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## Editorial

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Dear readers,

when this EUFAJ issue has been ready, there was just another sentence before the courts in Baku/Azerbaijan; against the human rights activists Dr Leyla Yunus and her husband, Arif Yunus.

What the President of the European Parliament said to this case on 15.8.2015 reads: "It is with utter dismay and regret that I have heard about the verdict handed down by the Baku Court to Dr Leyla Yunus and Mr Arif Yunus. The legal process leading to the verdict which imposes heavy prison sentences on two leading voices in the defence of human rights is utterly unfair, as testified by international monitors, and moreover completely disregards the health conditions of those sentenced."

And as a Spokesperson from the Council of Europe has declared on 13.8.2015, CoE Secretary General Jagland will request from the Azerbaijani authorities the full details of the judgment and the evidence presented against the defendants. In view of the known systemic deficiencies in the Azerbaijani judicial system and the worrying trend of increasing cases against human rights defenders and journalists, which in turn has a chilling effect on freedom of expression in the country, he is of the opinion that the conviction should eventually be examined by the European Court of Human Rights.

This is exactly what every human rights-interested lawyer in the whole world expects, too. The outcome is clear from the beginning, as the trial against the Yunus couple has developed. We wish the Yunus family - and all other accused persons - all the best before unpredictable Azerbaijani courts and before predictable European courts, despite the almost weekly assurances from government representatives, that there is full press freedom in Azerbaijan - which is clearly not, that the country is not legally accused, and this in a chorus of bought parliament members of other countries. The "Caviar Connection" says hello. Azerbaijan is today Europe's worst political system, I am very sorry to have to say this. It does not fit at all into the Council of Europe; where there is administrative activity, the administrative heads have always to reconfirm themselves with the next level. Only the hope that after the present president Ilham Aliyev a more decent government will come to power keeps Azerbaijan in the Council of Europe.

With best regards....



Hans-Jürgen Zahorka

### Corrigendum

In EUFAJ 3-4/2013, p. 41, we published the article "**Taxing for Human Rights: Fiscal Rights Monitoring on the Example of Zambia and the Right to Education**", by Marijana Ilić. We are sorry that in the bio notes of the author there was some helter-skelter. She got an M.A. in Human Rights and Democratisation jointly awarded by the European Inter-University Center for Human Rights and Democratisation (EIUC), Venice and Lund University, Raoul Wallenberg Institute for Human Rights and Humanitarian Law in 2013 where she specialised in international labour and migration Law. We are sorry for all inconveniences.

# Books in International Politics and Economy



**Ofelya Sargsyan: Selected EU Foreign Policy Areas and Instruments**

*LIBERTAS Paper 80, Rangendingen (Germany), July 2015. 148 p.; e-book: ISBN 978-3-946119-02-09(4,49 EUR). Print version: ISBN 978-3-946119-00-5 (15,00 EUR).*

**Sergey Metelov (Ed.): IV. Manyakinskie Readings: Contemporary Challenges and National Security - Past, Present, Future. Dedicated to the 70th anniversary of the victory and the end of World War II. / IV МАНЯКИНСКИЕ ЧТЕНИЯ: «ПРОБЛЕМЫ И ОБЕСПЕЧЕНИЕ НАЦИОНАЛЬНОЙ БЕЗОПАСНОСТИ: ПРОШЛОЕ, НАСТОЯЩЕЕ, БУДУЩЕЕ» (70-ЛЕТИЮ ПОБЕДЫ И 70-ЛЕТИЮ ОКОНЧАНИЯ ВТОРОЙ МИРОВОЙ ВОЙНЫ ПОСВЯЩАЕТСЯ) (in Russian language),**

*Omsk / Rangendingen, April 201; 612 pages; eBook: ISBN 978-3-937642-54-7 (25,00 EUR).*

**Sourajit Aiyer: Flying with the Winged Elephant - Niche Opportunities for Global Businesses that May Emerge in India**

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**Erick Behar Villegas / Thomas Schwartz (Hrsg.): Interkulturelles Management im deutsch-französischen Umfeld - Theoretische und empirische Beiträge (in German language). Mit Beiträgen von: Benjamin Ammon, Andreas Fischl, Fabienne Gloger, Sarah Gräbel, Bruno Hartig, Mai Tram Ho, Denis Jeanson, Efflam Jestin, Léo Maksud, Florian Schnitzler, Miriam Schumacher, Thomas Schwartz, Erick Behar Villegas.**

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*Libertas Paper 70; Rangendingen 2009; 87 pages; eBook: ISBN 978-3-946119-23-4 (9,99 EUR). Print version: ISBN 978-3-937642-08-6 (15,00 EUR).*

**Dea Elibegova (ed.): Georgian Minorities - Roma, Qists, Assyrians, Ezids. With contributions by Dea Elibegova, Meqa Khangoshvili, Sergey Osipov, Eka Bitkash, Dimitri Pirbari.**

