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EU-ARMENIA COOPERATION WITHIN THE EASTERN PARTNERSHIP AND ITS IMPACT ON ARMENIAN ECONOMY

The European Union has actively engaged itself in cooperation with its Eastern neighbours. The Eastern Partnership is a concept of political cooperation and economic integration in the future with six countries – Moldova, Ukraine, Belarus, Georgia, Armenia and Azerbaijan. Republic of Armenia regards this programme as a framework for improving its market institutions and judicial system and for creation of business opportunities. Although Armenia decided not to sign the Association Agreement and join the Russia-led Eurasian Customs Union, there is still room for cooperation with the EU on a sector-by-sector basis. The paper is divided in three parts. The first one describes the history of the Armenian cooperation with the European Union within the Eastern Partnership. The second part deals with the barriers and opportunities for mutual cooperation. The last part shows the changes in the Armenian economy during the last decade.

1. Introduction

Armenia has always tried to have a balanced foreign policy, combining integration of different directions. The cooperation with European Union has always been a priority for Armenia's foreign policy. From the first years of independence Armenia tried to adopt European standards by implementing a number of reforms aimed at improving market economy, effective governance, democracy, human rights and the rule of law. RA government recognizes that close trading relations with Europe is highly beneficial for the country's

economic development. Although Armenia has no common borders with EU and is blockaded by its two neighbour countries, a big part of export is going to EU, underlining tangible economic incentives for European integration. This process intensified gradually till July 2013, when all rounds of negotiations on the Association Agreement have been concluded. Several months later Republic of Armenia decided to join the Eurasian Economic Union (EEU), which made unable closer integration with the EU.

The paper is divided in three parts. The first one describes the history of the Armenian cooperation with the European Union within the Eastern Partnership. The second part deals with the barriers and opportunities for mutual cooperation. The last part shows the changes in the Armenian economy during the last decade.

2. Origins and main characteristics of EU – Armenian cooperation within the Eastern Partnership

Eastern Partnership (EP) is the initiative of Poland and Sweden proposed to European Union aimed at cooperation of EU countries with countries, which were previously included in the European Neighbourhood Policy (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and this will give an opportunity to be gradually involved in EU policies, programs and common market[1].

The launch of the Eastern Partnership was announced on May 7, 2009 in Prague, when the heads of governments of twenty seven EU countries and six Eastern Partnership countries met at the summit. As stated in the Declaration, the main objective of the Eastern Partnership between the European Union and partner countries is to hasten political cooperation and economic integration in the future[2]. This initiative aims to expand the format of the existing European Neighborhood Program for strengthening the EU's six eastern neighbours – Moldova, Ukraine, Belarus, Georgia, Armenia and Azerbaijan and to promote their integration with EU. This new format has won praise from the six countries and got their governments' approval [3].

Eastern Partnership includes both bilateral and multilateral level of cooperation between the countries. The first one implies a closer relationship between the EU and each partner country, including signing the association agreement on wide-ranging free trade zones, gradual liberalization of the visa regime, closer cooperation in increasing energy security, as well as in economic and social policy, creating institutional system of the project for partner countries.

Multilateral level should be a platform for exchange of experience and information for partner countries' activities and a tool for EU to support them. It focuses on four thematic platforms (democracy, good governance and stability, economic integration and convergence with EU policies, energy security, and

interpersonal relationships). The institutional framework of multilateral partnership of the EU member countries and partner countries are the meetings of presidents as well as the annual meetings of Foreign Ministers[4].

The general direction of integrating is the same for all countries – strengthening democracy, liberalization of economy, improving human rights and freedoms. The differences between the countries are due to the needs of a certain country. Action plans are made up according to specific steps to solve the problems of a specific sector.

Because of the Eastern Partnership has not its own secretariat, it is controlled directly by the European Commission. At first there is a need to understand that this program does not guarantee the participating countries to become a full EU member. This is repeatedly stated by senior EU officials. From the beginning the program was not pursuing such goals, it was a platform for dialogues between participating countries and EU. It should be noted that the identification of six countries' political and legislative systems will take place within the Eastern Partnership. Euronest Parliamentary Assembly was established within the framework of the Eastern Partnership for the institutionalization of the relations [5].

The key issue with regard to the Eastern Partnership is the lack of any express declaration that the countries involved will become Members of the European Union in the future – even if they meet the requirements. On the one hand, Eastern Partnership does not provide any actions or solutions to problems, however it strengthens the dialogues and relations between countries not taking into consideration the regional and political factors, such as the Nagorno-Karabakh conflict.

