentioned five EU countries (that are as well the leading supplying markets from the EU for a product imported by Armenia) it should be noted that Armenia imports "everything" (Table 2). 22% of import flows from Germany, Bulgaria, Netherlands, Belgium, and Italy are presented by product group "Machinery, nuclear reactors, boilers, etc". 9% of import flows from Germany, Bulgaria, Netherlands, and Belgium are covered by "Pharmaceutical products". As well Armenia imports from Germany "Vehicles other than railway, tramway" (10% of total import from Germany); from Bulgaria "Mineral fuels, oils, distillation products, etc" (20% of import) and "Soaps, lubricants, waxes, candles, modeling pastes" (16%); from Netherlands "Furniture, lighting, signs, prefabricated buildings" (18%). Product group "Pearls, precious stones, metals, coins, etc" covers 65% of Armenia's import from Belgium.

A few years ago we completed the research aiming to estimate the trade potential for Armenia by product groups in regional and international directions using gravity approach. We applied the gravity model to estimate trade flows between 139 countries all over the world for the years 2003-2007 and then to use the obtained coefficients to estimate trade potential for Armenia. The trade flows data was disaggregated into seven groups according to Broad Economic Categories' 1-digit classification that allowed predicting changes in geographical and product compositions of foreign trade flows.

Our results showed that the export potentials for Armenia with four of considered in this paper countries are extremely exhausted (Belgium – (-102.12 USD millions), Netherlands - (-74.22 USD millions), Germany - (-70.86 USD millions), and Bulgaria - (-8.42 USD millions)). Analyzing the trends of Armenian export potentials to these countries for the years 2003-2007 we observed that exceeding of Armenian export potentials was decreasing with Belgium, with the rest of the mentioned countries it was increasing.

Studying Armenia's export potentials on other product groups we observed that exports of "Food and beverages" and "Consumer goods" had potentials to increase, at that the goods from these product groups provided a significant added value into national economy. The total Armenian export potential of "Food and beverages" to Belgium, Netherlands, and Germany amounted 6.87 USD millions, export potential of "Consumer goods" to Belgium, Netherlands, Germany, and Bulgaria was about 6.06 USD millions. Looking through the countries with maximal potential to expand Armenian export we saw among them France (export potential was 24.13 USD million), the UK (22.48 USD million), Spain (16.10 USD million), Italy (15.94 USD

million), Sweden (11.24 USD million), Poland (7.96 USD million), and Greece (7.33 USD million). In a general according to our results the product group with maximal export potential to these countries was “Industrial supplies”.

According to our results totally the EU countries those having the potentials presented the possibility to increase Armenian export by 161.36 USD million. But accounting that Armenia had exceeded its trade potential with Belgium, Netherlands, Germany, and Bulgaria by 255.62 USD millions we saw that in a whole Armenian export to the EU countries was exceeded.

In general the results of our previous research showed that Armenia over-exported to the EU countries, especially the raw materials. Seven years past after the completing of our research, but in the product and by-country compositions of bilateral trade flows between Armenia and the EU nothing has changed yet. 73% of trade flows from Armenia to the EU in 2014 was the raw-materials export. Two perspective directions that provide the more significant added values and positively affect the domestic production’s development cover 16.9% of Armenian export to the EU: Armenia’s export to Italy in 2014 (“Articles of apparel, accessories, not knit or crochet”) amounts 7.2% of the total export from the RA to the EU, and to Belgium (“Pearls, precious stones, metals, coins, etc”) – 9.7%.

#### ***Flows of Investments from the European Union to the Republic of Armenia<sup>11</sup>***

Stable investment flows evidence the long-term economic relations between countries and form the base for further economic cooperation. The value of gross foreign investments into the RA’s economy in 2013 reached 8.5 USD billion, including the value of foreign direct investments (FDI) – 6.2 USD billion. The main investors are Russian Federation, the EU and the USA. Russian gross investments in 2013 amounted 40% of total gross foreign investments and 41% of total gross FDI; USA’s investments amounted 5% of total gross foreign investments and 4% of total gross FDI. The 24 EU’s countries have invested into Armenian economy since its independence. The value of gross foreign investment inflow from these countries into the RA in 2013 reached 2.8 USD million (that covers 32% of total investment inflow all over the world), foreign direct investments (FDI) amounted about 2.2 USD million (35% of total FDI). For the period 2007-2013 European investors contributed to the RA’s economy about 1.7 USD billion as foreign investments, including 1.3 USD billion as FDI (Figure 4).

