

## Dynamics of trade-economic relations development between Armenia and Qazaqstan at the present stage

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### Հայաստանի և Ղազախստանի միջև առևտրատնտեսական հարաբերությունների զարգացման դինամիկան արդի փուլում

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**Ամփոփում:** վերջին տարիներին Հայաստանի և Ղազախստանի միջև առևտրատնտեսական հարաբերությունների զարգացման հարցը արդիական է դարձել երկու երկրների համար: Երկու պետությունների միջև առևտրատնտեսական համագործակցության խթանման նպատակով Հայաստանի և Ղազախստանի կառավարությունները առևտրի և ֆինանսական ոլորտներում մի շարք միջոցներ են ձեռնարկել: Այս հոդվածում հեղինակը վերլուծում է 1990-ականների սկզբից մինչև 2018թ. երկկողմ հարաբերությունների զարգացման դինամիկան, մատնանշում է հարաբերությունների զարգացմանը խոչընդոտող հիմնական բացասական գործոնները: Բացի այդ, հեղինակն ուսումնասիրում է առաջնային ոլորտները, որոնց խթանումը կարող է զգալի ազդեցություն ունենալ հայ-ղազախական առևտրատնտեսական հարաբերությունների զարգացման գործում:

**Վճռորոշ բառեր**՝ առևտրատնտեսական հարաբերություններ, Հայաստան, Ղազախստան, համագործակցություն, Եվրասիական տնտեսական միություն (ԵԱՏՄ)

### Динамика развития торгово-экономических отношений между Арменией и Казахстаном на современном этапе

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**Резюме:** в последние годы развитие торгово-экономических отношений Армении и Казахстана стало актуальным вопросом для обеих стран. С целью продвижения торгово-экономического сотрудничества между двумя государствами, правительства Армении и Казахстана приняли ряд мероприятий в торговой и финансовой сферах. В настоящей статье автор анализирует динамику развития двусторонних отношений с начала 1990-х гг. до 2018 года, приводит основные негативные факторы, тормозящие развитие отношений. Помимо этого, автор исследует наиболее приоритетные направления, продвижение в которых сможет дать значительный толчок развитию армяно-казахстанских торгово-экономических отношений.

**Ключевые слова:** торгово-экономические отношения, Армения, Казахстан, сотрудничество, Евразийский экономический союз

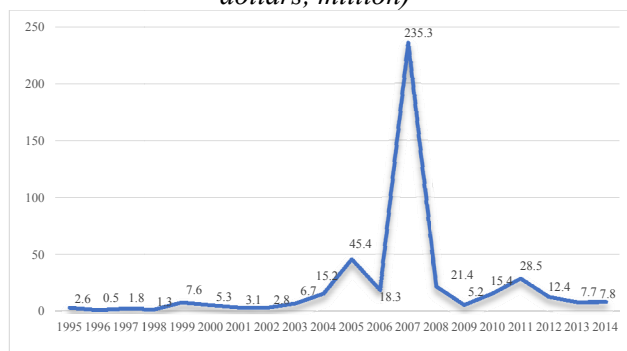
The foundations of economic cooperation between the Republic of Armenia and the Republic of Qazaqstan were laid in January 1993, when the “Agreement on bilateral trade and economic cooperation” was signed in Almaty [6]. In 1993-1995, four agreements were signed between the two republics on the basis of trade and economic cooperation, which formed a specific legal framework for further development of bilateral relations.

In 1995, the volume of Armenian-Qazaqstani trade amounted about \$3 million. The main share of Armenian exports accounted for machinery and equipment, electric motors and generators, pharmaceutical and textile products. Qazaqstan mainly exported rolling products, conveyor belts made of volcanic rubber, agricultural products and non-alcoholic and alcoholic beverages. In the same year, the Republic of Qazaqstan and the CIS countries signed an agreement “On the principles of trade and economic cooperation” [2, C.72]. In 1996,

during the visit of the delegation of the Ministry of Economy of Armenia to Almaty, the following projects were discussed and initiated with Almaty: “On Free Trade”, “Non-Trade Payments”, “Mutual Protection and Encouragement of Investments” [2, C.87]. In 1997, an agreement was signed between the governments of the Republic of Armenia and the Republic of Qazaqstan on the principles for elimination of taxation during export and import [3]. However, all the above-mentioned agreements and treaties didn’t induce a sharp increase in bilateral trade, the volume of which from 1996 to 1998 was permanently less than \$3 million.

