PERSPECTIVES OF ARMENIAN-GEORGIAN ECONOMIC COOPERATION

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World economic development objective regularities prove that world's further development and the economic growth are largely conditioned by world integration and globalization processes. In order to be deeply involved in world integration processes countries at first cooperate with each other within regional integration processes, having a great opportunity to expand their further cooperation in future. Therefore, our country is not an exception too. So, we believe that its effective involvement in regional integration processes and intensive cooperation with the neighboring countries will mostly ensure country's further economic growth and development. In the context of regional cooperation we particularly emphasize the necessity and urgency of the further development and improvement of Armenian-Georgian economic relationship. In general, Armenian-Georgian relationship have traditionally been friendly and their culture, traditions and history have a lot in common, which can be a solid base for further economic cooperation.

Generally, we think that after the Soviet Union had collapsed the resumption of the economic cooperation and the economic relationship between these two countries can be divided into economic, juridical and organizational directions. These directions provide a correlated character in Armenian-Georgian relationship and require special approach for taking the economic cooperation to much stronger basis and for making positive reforms in economic system.

Speaking about the operations carried out within these measures we want to note that the juridical direction have had more analytical and constructive nature and by this way countries have made main operations for appliance of their economic relationship. So far, main operations carried out under this direction are the bilateral agreements signed between these countries after the declaration of independence, which have provided legislative and juridical basis for their economic cooperation. Particularly, countries signed agreements about reciprocal protection and encouragement of investments, about creating financial groups, about opening customs checkpoints, about cooperation in custom matters, free trade agreements, etc. All these agreements were aimed to expansion and development of the cooperation in all spheres of economic life. Therefore, signing of these agreements was that legislative and judicial cornerstone, which was necessary for emerging the whole further cooperation. Speaking about the economic direction, we would like to mention that it is the most important base for making further reforms and structural changes for countries. This is due to the fact that economy's radical restructuring increases the opportunities of developing foreign economic relations and gives more chances for creating joint ventures with neighboring countries, expands states' rights and opportunities in the foreign economic cooperation sphere. Therefore, the future development and improvement is very important. So, the opportunity of further development and improvement of economic direction, the elaboration and implementation of all the necessary operations within the system are very important, which will give these countries much more chances to get positive results from mutual economic cooperation. Generally, in Armenian-Georgian relationship the economic direction of development includes several ways of economic relationship, which are bilateral trade, capital flows, transfer of technologies, etc.

At the same time we can express the importance of further development of Armenian-Georgian economic cooperation for our country in some major provisions. These are:

- Georgia, due to its convenient geographical location between Russia and Asian countries, does not only have a specific influence in the region, but also serves as a connecting link for Armenia and Russia, as well as it has great opportunities in connecting Armenia with the rest of the world.
- Thanks to the close cooperation it will be possible for Armenia to overcome its small markets' limited opportunities.
- The development of economic cooperation of these countries will stimulate the attraction of foreign private and governmental investments and by this way realize a number of significant intergovernmental projects /in such spheres as transport, nature conservation, etc./.
- The further development of partnership will stimulate the incrimination of the benefits from bilateral trade and the amplification of their importance in the region.

However, despite the greater likelihood of effective cooperation between Armenia and Georgia, we can insist that the partnership nowadays is in a quite low diplomatic and economic level. In our opinion this situation is explained by the fact that both countries had chosen different directions in their foreign economic policies. Specifically, Georgia is increasingly oriented toward the West and the further development of the country is mainly connected with Western World.

But, as we have already mentioned, despite of this, it is very important to strengthen and diversify the bases of cooperation with this country and it is very necessary to accelerate a process of developing regional integration relationship with it.

Currently the bilateral trade is the dominant sector of Armenian-Georgian economic partnership. Therefore, we believe that undertaking measures, at firs must be directed to the improvement of this sector and to strengthening of the competitive advantages that countries have in bilateral trade. For this purpose, for evaluation of Armenian-Georgian bilateral trade and their foreign economic policy orientation, we want to analyze trade tendencies for last 3 years, as well as assess the share they have in mutual trade.