European Commission planned to allocate EUR 600 million to finance Eastern Partnership in 2009-2013, of which EUR 250 million were new allocations, whilst EUR 350 million have been appropriated to the Eastern Partnership from regional cooperation[6]. European Investment Bank has created a tool named Eastern Partners Facility (1.5 million EUR) which is designed for investments of partner countries. The parliamentary dimension of the Eastern Partnership should be implemented through the relations of EP countries within the parliamentary assembly. According to project regulations, the assembly is composed of 120 members, 60 members of from the European Parliament and 10 from each of the partner countries[7].

As far back as in July 2008 the minister of foreign affairs of Poland Radosław Sikorski mentioned in an interview to Armenian radio station „Azatutyun” that „Our goal is for Europe to create mechanisms for the countries which are trying to cooperate with European countries more effective and closely. This is the aim of creating Eastern Partnership. Poland wants to be a normal European country, which means having a normal European democratic free market, contiguous as well as far European neighbours. We think it is indisputable that we can help each other in trade, visa facilitation and legal assistance issues” [8].

3. EU – Armenia cooperation – barriers and opportunities

Armenia's participation in the European Neighborhood Policy and in the Eastern Partnership shows the EU's commitment to have close cooperation with Armenia. EU seeks to deepen relations with Armenia, passing through economic integration and deeper political cooperation partnership. Eastern Partnership planned another ambitious framework for raising EU-Armenia relations to a new level. This means new Association Agreements, including Deep and Comprehensive Free Trade Agreement (DCFTA) and opportunities for Armenia to engage in EU economy deeper and to integrate gradually.

The main problem that EU and Armenia face in the economic cooperation within the framework of Eastern Partnership, can be formulated as follows: The Global Competitiveness report made by World Economic Forum shows that the overall market institutions and the judicial system of Armenia is outside the boundaries of acceptable standards of EU countries and in order to eliminate or reduce these differences there are often required significant investments of funds beginning from the improving infrastructure up to using European standards in production facilities[9]. However, Armenia's economic and business opportunities for investments are low, especially if we take into account trends recorded in Armenia's economy in recent years, i.e. increase of poverty level, reduction of foreign direct investments and so on. Therefore, significant reforms must be carried out within Eastern Partnership program.

By making Armenian institutions maximally compatible with EU institutions and realizing the Deep and Comprehensive Free Trade Agreement, it would surely enable to ensure high economic growth, particularly due to rapid growth of foreign trade and foreign direct investment. On the other hand, the macroeconomic situation in Armenia in recent years and the high level of poverty may hinder efficient reform process.

The negotiations about Association Agreement and Deep and Comprehensive Free Trade Area ended in July 2013. The agreement, however, was not signed because Armenia decided to join the Eurasian Customs Union on September 3 and the EU integration process slowed down [10]. It was the consequence of the fact that one country cannot belong to two different customs unions.

EU and Armenia agreed to review the action plan and develop the existing cooperation framework in the Eastern Partnership summit in Vilnius in 2013. Armenia and EU reaffirmed their commitment to cooperate more closely and firmly in improving democratic institutions and judicial system, human rights and the rule of law, good governance, fighting corruption, strengthening civil society, expanding trade and investment.

Now when it is clear the scope of obligations Armenia assumes within Customs Union, perhaps it is time to consider the intensification of Armenia-EU relations and prospects for their development. There is a need to sign a new document confirming

Armenia-EU cooperation. The Partnership and Cooperation Agreement with EU will be the basis for creating a new agreement.

This was stated in the recent interview of German Ambassador in Armenia Matthias Kiesler [4]. It certainly will not be as deep as the Association Agreement with the EU, but many of the provisions of this Agreement will be included in the new agreement. On 12 October 2015 EU Council commissioned European Commission and the high representative to sign a new, legally obligatory and comprehensive agreement with Armenia in order to begin the negotiations which will be launched by the end of 2015. The exact date of starting the negotiations is not known.

The deputy minister of economy Garegin Melkonyan also confirmed the above mentioned statement at the opening of EU's „Institutional investment policy and the investment promotion” twinning program on 15 October 2015. Concerning the main directions of the agreement the deputy minister mentioned that „there was a wish to maintain those areas in which the negotiations were carried out. However, there are some points that obviously cannot be included in the new agreement. For example, free trade component, i.e. nullification of tariffs and a number of other provisions. The rest is a matter of negotiations”.

On the one hand cooperating with EU is very beneficial for Armenia, from the other hand the cooperation of Armenia and the Eurasian Union of former Soviet countries, particularly with Russia contributes to regional stability and security of the country and remains a priority for Armenia. Most Armenians consider Russia a friendly country and tend to have closer relations with Russia. There is an opinion that the way of joining Eurasian integration will be more beneficial for Armenia than the way of integration with EU, because majority of products produced in Armenia are not competitive on EU markets, while the same products can be easily sold in CIS markets[11].

