SPECIAL REPORT
INTEGRATION IMPULSES OF GROWTH

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The improved global economic backdrop and national anti-crisis measures appear to be not the only reason the economies of the EDB region have been stabilizing and recovering throughout 2016. In some of the EDB countries there has also been an increase in trade with they EAEU partners, most notably in Armenia and Kyrgyzstan. However, the increase in their exports to other EAEU countries differs in source and degree. In particular, a sharp rise in food exports made a significant contribution to the increase in Armenia’s exports to EAEU countries; whereas the increase in Kyrgyzstan’s exports was less significant and was temporary in a number of sectors.

ARMENIA: EXPORTS TO EAEU COUNTRIES BECOMING KEY FACTOR OF GROWTH

Armenia’s exports fall in 2015

From 2007 to 2014, the share of EAEU countries in Armenia’s exports ranged from 16% to 23.7%. This share fell to 11.3% in early 2015 as a consequence of: the recession in Russia, the depreciation of the national currencies and a decline in economic activity in other countries of the Union. In 2015, Armenia’s total exports fell by 4%.

Exports become the main driver of growth in 2016

In early 2016, the rise in exports became one of the main factors behind the acceleration of economic growth in Armenia. In January-June 2016, the country’s exports increased by 16.7% year-on-year in value terms. The increase was mostly due to a rise in exports to EAEU countries including Russia, which is the main trading partner of Armenia within the EAEU. Armenia’s exports to Russia and Belarus increased by 87.4% and 47.2% year-on-year, respectively, in January-June 2016. This caused the share of EAEU countries in Armenia’s total exports to grow from 13.6% in January-June 2015 to 21.5% in January-June 2016. The increase was attributable to the government’s policy aimed at stimulating exports, as well as to the positive effect from integration within the framework of the EAEU amid a fall in Russia’s food and agricultural imports from third countries. Simultaneously, the share of Armenia’s exports to the European Union decreased from 29.5% to 28.3% and the share of exports to other countries declined from 54.8% to 49.2%.

7 Countries other than the member countries of the CIS and the EU.
Agricultural products account for most of the rise in Armenia’s exports to EAEU countries

The depreciation of the dram in 2016 favors the external competitiveness of Armenian goods

Food products, agricultural raw materials, precious stones, metals and metal products accounted for most of the rise in exports.

We should also note that the dynamics of the exchange rate of the dram in the first half of 2016 led to an increase in the competitiveness of Armenia’s exports. The real effective exchange rate and the real exchange rate of the dram against the Russian ruble fell by 3.6% and 10.7%, respectively (June 2016 on December 2015), after rising by 5% and 5.3%, respectively, in 2015 (December 2015 on December 2014).

Source: The national statistical agency, estimates by the authors
KYRGYZSTAN: POTENTIAL FOR INCREASE IN EXPORTS IN FOOD SECTOR

Kyrgyzstan’s exports of goods to Russia exhibited negative dynamics before the country joined the EAEU.

The upward trend that had taken place in Kyrgyzstan’s exports to Russia until 2011 gave way to a downward trend that lasted from 2012 to mid-2015. In that period, Russia’s share in the total amount of Kyrgyzstan’s exports decreased from 13.2% in 2011 to 6.0% in the first six months of 2015.

Export growth returned to positive territory after Kyrgyzstan joined the EAEU, and its goods gained duty-free access to the partner countries’ markets. Although the price competitiveness of Kyrgyz products in CIS markets deteriorated (the real effective exchange rate appreciated by 12.6% in 2015 and by 5.7% in the first six months of 2016), Kyrgyz exports to Russia started to rise rapidly in mid-2015, rising by 143.7% year-on-year in September 2015, 150.9% in December and 180% in January 2016. However, statistical data from the Eurasian Economic Commission suggest that those upsurges were temporary, and did not result from a sharp recovery of food and agricultural exports to Russia. The emphatic increase in the volume of imports to Russia from Kyrgyzstan was mostly due to arrangement of supply of medical instruments and an increase in imports to Russia of copper and aluminum scrap. In addition, Russia’s imports of clothing and textiles from Kyrgyzstan began to recover: Russia’s imports of clothing from Kyrgyzstan grew 11.3-fold in the first six months of 2016 compared with the same period of 2015; they had been declining up to the end of 2015.

Agricultural deliveries to Russia begin to increase.

In the agricultural sector Kyrgyzstan’s food deliveries to Russia began to increase in August 2015. They rose initially at a moderate rate, increasing by 4.0% year-on-year in August-December 2015; they then accelerated significantly to 60% year-on-year in the first six month of 2016.

Kyrgyz dairy manufacturers began to enter the Russian market in early 2016. Previously Kyrgyz dairy products were hardly exported to Russia during 2013-2015. Supply of Kyrgyz cheese and cottage cheese to Russia started in February 2016. Dairy products accounted for only 0.3% of the total amount of Russia’s imports from Kyrgyzstan in February 2016. A gradual increase in dairy imports throughout January-June 2016 caused the share of dairy products in Russia’s imports from Kyrgyzstan to grow to 6.6% in June 2016.
SUMMARY

Given the above, we can conclude that it may be premature to claim definitely that the rise in exports from Armenia and Kyrgyzstan is a consequence of their EAEU membership. Nonetheless, we can note that regional factors delivered a contribution to the stabilization and recovery of economic growth in the EAEU countries. In the case of Armenia, the depreciation of the national currency may have played a role in the increase in competitiveness of its exports. At the same time exports to Russia were likely facilitated by more favorable treatment for both Armenia and Kyrgyzstan than for other countries. Apart from this, we can say that in the case of Kyrgyzstan exports rose even though the som strengthened against the Russian ruble. It is an open question as to how long the upward trend in exports will last considering the fact that the food sector accounts for a great part of the positive dynamics of exports. Under these circumstances, it is necessary to take further steps to eliminate trade restrictions, primarily non-tariff barriers, in order to ensure a steady rise in exports and import-substitution production.

Source: The national statistical agency, EEC, estimates by the author