Table 1

Export and import of the Republic of Armenia by countries /thousand US dollars/[1]

Countries	2009		2010		2011	
	Volume	Share /%/	Volume	Share /%/	Volume	Share /%/
Export						
Total	**710157,5**	**100**	**1041056,6**	**100**	**1334338,8**	**100**
Russia	107426,3	15.1	160507,8	15.4	222273,7	16.7
Germany	114963,2	16.2	132616,3	12.7	157988,5	11.8
USA	66961	9.4	82710,6	7.9	100727,6	7.5
Bulgaria	60024,3	8.5	156560,3	15.0	152230,7	11.4
Netherlands	52164,6	7.3	98613,9	9.5	117208,5	8.8
Belgium	46790,6	6.6	72495,7	7.0	70506,9	5.3
Georgia	52806,1	7.4	49035,2	4.7	61851,9	4.6
Import						
Total	**3321133,9**	**100**	**3748953,5**	**100**	**4145332**	**100**
Russia	792241,6	23.9	835271,7	22.3	890873,2	21.5
China	284605,4	8.6	404021,1	10.8	404235,4	9.8
germany	176046	5.3	210712,1	5.6	245087,5	5.9
Ukraine	201948,4	6.1	229924,3	6.1	232432,1	5.6
USA	120760,8	3.6	110816	3.0	147372,1	3.6
Turkey	177648,8	5.3	210381,2	5.6	240248,2	5.8
Islamic Republic of Iran	162398	4.9	199884,7	5.3	216792,3	5.2
Georgia	40890,8	1.2	54349,6	1.4	60173,4	1.5

As we can see in the data of Table 1, Russia is in the first place in export and import structure of Armenia by its volume and share. The exception was made only in 2009, when in export structure Germany was in the

1 **Statistical yearbook of Armenia 2012, p. 468-474**

first place, whose share amounted to 16.2% of the whole export. As we see from the structure of the countries having the highest shares in Armenia's export, our export is mainly directed towards industrially developed countries, and particularly to the EU countries. This, of course, proves the fact that our products with their useful features are in great demand in European countries. As for the Armenian-Georgian trade relations, in our export structure in 2009, 2010 and 2011 years Georgia was respectively in 5th, 8th and 10th places. Moreover, reduction in export volumes toward Georgia we notice only in 2009, when the export rate decreased by approximately 7.14% and amounted to 49035, 2 thousand U.S. dollars. At the same time there is no reduction in volumes of all other countries mentioned above. By the way, in 2009 all the exports registered sale growth by increasing for about 1.5 times compared with previous year. Despite the fact, that in 2011 Armenian-Georgian bilateral trade had some activation and the trade turnover has grown for about 26.1%, the share of Georgia in Armenia's total exports has substantially declined and in Armenian geographic structure of export it was in 10th place.

Referring to Armenia's import volumes and main partner countries share study, it should be noted that the first positions are stable for Russia and China in these years. During these years volumes of import from these countries have registered only growth trends. Moreover, if in Armenia's export structure the leading positions have mainly had industrially developed countries, in import structure the picture is quite different. In Armenia's import structure large shares go to neighboring Turkey and Iran. Turkey's share in Armenia's import structure fluctuated between 5,3% /in 2009/ and 5,8% /in 2011/, and Iran's share was within 4,9% /in 2009/ and 5,3 /in 2010/. As of the imports from Georgia, in these years it has a very small share in total import. During these years it had ranged from 1.2% /in 2009/ to 1,5% /in 2011/. By these rates in these years its place in Armenia's import structure has fluctuated from 17 to 19.

Now we will try to present the role and importance Armenia has in Georgia's foreign trade.

Table 2

Export and import of Georgia by countries /thousand US dollars/[1]

Countries	2009		2010		2011	
	Volume	Share /%/	Volume	Share /%/	Volume	Share /%/
Export						
Total	**1 133 622,4**	**100**	**1 677 472,1**	**100**	**2 189 135,8**	**100**
Turkey	225 768,7	19.9	216 799,3	12.9	227 583,8	10.4
Azerbaijan	165 633,8	14.6	256 241,8	15.3	425 906,3	19.4
Canada	117 224,1	10.3	118 736,0	7.07	114 793,8	5.2
Armenia	88 941,7	7.8	166 754,3	9.9	223 036,7	10.2
Ukraine	83 955,0	7.4	110 389,0	6.5	141 246,7	6.4
Bulgaria	82 290,6	7.2	66 757,2	3.9	93 689,0	4.3
USA	36 933,9	3.2	187 225,9	11.1	143 466,2	6.5
Import						
Total	**4 500 244,1**	**100**	**5 257 122,4**	**100**	**7 057 759,7**	**100**
Turkey	787 885,1	17.5	886 694,3	16.9	1 272 426,8	18
Ukraine	421 238,0	9.4	560 867,3	10.7	705 580,6	9.9
Azerbaijan	410 176,3	9.1	484 587,4	9.2	610 793,5	8.6
Germany	302 143,0	6.7	333 438,9	6.3	480 587,9	6.8
Russia	291 607,7	6.5	290 535,6	5.5	389 711,6	5.5
USA	231 556,2	5.1	180 951,3	3.4	245 796,7	3.5
China	174 744,9	3.9	335 206,5	6.3	524 755,8	7.4
Armenia	41 877,9	0.9	46 136,7	0.8	59 086,5	0.8

It is obvious that Georgia's major foreign trade partners are Turkey and Azerbaijan, whose priority shares in both export and import volumes of the country steadily maintain.