4. Statistical analysis of the changes in the Armenian economy in the period 2006-2014

In order to measure the development level of transition or developing countries such as Armenia a number of important indicators are used such as population size, standard of living, particularly average monthly wage, GDP per capita, average and higher education indicators, the existence of middle class, political stability and confidence of people towards the government, the EU/EEC possibilities of economic cooperation and so on.

In order to reveal the changes of the economy of Armenia after joining the EURASEC we have analyzed the GDP per capita and FDI indicators.

In 2014, the volume of GDP per capita in Armenia was 3.613 US dollars, for the same period, it amounted to 36.3173 US dollars in the EU countries (Table 1). That's more than 10 times less than the same indicator in EU countries. According to the World Bank classification Armenia is still considered to be a lower middle income country. The following table represents GDP per capita in EU countries and Armenia in the period 2006-2014.

Table 1. GDP per capita in EU countries 2006-2014

Years	GDP per capita (in thousand US dollars)	
	EU countries	Armenia
2006	30.6658	1523
2007	35.3300	1982
2008	37.8807	2853
2009	33.7817	3606
2010	33.5756	2666
2011	36.2183	2844
2012	34.1145	3293
2013	35.4355	3452
2014	36.3173	3613

Source: www.data.worldbank.org/countries, European Union, Armenia.

The data show that the gap between the income levels between Armenia and EU countries is very large, although has shrunk in the analyzed period.

In the following we introduced the trends of development of GDP per capita in Armenia for 2001-2014 period and made forecasts for the period up to 2020.

The GDP per capita in Republic of Armenia was characterized by the following figures during the period 2001-2014 (Figure 1).

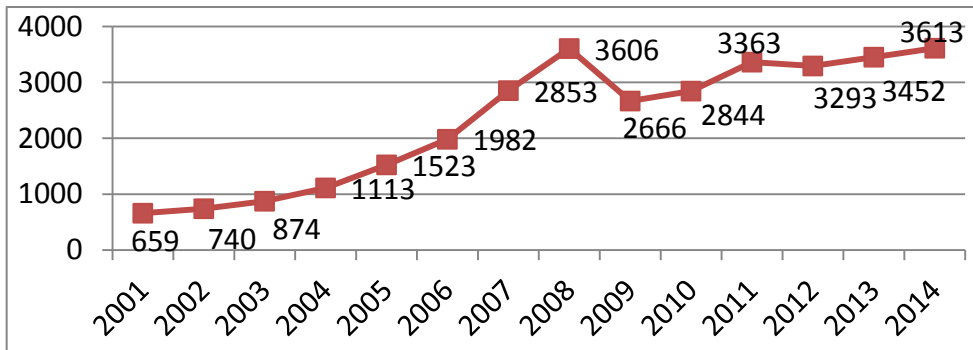


Fig. 1. The volumes of GDP per capita in Armenia (US dollars, current prices)

Source: Own elaboration based on data from: *Socio-economic situation in Armenia, January-March, 2015*, NSS RA, 2015, p. 11, *Statistical Yearbook of Armenia, 2001-2014*, NSS RA; *National Accounts of Armenia 2008-2012* NSS RA, Yerevan 2014, p.27.

In general the volumes of GDP per capita had an increasing trend during the studied period. There was an unceasing increase in 2001-2008, after it due to global financial crisis there was a decrease by 26.1 percent in 2009. Then it re-acquired growth trend but at a slower pace than in previous period. Given this fact and the principle of selecting the best model representing the trend of development we represent the above mentioned period with the help of second-class curve or the parabola.

$$\hat{y}_t = -169.4 + 477.5t - 14.95t^2$$

According to the trend model the volume of GDP per capita increased by 477.5 US dollars every year, but the absolute deceleration of this figure was 14.95 US dollars.

Table 2. The actual and the smoothed levels of the volumes of GDP per capita for 2001-2014.

Years	GDP per capita (US dollars)		e_t	e_t^2
	y_t	\hat{y}_t		
2001	659	293.15	365.85	133846.2
2002	740	725.8	14.2	201.64
2003	874	1128.55	-254.55	64795.7
2004	1113	1501.4	-388.4	150854.6
2005	1523	1844.35	-321.35	103265.8
2006	1982	2157.4	-175.4	30765.16
2007	2853	2440.55	412.45	170115
2008	3606	2693.8	912.2	832108.8
2009	2666	2917.15	-251.15	63076.32
2010	2844	3110.6	-266.6	71075.56
2011	3363	3274.15	88.85	7894.322
2012	3293	3407.8	-114.8	13179.04
2013	3452	3511.55	-59.55	3546.203
2014	3613	3585.4	27.6	761.76
Total	-	-	-	1645486

Source: own elaboration based on the data from table 1.