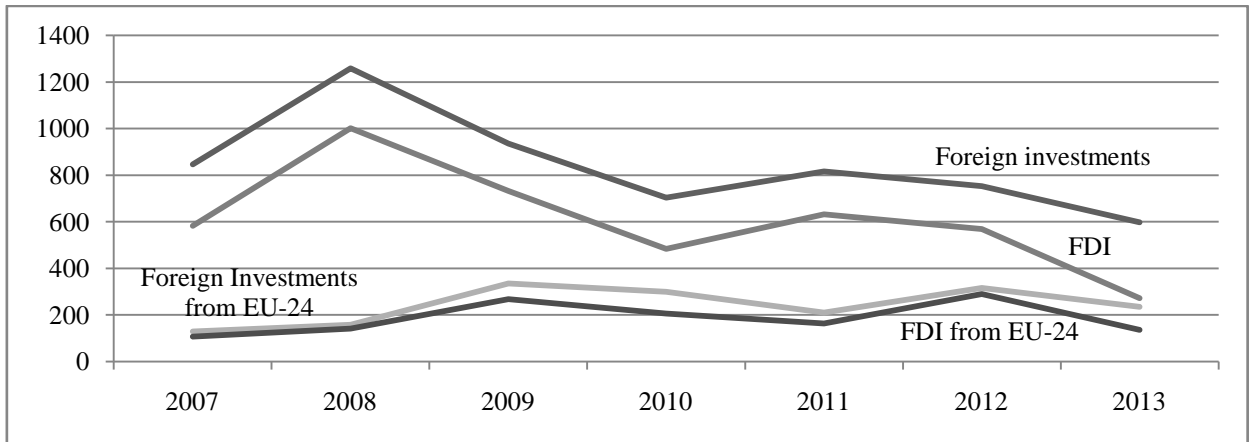
The geographical (by-country) composition of European investments into the RA is rather inhomogeneous: in 2013 the 7 EU’s countries covered 94% of gross inflow of foreign investments and 94% of gross inflow of FDI from EU-24 into the RA (Figure 5). There are France (12.4% of gross foreign investments and 16.4% of gross FDI), Germany (5.0% and 6.5%

---

<sup>11</sup> All data for investment flows are taken from or calculated by the authors on the database of the National Statistical Service of the RA // [www.armstat.am](http://www.armstat.am)

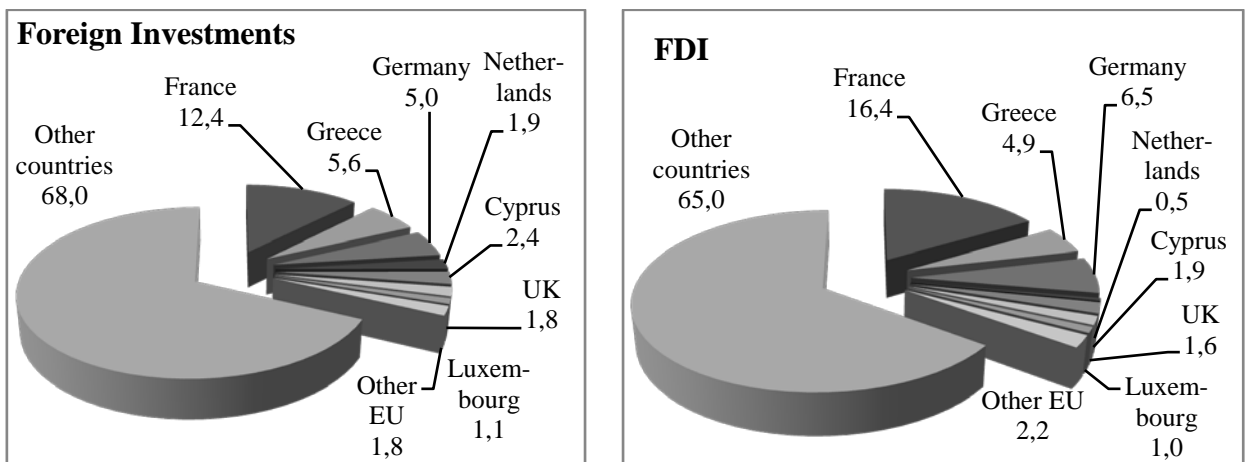
accordingly), Greece (6.5% and 4.9%), UK (1.8% and 1.6%), Cyprus (2.4% and 1.9%), Luxembourg (1.1% and 1%), and Netherlands (1.9% and 0.5).