However, as you can see in 2009-2011 the share of Turkey in country's export structure has decreased, but, at the same time obvious strengthen-

1 URL http://geostat.ge/index.php?action=page&p_id=137&lang=eng

ing of Azerbaijan's positions can be seen, which was in the first place in 2010 and 2011 /Table 2/. As for the import, there is also a significant role for Ukraine, which is in the second place in country's import structure. This country registers stable trends in volume increasing year by year. As we see, Turkey has stable positions as well. Moreover, only for this period, import volumes of this country increased for about 1.6 times or by 61.5%.

Turning to study Armenia's role and significance in Georgia's geographical structure of foreign trade, it should be noted that it has great volumes in export structure, which increased significantly during these years. Particularly, in 2011 Armenia's export volumes amounted 223067,7 thousand U. S. dollars, which compared to the previous year had increased by about 33,7% and in Georgia's import structure our country was in the third place after Turkey and Azerbaijan. As you can see, positions of our country are quite stable in Georgia's export structure, which, unfortunately, can't be seen in import structure. During these years the share of Armenia in whole Georgia's import hasn't exceeded 0.9%. And, despite the fact that import volumes of Armenia showed trends of growth, the picture didn't change and Armenia in these years was only in 23-24th places in Georgia's import structure.

As we have already mentioned, it is obvious that Georgia is mostly oriented to Turkey and Azerbaijan. And this fact, of course, hinders the establishment of closer economic cooperation between Armenia and Georgia. Otherwise, Georgia's developing economic relationship with these countries will suffer. And, as we know for Georgia it is more preferable to have a developed economic cooperation with such countries as fuel-rich Azerbaijan and economically powerful Turkey than with Armenia that has neither the first nor the second[1]. Therefore, there are a lot of serious barriers in the way of economic integration and developed Armenian-Georgia economic cooperation such as Armenian-Azerbaijani and Armenian-Turkish nowadays conflicts.

However, even in case of such escalated Armenian-Azerbaijani and

1 A. V. Darbinyan. "Armenia in international integration processes" Yerevan, "Public Service" 2000, p.143-144.

Armenian –Turkish relationship, this two countries are imposed to adopt the importance of the situation and cultivate an integrated system of serious measures for developing the further economic partnership. And today, more than ever, due to the political changes in Georgia, there are formed very favorable conditions for cultivating such measures and developing economic relations with this country.

Following the ongoing political developments, we believe that in the near future economic reforms will be consistent with standards of civilized society, as it is evident country's new Prime Minister during his first months' operations has tried to somehow balance existing relationships with Turkey and Azerbaijan in order to develop economic partnership with Armenia and Russia. This proves the fact that Armenian-Georgian developed cooperation and the extension of regional integration processes are economic necessities for Georgia too.

In order to completely analyze Armenian-Georgian trade relationship, we also offer to analyze the volumes of commodity groups that have great share in bilateral trade turnover.

As you can see, despite their small shares in structure export and import, commodity groups like "alcoholic and non-alcoholic drinks and vinegar", "pharmaceutical products", "tobacco and manufactured tobacco substitutes", "vehicles other than railway and parts thereof", "fuels, petroleum and petroleum products bituminous substances; mineral waxes", "ferrous metals" and "salt, sulphur, earths and stone, plastering materials, lime and cement" have greatly increased in volumes (see table 3).

Particularly, in the survey of dynamics, great interest is shown to "tobacco and manufactures tobacco substitutes" commodity group. In 2009-2011 years volumes of export of this commodity group has increased by almost 2.4 times and amounted to 1890,2 thousand U.S. dollars. The commodity group also has a significant share in the import structure of Georgia. Moreover, in contrast to the stable trends in export volumes, import volumes have quite faltering nature. But, on the other hand, while the share of this commodity group in our export amounted from 0.9 to 1.2% in these years, its share in structure import amounted from 2.5 to 6.1%. As we know, Georgia is especially specialized in wine production and very

Table 3

Structure export and import of the Republic of Armenia and Georgia /thousand US dollars/[1]