For almost three decades a sufficiently high level of military-political, trade-economic and cultural-humanitarian dialogue has been established between Armenia and Qazaqstan, however, it isn’t yet possible to use the full potential in trade and economy. Certainly, it is partly due to adverse trends observed in geopolitics and economics. At the same time, based on the dynamics of bilateral trade between Yerevan and Nur-Sultan, we see that only short-term effect has an impact on mutual trade, and the decline in trade turnover occurred in economically favorable years. Obviously, there are objective reasons for mutual nature that affect the profitability of export-import operations between Armenia and Qazaqstan, which aren’t dependent on world economic processes. Let’s consider the dynamics of Armenian-Qazaqstani economic relations from 1995 to 2014 (see **Chart 1**).

*Chart 1. Dynamics of Armenian-Qazaqstani economic relations from 1995 to 2014 (in US dollars, million)<sup>1</sup>*



As we can see, a sharp increase in the volume of bilateral trade accounted for 2003-2007 due to the supply of liquefied gas from Qazaqstan. However, in 2008-2009 commodity turnover between the two countries sharply decreased, as it became difficult for Qazaqstani exporters to compete with their Russian counterparts. Let’s consider another example, a significant increase in turnover was noted in 2010-2012 (due to the supply of wheat

<sup>1</sup> *The Atlas of Economic Complexity*, <http://atlas.cid.harvard.edu/>, 26.02.2019

from Qazaqstan), however, it’s known that Russia is one of the main leaders in the export of these products in the world market, so another decline in the volume of Armenian-Qazaqstani trade in 2013 was due to the fact that Nur-Sultan exporters again failed to withstand the contestation with Moscow.

We will try to single out main reasons that inhibit the development of bilateral trade and economic relations between Armenia and Qazaqstan:

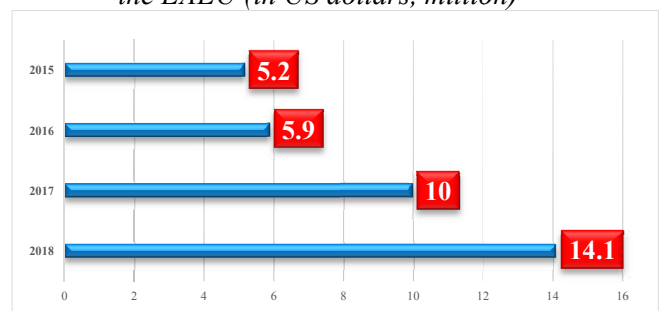
1. *complexity of the transport freight traffic between the two republics due to the lack of direct transport connections;*
2. *regional issues that violate rational and profitable trade routes, both through the Caspian Sea and Abkhazia;*
3. *Illegal blockade of Armenia by the Republic of Azerbaijan and Turkey;*
4. *similarity of the export structure of the two republics, in which raw materials predominate;*
5. *narrow consumer market and low purchasing power of Armenia;*

The above-mentioned examples of trade volume ups and downs between Armenia and Qazaqstan show that competitive prices may also be attributed to destructive reasons for Russian analogues of Qazaqstani goods: liquefied gas, grain and metal products. Even without taking into account transport costs, a number of Qazaqstani goods with export potential are uncompetitive, or their sale in the Republic of Armenia has low profitability. Under these conditions, it is difficult for Qazaqstan commodity producers to compete with those in Russia, supplying similar products to the Armenian market.

### **Armenia's accession to the EAEU**

Since 2015, after Armenia’s accession to the EAEU, there has been a gradual increase in trade turnover between Armenia and Qazaqstan (see **Chart 2**).

*Chart 2. Volume of Armenian-Qazaqstani commodity turnover after Armenia’s accession to the EAEU (in US dollars, million)<sup>2</sup>*

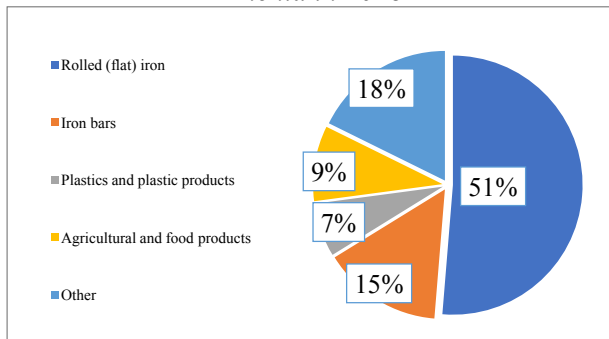


<sup>2</sup> *Statistics of foreign and mutual trade between the countries of the EAEU*, <http://www.eurasiancommission.org/>, 02.03.2019