Based on the trend representing model we have calculated the forecasts by point and 95% confidence interval estimates for the period 2015-2020, which are presented in the Table 3 and Figure 2.

Table 3. GDP point and interval estimates for 2015-2020

Years	GDP per capita (US dollars)		
	Point estimates	95% confidence interval estimates	
		Lower bound	Upper bound
2015	3629.35	2946.123	4312.577
2016	3643.4	2861.84	4424.96
2017	3627.55	2739.084	4516.016
2018	3581.8	2578.238	4585.362
2019	3506.15	2379.589	4632.711
2020	3400.6	2143.348	4657.852

Source: own elaboration based on data from the tables 1 and 2.

Table 3 represents the forecasted levels of GDP in the years 2015-2020. There are also calculated the lower and upper bounds of the GDP levels with 95 percent confidence.

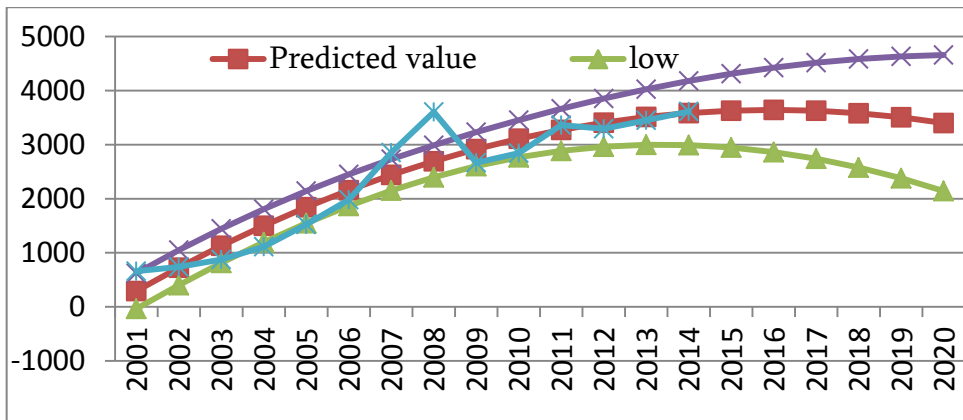


Fig. 2. The forecast of the volumes of GDP per capita in 2015-2020.

Source: own elaboration based on data from Table 1 and 2.

Actually the economy of Armenia was developing quite rapidly in 2002-2007 (Figure 1). But in 2009 the economy of Armenia recorded one of the largest falls in the world after which the recovery of the economy is going very slow. In 2009 the economy of Armenia was accompanied by a deep recession and rising level of poverty, there was an increase in the depth and severity of poverty (currently 32.9% of the population is poor, according to NSS data).

According our forecasts for the period up to 2020 there will be a decrease in the volume of GDP per capita in Armenia. There will be recorded decline rates after 2017 and in 2020 GDP per capita will reach 3400.6 US dollars.

There was also a sharp decline in the volumes of foreign direct investment (FDI) in the recent years (Table 4).

Table 4. Foreign direct investment to RA in 2009-2013

Years	Foreign direct investment flow to RA (billion US dollars)	Compared to 2009, in %
2009	828.7	100
2010	535.7	64.6
2011	703.2	84.9
2012	598.5	72.2
2013	304.4	36.7

Source: Statistical Yearbook of Armenia, 2014, NSS of RA, p. 536-537.

In 2012 FDI decreased by 14.9% compared to 2011. In 2013 it decreased by 49.14% compared to 2012 and by 56.7% compared to 2011. And finally if we take the period 2009-2013 it decreased more than 2.7 times which is a troubling fact.

EU is the main trading partner of Armenia, which accounts about 30% of the total volume of trade of Armenia. Armenia exports to EU mainly industrial goods, raw materials, production facilities, as well as machinery and transport equipment. Armenia imports from EU machinery and transport equipment, various industrial products, chemicals and food products.