**Figure 4. Inflows of Foreign Investments into Armenian Economy, USD million**



Looking through the yearly data on investments' flows from the EU into the RA we should note one characteristic: since 1988 till now the set of the EU's countries investing into Armenian economy has been changing - some countries left Armenian market; some countries appeared or strengthened their positions.

**Figure 5: Share of some EU's Countries in Gross Inflows of Foreign Investments into the RA in 2013, %**



For example, Greece invested into the RA only for the period 1988-2006, it was investments into the sphere of communications, while the Greek company was taking the monopolistic position at Armenian market (in 2006 gross investments amounted 478 USD million of investments, including 302 USD million of FDI). Since the year 2007 none "investing" dollar came to Armenia from Greece. Finnish investments into Armenia were observed since 2006 and in 2013 their gross value amounted about 58 USD million, including 23.5 USD million of FDI (favorite sector "Electricity, gas, steam and conditioning supply") (Table 3). Among the EU's countries that stably invested into Armenian economy since its independence we can mark out Belgium: its gross investments in 2013 amounted 28 USD

million (for the period 2007-103 about 11 USD million were invested into the sector “Other manufacturing”); and Ireland: gross investments in 2012 - 17 USD million (for the period 2007-103 the sectors “Computer programming, consultancy and related activities” – about 10 USD million, “Other professional, scientific and technical activities” – about 2 USD million, and “Information service activities”).

France is a leading investor into Armenian economy from the EU: the value of gross foreign investments in 2013 reached 1.05 USD billion (38% of total investments from the EU), including 1.01 USD billion of FDI. The most attractive sectors in the RA for French investors turned to be “Telecommunications” (for the period 2007-2013 investments amounted 0.7 USD billion), “Manufacture of beverages” (0.16 USD billion), and “Water collection, treatment and supply”.

**Table 3: Inflows of Foreign Investments in the RA from some EU’s countries, 2007-2013**

Sector	Country	USD million	Sector	Country	USD million
mining of metal ores	Cyprus	71.9	wholesale, trade, except of motor vehicles and motorcycles	Cyprus	11.7
other mining and quarrying	Cyprus	22.8		Italy	2.0
	Germany	211.1	retail trade, except of motor vehicles and motorcycles	Cyprus	6.0
mining support service activities	UK	9.8		UK	17.7
manufacture of beverages	France	159.0	air transport	UK	32.3
	Luxembourg	54.3	accommodation	Cyprus	23.6
manufacture of wearing apparel	Germany	0.6	telecommunications	France	718.0
printing and reproduction of recorded media	UK	2.6	computer programming, consultancy and related activities	Ireland	9.7
manufacture of chemicals and chemical products	Italy	4.6	financial service activities, except insurance and pension funding	Cyprus	7.4
manufacture of basic pharmaceutical products and preparations	UK	0.1	real estate activities	Italy	36.5
manufacture of rubber and plastic products	UK	1.4	activities of head offices: management consultancy activities	Slovenia	0.8
manufacture of computer, electronic and optical products	UK	2.6	architectural and engineering activities: technical testing and analysis	UK	4.7
manufacture of electrical equipment	Germany	26.7	advertising and market research	Netherlands	17.1
other manufacturing	Belgium	10.2	other professional, scientific and technical activities	Ireland	2.0
electricity, gas, steam and conditioning supply	Netherlands	133.0	rental and leasing activities	Cyprus	0.8
water collection, treatment and supply	France	6.7	sports activities and amusement and recreation activities	UK	2.2
construction of buildings	Cyprus	4.5			

As we mentioned above Greek investments were interrupted in 2007. However Greece takes the second place: about 0.48 USD billion were invested (17.5% of total investments from the EU).