However, as stated earlier, Russian exporters have price advantages in the supply of grain and fuel products to Armenia. Moreover, Qazaqstani exporters have to overcome the territory of Russia, which is extremely inefficient for the Armenian side, because it buys the same goods from the Russian Federation. For this reason, Qazaqstan's exports to Armenia in 2018 are represented only by rolled (flat) iron, iron bars, plastics and a small amount of agricultural products. (see **Chart 3**). The main part of the Armenian export to Qazaqstan is consistently the supply of alcoholic and non-alcoholic beverages, jewelry and tobacco products, medications and a small quantity of building materials (see **Chart 4**).

In May 2015, the first Armenian-Qazaqstani business forum was held in Yerevan, which was organized by the Chamber of Commerce of Armenia and the National Agency for Export and Investment of the Ministry of Investment and Development of the Republic of Qazaqstan. Armenian and Qazaqstani businessmen, who managed to get enough information about the investment climate of the two countries and opportunities for cooperation, initiated a dialogue in B2B format (“business to business”).

Chart 3. The structure of Qazaqstani exports to Armenia in 2018<sup>3</sup>

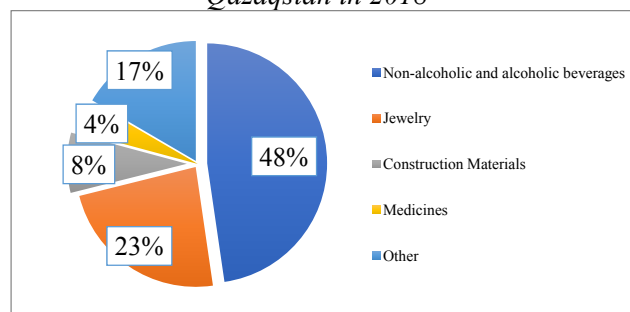


Qazaqstan sees opportunities for cooperation in almost all areas and is ready to offer the Armenian consumer a wide range of both services and goods - in engineering industry, food industry, and in chemical products. Armenian manufacturers are also open to implementation of joint projects. Currently, the activity of enterprises with Qazaqstani capital is very low in Armenia, with the exception of the activity of PLL SCAT Air Company, which, by the way, since January 2019 has temporarily suspended direct Nur-Sultan-Yerevan-Nur-Sultan flights. The situation is different with the Armenian capital in the market of Qazaqstan. Over the past three years in Qazaqstan, the number of small and medium-sized enterprises formed by citizens of Armenia has

more than doubled (to 145). Deputy Chairman of the National Agency for Export and Investment of Qaznex Invest, M. Mikenov, in one of his interviews said: “The trade turnover between Qazaqstan and Armenia leaves much to be desired and doesn’t meet the parties' requirements, as there is a more serious potential. Nur-Sultan and Yerevan are ready for closer cooperation in various fields” [8]. He points that we need to work on the development of cooperation between the two republics, especially considering the EAEU, which provides great opportunities for cooperation within the common customs area with a large market, the possibility of free movement of goods, human resources and capital.

At the moment, we have to admit the fact that even remittances sent by Armenian citizens engaged in labor activities in Qazaqstan are three times higher than the volume of trade between the two republics, reaching almost \$19 million by the end of 2017 [4]. By the way, Qazaqstan is among the top three countries that are the leading sources of cash transfers for Armenia.

Chart 4. Structure of Armenian exports to Qazaqstan in 2018<sup>4</sup>



Citizens of this country in Qazaqstan are represented, as a rule, in the field of construction, services and trade. It should also be stated that most of the individual enterprises of the citizens of Armenia in Qazaqstan have been launched with the active support and assistance of the Armenian Diaspora of Qazaqstan. Among large companies, the dealer network is represented, for example, by the Ararat brandy factory of Armenia. A certain interest in Qazaqstan is also shown by jewelry companies from Armenia. The above data on remittance indicate that citizens of Armenia and Qazaqstan are already using privileges from the EAEU, related to the general labor market and the free movement of citizens within a single economic space, but such a low turnover between the two republics, which are

<sup>3</sup> Statistics Committee of Qazaqstan, <http://stat.gov.kz/faces/>, 01.03.2019