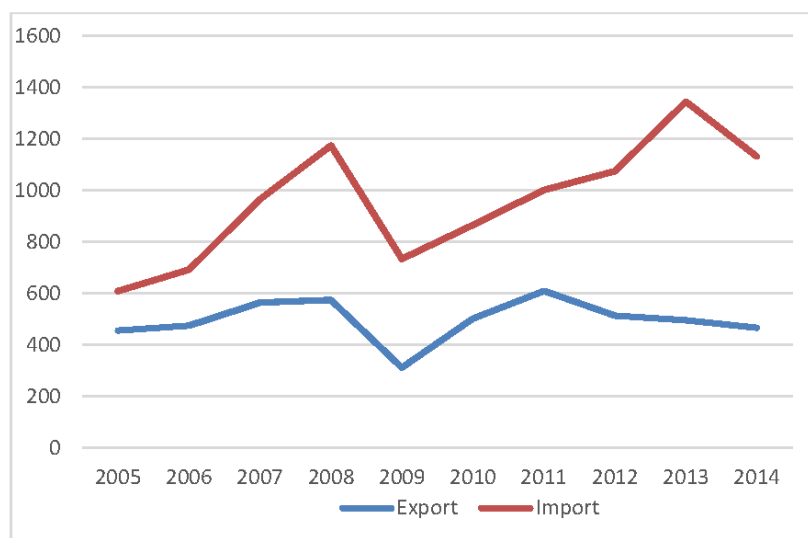


Fig. 3. The foreign trade between Armenia and EU for the period 2005-2014 (current prices, mln. US dollars)

Source: National Statistical Service of Armenia, Yearbooks 2005-2014, External economic activity.

Figure 3 shows the dynamics of foreign trade between Armenia and EU for the period 2005-2014. Both the volumes of export and import varied during the period under study. Despite of the fact that imports from EU to Armenia had a noticeable increase by 86 percent, the exports increased by only 2.4 percent. We can also see a decline in foreign trade during the last couple of years. It should be noted that in 2005 the share of exports to EU in the total export of Armenia was 47 percent, and in 2014 the same indicator amounted to 30 percent. In 2005 the share of imports from EU to Armenia in the total import of Armenia was 34 percent and in 2014 it decreased to 26 percent. From the above mentioned facts we can conclude that even the monetary value of export and import between Armenia and EU increased during last decade the share of it in the total foreign trade of Armenia decreased.

5. Conclusions

After integrating to the Eurasian Economic Union (EEU) Armenia somehow changed its economic development strategy. In fact, it turns out that Armenia has economically active cooperation with both EU and CIS countries. Armenia- EU cooperation at the current stage of Eastern Partnership presupposes starting negotiations for signing new agreement which will include many elements of the Association Agreement. In the context of relations of Armenia with EU, taking into account the current situation, it is essential to have bilateral cooperation with European countries. Therefore, Armenian side should be possibly interested in strengthening relations with European countries. The opportunities of economic cooperation deserve special attention within the framework of bilateral cooperation with EU countries. In the cooperation and integration with EU Armenia must be more active and initiative. In fact, the Eastern Partnership can be viewed as an opportunity for the selection of new members of the EU, and Armenia should not lose it. Integration with EU will provide not only support for Armenia, but it will also increase the interest of international investors towards Armenia. Moreover, the agreement with the European Union will help to lift the blockade of Armenia by Turkey, because closed borders are contrary to EU principles and international trade interests. Overall, European integration will have significantly positive impact on Armenia's development. However, it is not a short-term process, because the country has to overcome a lot of economic and political challenges.

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WSPÓLPRACA ARMENII Z UNIĄ EUROPEJSKĄ W RAMACH PARTNERSTWA WSCHODNIEGO I JEJ WPŁYW NA GOSPODARKĘ ARMENII

Streszczenie

Unia Europejska aktywnie zaangażowała się we współpracę ze swoimi wschodnimi sąsiadami. Partnerstwo Wschodnie jest koncepcją współpracy politycznej i integracji gospodarczej z sześcioma państwami – Armenią, Azerbejdżanem, Białorusią, Gruzją, Mołdawią i Ukrainą. Republika Armenii postrzega ten program, jako podstawę do usprawnienia swoich instytucji rynkowych i systemu prawnego, a także stworzenia szans dla biznesu. Choć w 2013 roku Armenia zdecydowała się nie podpisywać wynegocjowanego wcześniej traktatu stowarzyszeniowego i przyłączyła się do kierowanej przez Rosję Euroazjatyckiej Unii Celnej, to wciąż istnieją możliwości współpracy z Unią europejską na bazie współpracy sektorowej. Artykuł podzielony został na trzy części. Pierwsza z nich opisuje genezę współpracy Armenii z unią Europejską w ramach Partnerstwa Wschodniego. Część druga zajmuje się barierami i możliwościami wzajemnej współpracy. Ostatnia część pokazuje zmiany w gospodarce Armenii w ostatniej dekadzie.