*Libertas Paper 72; Rangendingen 2009; 56 pages.; eBook: ISBN 978-3-946119-21-0 (9,99 EUR). Print version: ISBN 978-3-937642-10-9 (15,00 EUR).*

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# *Western Balkan Countries and their Potential towards the EU*

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**Ofelya Sargsyan**

*This contribution, which appears right before the next regular reports of the EU Commission on potential Member States, may be used to check the single political situations, as well as the whole one. While the basic decision may have been made in the Balkan countries, the details seem to be very difficult.*

Back in 2003 during the meeting in Thessaloniki, the EU leader stated that **“the future of the Western Balkans is within the European Union”**<sup>1</sup>. This is also in line with the Union’s Treaties which acknowledge that **every European state can become a MS** in case it meets the Union’s criteria<sup>2</sup>. Moreover, **the EU has a historical and moral responsibility to assist the Balkan states**. In addition, it corresponds **the EU objective to promote political and economic stability in the region**.

If the Balkan states would come into the EU, this would be enlarged for approximately 8% of its citizens, but almost 30% of its Member States. This implies that if all the Balkan states would accede, the EU Treaties would have to be changed.

The EU’s enlargement towards the Central and Eastern Europe was a significant accomplishment, abolishing the national resentments between these states, promoting their democratization and economic development, as well as reiterating the principles and values of the European integration, picturing the EU as an effective and credible international actor which contributed to the added value while remaining complementary in its actions and policies and being no menace to the targeted countries own interests.

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<sup>1</sup> Thessaloniki European Council, General Affairs and External Relations, 2518th Council meeting, Luxembourg, 16 June 2003, p.16.

<sup>2</sup> In 1993, during a session in Copenhagen, the European Council defined the EU accession conditionalities – the so-called Copenhagen Criteria which cover the following aspects: “stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; functioning market economy and the capacity to cope with competition and market forces in the EU; the ability to take on and implement effectively the obligations of membership, including adherence to the aims of political, economic and monetary union” (European Commission, Conditions for membership, [http://ec.europa.eu/enlargement/policy/conditions-membership/index\\_en.htm](http://ec.europa.eu/enlargement/policy/conditions-membership/index_en.htm)).

However, enlargement can be not only an efficient tool for the EU to promote democratic systems, human rights, rule of law, stability and economic sustainability in its immediate neighborhood, it can also be beneficial for the EU, per se. The Union has always been concerned to sustain security and peace. As a matter of fact, this aspect has often been a significant factor for the Union's expansion, e.g. the Romanian case. Apart from this, enlargement can also contribute to the political and economic stability of the Union, promote its international presence as well as increase its internal market.

However, as far as the Western Balkan countries are concerned, it is the geopolitical and security aspects of enlargement that are the key driving forces for the EU leaders to favour these countries accession to the Union as the economic benefits for the EU will be rather small. Regarding the geopolitical concerns, there is perception in the EU that it will pay a high price because of ethnic conflict, economic crisis, criminality, instability and poor governance in the Western Balkans in case it does not exercise enlargement<sup>3</sup>.

As for the Western Balkans, after all the destructive and bloody conflicts and wars there, **the EU integration could have a transformative effect on the targeted countries. However, so far only Croatia has demonstrated a consistent EU oriented policies and reforms.** As such the country became an EU MS in 2013. **In the other countries of the region there still exists mistrust between different ethnicities, poor governance and economy, as well as corruption and criminality.** Hence, the EU is concerned that in case it does not incorporate them, it runs the risk of having an impoverished neighborhood, disturbed by criminality and the treat of bloody conflicts<sup>4</sup>.

To undergo new enlargements, the EU needs to overcome a set of challenges, among them being the recent anti-EU referendums, political and economic crises as well as the so-called "enlargement fatigue". The EU's presence and influence on the Western Balkans is to be upgraded so that the Union can function more operatively. Furthermore, expansion towards the Western Balkans should be discussed separately from Turkey's with Turkey having quite different characteristics than the countries in the Western Balkans - the country has three times more population than the whole Western Balkans and has a specific geographic position.

From their part, the Balkan states need to be persistent in their EU-oriented policies and in implementing the reforms posed by the EU so as to meet the Union's criteria. Hence, **the EU and the Western Balkans need intensive cooperation to improve governance and government,**

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<sup>3</sup> Vachudova Milada Anna, EU Leverage and National Interests in the Balkans: The Puzzles of Enlargement Ten Years On, Journal of Common Market Studies, 2013, [http://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDcQFjADahUKEwj9\\_Xs8uHGAhXl\\_XIKHe4tBII&url=http%3A%2F%2Fapps.eui.eu%2FPersonal%2FResearchers%2Fcecchi%2Fdocuments%2FVachudova\\_2013.pdf&ei=59CoVaToEuX7ywPu25CQCA&usg=AFQjCNFXxS1yUuzEkpfH2LXToulf4h7rRQ&sig2=KoUH2sLprZ3rnQwjbVjDOA&bvm=bv.97949915.d.bGQ](http://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDcQFjADahUKEwj9_Xs8uHGAhXl_XIKHe4tBII&url=http%3A%2F%2Fapps.eui.eu%2FPersonal%2FResearchers%2Fcecchi%2Fdocuments%2FVachudova_2013.pdf&ei=59CoVaToEuX7ywPu25CQCA&usg=AFQjCNFXxS1yUuzEkpfH2LXToulf4h7rRQ&sig2=KoUH2sLprZ3rnQwjbVjDOA&bvm=bv.97949915.d.bGQ)

<sup>4</sup> Avery Graham & Batt Judy, Balkans in Europe: why, when and how? European Policy Centre. March 2007.