The third place takes Germany: gross investments reached in 2013 about 0.43 USD billion (16% of total investments from the EU). German investors preferred the sectors “Other mining and quarrying” (in 2007-2013 investments amounted 0.2 USD billion), “Manufacture of wearing apparel”, and “Manufacture of electrical equipment” (27 USD million).

Cyprus stably invested into Armenian economy since the year 1988 till now-a-days: gross value in 2013 reached 0.2 USD billion. Cypriot investors chose the sectors “Mining of metal ores” (for the period 2007-2013 - 0.08 USD billion), “Other mining and quarrying” (0.02 USD billion), “Accommodation” (0.02 USD billion), and “Wholesale, trade, except of motor vehicles and motorcycles” (0.01 USD billion). As we see Cypriot investments are more diversified in comparison with other countries’ investments. We can assume that this fact is stipulated that Cypriot capital coming to the RA have Armenian origin.

UK’s enterprises invested into Armenian economy till 2013 about 0.12 USD billion. The most attractive sectors turned to be “Retail trade, except of motor vehicles and motorcycles” (in 2007-2013 - 18 USD million), and “Air transport” (32 USD million).

Netherlands invested into Armenia about 0.17 USD billion. Dutch investors preferred the sectors “Electricity, gas, steam and conditioning supply” (in 2007-2013 were about 0.13 USD billion) and “Advertising and market research” (17 USD million).

As well we should mark out Italy, its gross investments in 2013 amounted about 57 USD million, for the period 2007-2013 Italian investors contributed about 37 USD million in the sector “Real estate activities”.

Concluding we should note that the main characteristic of the EU’s investments into Armenia is their concentration: 5 EU countries (France, Germany, Cyprus, UK, and Netherlands) for the period 2007-2013 invested about 1.4 USD billion that amounted 82% of total investments from the EU.

### ***Conclusion***

Our analysis showed that the main economic partners of Armenia in the EU are: in trade - Germany, Bulgaria, Netherlands, Belgium, and Italy – together they covered in 2014 above 95% of the total Armenia’s export to the EU and 59% of Armenia’s import from the EU; in investment – France, Germany, Greece, UK, Cyprus, Luxembourg, and Netherlands – together they covered in 2013 about 94% of gross inflow of foreign investments and 94% of gross inflow of FDI from the EU into the RA.

Germany is a main European economic partner of the RA: 11% of Armenian export, 4% of Armenian import, 5% of foreign investment, and 7% of FDI into the RA. The raw materials covered 88% of Armenian export to Germany (iron, steel, copper, aluminum, and other base metals). At that German import to the RA is rather diversified and consists of manufactured goods (pharmaceuticals, machinery, electrical and electronic equipment, vehicles, technical and medical apparatus). German enterprises invested mainly in to the sector “Other mining and quarrying” (0.2 USD billion for the period 2007-2013). We can draw a parallel between export and investment flows: German investors develop Armenian mining industry and then import its production. So from economic point of view Germany considers Armenia only as a provider of raw materials.

France is a main EU investor in the RA, but as a trade agent it takes only 6<sup>th</sup> place among EU countries. French enterprises as opposed to German ones invested into manufacturing industry (“Manufacture of beverages” - for the period 2007-2013 - 0.16 USD billion) and service industry (“Telecommunications” - 0.7 USD billion). Armenia’s export to France amounted about 5 USD million (value in 2014) that is equal to 0.3% of total RA’s export, besides 71% of this trade flow present only two product groups: “Articles of apparel, accessories, not knit or crochet” and “Articles of leather, animal gut, harness, travel goods”. As a rule investing is a more risky sphere comparing to trading. French enterprises are ready to invest into Armenian economy. In this case, why is RA’s export to France so small? We assume that situation can be improved by some special measures from side of Armenian government directed to widening the information about Armenian products at French market.

Armenian enterprises’ export to Dutch market amounted about 74 USD million in 2014, but mainly there are raw materials: “Ores, slag and ash” and “Iron and steel”. Dutch investments are mainly directed to sector “Electricity, gas, steam and conditioning supply”. So Armenia’s economic cooperation with Netherlands is rather limited by its product composition.