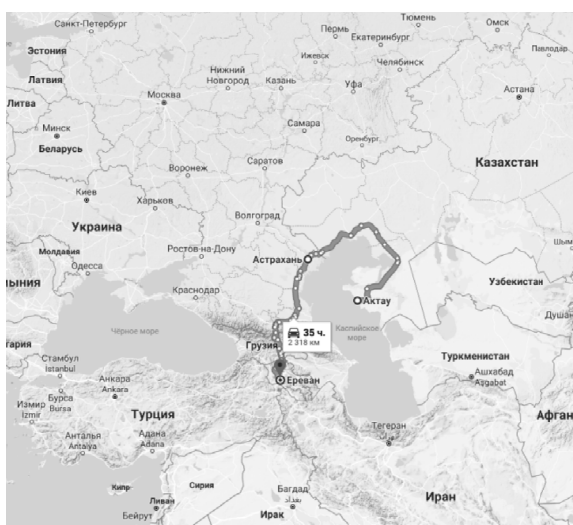
<sup>4</sup> Statistical Committee of Armenia, [http://www.armstat.am/file/article/sv\\_01\\_112.pdf](http://www.armstat.am/file/article/sv_01_112.pdf), 01.03.2019

part of the same economic integration space, generates some concern.

### Transport logistics

We believe that the main obstacle preventing the growth of trade and economic relations between the two republics remains lack of optimal transport routes between Yerevan and Nur-Sultan.

Currently, goods from Qazaqstan arrive in Armenia mainly through the loaded route through the Upper Lars checkpoint, Russia (see **Map 1**), which is almost 500 km (4 hours) shorter than the route "Aktau-Turkmenbashi-Tehran-Yerevan" (see **Map 2**). Moreover, it's necessary to take into account the fact that goods will pass through the territory of two states (Turkmenistan and Iran) that aren't EAEU members. After the opening of a direct auto-ferry service on feeder ships from Aktau (Western Qazaqstan) to the Iranian port of Bender-Enzeli on October 2001 (hereinafter referred to as the road route to Armenia), a new opportunity arose for travel of heavy trucks and containers from Qazaqstan to Armenia. However, the complex transport logistics of the Syunik region of Armenia and excessive loading and unloading operations make it difficult to implement transportation along this route. Other transport routes, for example, through Georgian territory don't function due to the closure of the railway communication through Abkhazia, and the existing difficulties in Georgian-Russian relations do not alleviate problems of establishing freight traffic through the Upper Lars Pass. Transportation of goods along the above-mentioned existing routes leads to high transport costs for both Qazaqstani and Armenian goods, significantly reducing the profitability of import-export operations between the two countries [1, C.34].



Map 1. "Aktau-Astrakhan- Upper Lars-Yerevan" transport connection

In our view, the rapid and stable development of Armenian-Qazaqstani trade and economic relations in the long term perspective is possible only in case of the construction of a railway connecting Armenia and Iran. In future, Armenian-Iranian branch of the railway will connect with a longer branch: "Tabriz-Tehran-Gorgan (Iran) - Etrek-Bereket-Gyzylgaya (Turkmenistan) - Zhanaozen-Aktau (Qazaqstan)".

This railway has a strategic importance, because it'll connect Yerevan not only with Tehran, but with all the countries of Central Asia, too. Moreover, the presence of such a route will radically change the significance of Armenia for the Chinese "One Belt, One Road" project. The total length of the route will comprise 2,800 km. With an average speed of a freight train of 45 km/h, this route will be covered in less than 3 days. Taking into account the potential volume of cargo transportation along such a route, the economic indicators of Armenia will begin to rise rapidly along with the level of welfare of the society.



Map 2. "Aktau-Turkmenbashi-Tehran-Yerevan" transport connection

### Conclusion

In this way, Armenia's entry into the EAEU gave a positive impetus to the revitalization of trade and economic ties between Yerevan and Nur-Sultan. Undoubtedly, there is sufficient potential for the development of economic relations. Analysis of the statistical data on export-import of Armenia and Qazaqstan indicates that there is a niche in the Armenian market, which, other favorable circumstances, may occupy Qazaqstani products. In their turn, Armenian exporters also have products, which can consistently fill the Qazaqstani market. The Republic of Qazaqstan is an attractive area for SMEs to be run by citizens of the Republic of Armenia, which is facilitated by the presence of favorable conditions for entrepreneurship in Qazaqstan, as well as economically active Armenian Diaspora. The accession of Armenia to EAEU opens the Armenian market for all member countries of the

Union, including Qazaqstani businessmen, who can enjoy the privileges of EAEU, since the presence of two states in a single economic union provides an exceptional opportunity to develop and deepen trade and economic cooperation.

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