	The commodity group	2009		2010		2011	
Export							
		Volume of export	Volume of export to Geogia	Volume of export	Volume of export to Geogia	Volume of export	Volume of export to Geogia
	Total	**710157.5**	**52806.1**	**1041056.6**	**49035.2**	**1334338.8**	**61851.9**
1	Alcoholic and non-alcoholic drinks and vinegar	80114.2	791.0	109071.2	1071.4	147130.6	1890.2
2	Pharmaceutical products	3849.1	1559,8	5022.8	1893,5	5790.3	2043.9
3	Tobacco and manufactured tobacco substitutes	3849.1	1947.4	8307.2	1457.1	16319.7	2605.0
4	Vehicles other than railway and parts thereof	5031.5	2300.6	3403.6	1981,1	8451.0	4674.8
5	Plastics and articles thereof	5239.8	4452.9	6561.0	5609.5	8481.3	7157.6
6	Coffee, tea and other spices	9815.1	7077.8	6060.5	3965.1	5735.1	3397.0
7	Salt;sulphur; earths and stone; plastering materials,lime and cement	9970.6	8335.2	5530.4	2745.2	9869.5	6977.7
8	Glass and glassware	10284.5	9612.6	11412.0	11140.3	10252.6	9736.2

1 National Statistical Service of the Republic of Armenia. Foreign Trade of the Republic of Armenia for 2009, p. 210-211, 222, 224-225, 230-231,239, 244, 270, 273, 285, 286, Foreign Trade of the Republic of Armenia for 2010, p.220-221, 233, 235-236, 238, 241, 251, 282, 285, 298-299, . Foreign Trade of the Republic of Armenia for 2009, p. 210-211, 222, 224-225, 230-231,239, 244, 270, 273, 285, 286, Foreign Trade of the Republic of Armenia for 2011, p. 155-156, 164-167, 169-170, 175, 179,196, 198, 208.

Import							
		Volume of import	Volume of import from Geogia	Volume of import	Volume of import from Geogia	Volume of import	Volume of import from Geogia
	Total	**3321133.9**	**40890.8**	**3748953.5**	**54349.6**	**4145332.0**	**60173.4**
1	Fuels, petroleum and petroleum products bituminous substances; mineral waxes	529683.8	680.4	648750.6	3204.9	806145.0	5037.0
2	ferrous metals	100468.0	781.3	123024.6	9673.6	116426.8	10503.9
3	Salt, sulphur, earths and stone; plastering materials,lime and cement	9923.0	1175.9	13967.8	1090.4	12153.3	1321.8
4	Alcoholic and non-alcoholic drinks and vinegar	42076.8	2479.1	52568.5	3508.5	47121.8	2885.8
5	railway or tramway locomotives, rollingstock and parts thereof; tramway and parts thereof	30241.5	5394.0	41825.7	6659.1	19444.2	11965.7
6	edible fruit and nuts; peel of citrus fruit or water-melons	33711.6	5594.9	43596.6	8279.3	19045.6	47282.3
7	fertilisers	13614.2	5611.0	11676.3	3102.8	15272.6	5714.8
8	wood and articles of wood; wood charcoal	49872.4	10475.0	52722.0	6975.1	62532.5	2410.2

often they import grape or even prepared grape material from Armenia for organizing their production in great volumes. This fact, of course, is very beneficial for Armenia, as this way Armenian farmers will have an alternative for their product realization. But, on the other hand, the lack of grape may be a serious reason for increasing prices in domestic wine market. Therefore, for Armenian-Georgian economic cooperation further development we offer to make efforts in setting up wine producing joint ventures, which will give a chance to both of them for using their superior capabilities in this area and organize a high quality wine production, which will enjoy a higher competitiveness in world market.

Study of dynamics in the export structure of the «Pharmaceutical products» commodity group is also very interesting. Export volumes of this commodity group amounted to 1559,8 thousand U.S. dollars and which was 40,5% of its export in 2009. Export volumes amounted to 2043,9 thousand U.S. dollars in 2011 increasing by about 1,3 times compared with 2009. But, despite the volume increase its share in structure export to Georgia was greatly reduced to registering a share for about 35.3%.

As we know, Armenia has very favorable conditions for organizing domestic production for products such as «tobacco and manufactured tobacco substitutes» commodity group. Though, this commodity group export volumes have registered steady growth trends during these years and have increased by about 4,2 times, its export volumes to Georgia have had a very faltering nature. As a result, Georgia's import volumes have increased only by 1,3 times and the share of Georgia in the whole structure export of this commodity group has declined by about 34% and amounted to 34,6%. So, it is logical that the demand for these products in Georgia has had a great recession, which is a serious cause for concern and requires additional studies in Georgian market by Armenian producers. From Table 3 it is obvious, that "Vehicles other than railway and parts thereof" and "Glass and glassware" commodity groups' trade volumes also have faltering nature.