Investments of United Kingdom’s enterprises into Armenian economy in comparing with other EU countries’ ones are rather diversified. The most part of them is directed to sector “Air transport” (23.7 USD million in 2011 and 8.7 USD million in 2012) and “Retail trade, except of motor vehicles and motorcycles” (in 2007-2013 - 18 USD million). Armenian export to UK rapidly grew from 0.9 USD million in 2012 till 16.3 USD million in 2013 (of which 15.4 USD million was export of product group “Aircraft, spacecraft, and parts thereof”; in 2014 export on this product group was about 1 USD thous.). RA’s export to the UK in 2014 was about 0.4 USD million. In UK’s investments in Armenia there are some sectors with small financing: “Mining support service activities” (9.8 USD million for the period 2007-2013), “Architectural and engineering activities: technical testing and analysis” (4.7 USD million), “Printing and

reproduction of recorded media” (2.6 USD million), “Manufacture of computer, electronic and optical products” (2.6 USD million), “Manufacture of rubber and plastic products” (1.4 USD million), “Other mining and quarrying” (1.2 USD million). Thus the composition of UK’s investments in Armenia allows calling them diversified. However taking into account that the UK is one of the most attractive countries for foreign investments all over the world we can assume that these investments may have Armenian origin as in case of Cyprus (as we mentioned in the previous part of paper).

Bulgaria takes one of the leading positions in Armenian export. In 2001 Armenia’s export to Bulgaria amounted about 0.3 USD million; in 2013 it grew till 152 USD million, and in 2014 decreased till 86 USD million. But 99% of these export flows were presented by one product group “Ores, slag and ash”. Again we observe raw material export. Gross inflows of investments from Bulgaria to the RA reached about 2.8 USD million in 2013.

The volumes of Armenian export to Belgium have been growing as well: in 2001 it was about 47 USD million, and in 2013 it grew till 130 USD million, and in 2014 it decreased till 62 USD million. Looking through the product composition of Armenian export to Belgium we should note that the share of group “Pearls, precious stones, metals, coins, etc” (manufactured products with high added value) decreased since 98% in 2001 till 68% in 2014, and raw materials’ groups appeared (“Ores, slag and ash” and “Copper and articles thereof”). All Belgian investments in the RA directed to the sector “Other manufacturing”.

Resuming we can mark out that main characteristic of economic relations between the RA and the EU is their raw-materials-orientation. Just a few EU countries invested into manufacturing industries and import manufactured products. Taking into account that in the nearest future a new agreement between the European Union and Armenia will be concluded we assume that Armenian government should make efforts in the line of reimagining of Armenia for European business: Armenia is able to provide at the foreign markets manufactured goods and is open for foreign investments into manufacturing industries.

### **Bibliography**

Joint Declaration of the Prague Eastern Partnership Summit (Prague, 7 May 2009). European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>

Eastern Partnership: the way ahead. Joint Declaration of the Eastern Partnership Summit (Vilnius, 28-29 November 2013). European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>

Joint Declaration of the Eastern Partnership Summit (Riga, 21-22 May 2015). European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>

Eastern Partnership: a policy that delivers. Brussels, 21 May 2015. European Union – EEAS (European External Action Service). At <http://eeas.europa.eu>

Eastern Partnership from Prague to Riga – leaflet. European Union – EEAS (European External Action Service). May 21, 2015.-At <http://eeas.europa.eu>

Eastern Partnership. Ministry of Foreign Affairs of the Republic of Poland. At [http://eastern-partnership.pl/pw\\_en/index.php](http://eastern-partnership.pl/pw_en/index.php)

Understanding the WTO: the organization. Members and Observers. At [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)

Armenia-EU Joint Statement at Eastern Partnership Summit. Independent Journalist's Network E-PRESS.am. 29 Nov., 2013. At <http://www.epress.am/en/2013/11/29/armenia-eu-joint-statement-at-eastern-partnership-summit.html>

Armenia becomes full member of Eurasian Economic Union. NEWS.am. 02 Jan. 2015. at <http://news.am/eng/news/246730.html>