In the structure export to Georgia the commodity "Plastics and articles thereof" has a very great share and have registered steady growth in export volumes. This commodity's export volumes amounted to 8481.3 thousand U.S. dollar in 2011. Moreover, the share of the commodity group exported to Georgia registered 84.3% share in whole export of these products. So, we assume, that in case of these trends' maintenance in future, economic partnership will be more stimulated and it will provide greater positive results to both of countries.

As shown in Table 3, «coffee, tea and other spices» commodity group has registered reduction in export volumes during these years. Comparing with 2009 we see that export volumes in 2011 declined by about 2 times. But, in spite of the decline of the volumes, the commodity group's share in export to Georgia amounts 59.2%, which is a quite serious data, especially in the case, that Armenia is mostly an importer of such products and there are no sufficient conditions for their production in our country.

Speaking about «Salt, sulphur, earths and stone; plastering materials, lime and cement» commodity group, we would like to notice that exports of these products significantly exceed the imports. The largest export volume was registered in 2008, when it amounted to 38256.7 thousand U.S. dollars and its share in export to Georgia was 46.7%. Thanks to the significant growth of the export volumes of cement it was in heading positions in this commodity group exported to Georgia in these years. Moreover there are two types of cement production: dry and wet. And both of them are very competitive in Georgian market. Generally, the majority of wet cement production costs are the costs done in gas. But, as it is known, Armenia is a natural gas importer. So the import volumes of gas and its prices directly affect on further export volumes of this product. By the way from 01.April.2009 prices for thousand cubic-meters of Russian gas were increased from 110 to 154 U.S. dollar. Therefore, we think, significant export volumes reduction since 2009 was not surprising. In 2010 export volumes amounted to 2745.2 thousand U.S. dollar which was only 5.6% of the its export. However, despite the further increase of gas prices this products' export volumes amounted to 6977.7 thousand U.S. dollar in 2009, which has increased by about 2.5 times compared with 2010. This proves that Georgian demand for these commodities is quite high and further volume growth is very perspective. What refers to the import volumes study of this commodity, it is evident that despite of small volumes there have been registered stable growth trends. Import volume of this products amounted to 1321,8 thousand U.S. dollars in 2011 which had increased by 1,1 times compared with 2009.

Speaking about import structure study, we would like to notice that during these years only «wood and articles of wood; wood charcoal» commodity group had registered volume reduction. The import volume of these products amounted to 2410,2 thousand U.S. dollars decreasing by 4.3 times if we compare it with 2009.

Continuing the analysis, it should be noted that commodity groups like "ferrous metals" and "Fuels, petroleum and petroleum products bituminous substances; mineral waxes" have shown a quite faltering character. These products have had unprecedented volume increase. Particularly, the "ferrous metals" commodity group compares with 2009 had largely increased in 2010 and in 2011 amounted accordingly 9673.6 thousand U.S. dollar and 10503.9 thousand U.S. dollar. The volume was increased by 12.3 times in 2010 and shared 17.8% in the structure import of this commodity group from Georgia. And it had increased by about 1.1 times in 2011. The commodity group - "Fuels, petroleum and petroleum products bituminous substances; mineral waxes" has increased for about 7.3 times during these years and amounted to 5037.0 thousand U.S. dollar in 2011.

Thus, this analysis approves the absence of serious bases for productive economic cooperation. We can insist that either Armenia or Georgia, as countries inclined to a regional integration rather weakly complement bilateral economic systems. This fact, of course prevents the further expansion and development of regional integration processes. As we have already mentioned, bilateral trade is the most developed sector in economic relations system. But it's also on a very weak base now. For this reason, we think that countries are facing a serious problem in implementation of structural reforms. Only as a result of these reforms, it will be possible to correct the situation and walk through the actual integration.

Therefore, we suggest arranging and actualizing mutual economic and political joint programs and initiatives for these two countries by following the examples of integration processes and integration unifications which have proved positive results in various regions. This programs and initiatives will involve providing of tax benefits, simplifying of customs procedures and line of measures involving the growth of mutual investments. It is also suggested to found infrastructures which will promote and encourage the involvement of these countries' companies in external trade for future actuation of external trade of products and services. Following infrastructures, by their nature, must be directed to financing and encouragement of spheres that have bigger potential producing products that are more competitive for these countries.

This will sure promote growth of positive results in mutual trade, growth of investment cooperation, the development of economic relationships in other spheres, and will eventually take Armenian-Georgian cooperation to a higher level by creating free trade zones and abilities to create customs union.

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