**promote political will, strengthen mutual confidence and sustain the momentum of expansion, taking the phenomenon as a mutually beneficial outcome**<sup>5</sup>. They need to pursue a consistent policy and implement the promises. While the EU enlargement towards the Western Balkans is a challenging and complex issue, **with the EU package of economic and institutional reforms, supported by financial and technical aid, it can come to reality** as it did in many other cases. To the point, already in 2005, in its report “The Balkans in Europe’s Future”, the International Commission on the Balkans stated that the expansion to the Western Balkans should be in 2014-2015. However, setting dates is not favored in the EU and in 2006 the European Council highlighted that accession dates would not be set until negotiations are close to conclusion. This is also a lesson that the EU has learned from the 2004-2007 – the leverages work efficiently only before the accession and a longer period is required for implementing the criteria needed in various fields.

However, **while on the one hand uncertainty about the exact accession date is an important tool to keep the applicant states to be alert, accurately implement reforms and not to relax, on the other hand the candidate states must fix target dates for government planning, identifying priorities and implementing reforms. Furthermore, setting deadlines can mobilize actions and keep government accountable for progress.** Croatia became a part of the EU in 2013. The Former Yugoslav Republic of Macedonia, Albania, Montenegro and Serbia are candidate states while Bosnia and Herzegovina and Kosovo are potential candidates and the Union has also concluded Stabilization and Association Agreements with them. However, it is hard to make predictions about the timeline of their accession.

One more lesson driven from the 2004/2007 expansion is the increased focus on “good governance”, including respect of rule of law, independent judiciary, functioning institutions, fight against criminality and corruption, civil society development and media freedom). The policy was first formalized in 2012 in the workplan framed for accession negotiations with Montenegro. Namely, it stated that Chapter 23 – Judiciary and Fundamental Rights, and Chapter 24 – Justice, Freedom and Security – were to be launched in the early phases of the negotiations but would be closed only at the end of the process. The same method was also applied in the Serbian which opened in January 2014. Furthermore, in the case of Montenegro and Albania, issues related to the reforms in the field of rule of law were set out even before the actual negotiations for the membership started.

To promote the efficient implementation of the political conditionality, the EU has also introduced new instruments, such as opening, intermediary, equilibrium, and closing standards, measures to prolong monitoring; more routine procedures; early screening processes as well as capacity and political will guarantees from the countries, acknowledging the prerequisite of reforming and strengthening the national parliaments, government institutions and judiciary systems. To promote

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<sup>5</sup> Avery Graham & Batt Judy, Balkans in Europe: why, when and how? European Policy Centre. March 2007.

the process, the EU has formed pre-accession packages as well as cooperates with various European and international institutions, such as the Europol, Eurojust, Frontex, the Council of Europe, the Organization for Security and Cooperation in Europe/Office for Democratic Institutions and Human Rights (OSCE/ODIHR) and the Organization for Economic Cooperation and Development/Support for Improvement in Governance and Management (OECD/SIGMA). Additionally, there exists transnational relations between the major Balkan political parties and European parties/party groups in the European Parliament which aim to contribute to party development and political structuring in the region.

The EU has undertaken a novel approach also in the field of security. As such, the countries in the region should establish intensive cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY), regional cooperation and reconciliation, as well as resolution of bilateral standstills (such as between Greece and the former Yugoslav Republic of Macedonia over the name issue) or of statehood (such as in the case Serbia and Kosovo), and refugee return<sup>6</sup>.

To support the region to sustain peace, stability and economic growth, the Union has launched the Stabilization and Association Process<sup>7</sup> which provides EU accession potential. The EU seeks to promote in the region democratization and transition to market economy as well as regional cooperation. It concludes separate agreements with the states, including various trade concessions and financial and technical aids to contribute to capacity building and approximating to the EU standards. To the point, the Union is the single largest assistant donor to the Western Balkans as a whole. However, it is also important that the Western Balkans is far from being a homogenous region and one-size-fits-all approach cannot be deployed.

Differences exist in various aspects – small or big countries (Montenegro as opposed to Serbia, ethnically diverse and homogenous (Bosnia-Herzegovina versus Albania), Catholic or Orthodox or Muslim (for example, Croatia versus Serbia versus Albanians), with a stronger or minor communist past (Albania versus the ex-Yugoslav republics), with or without war legacies (such as Croatia/Serbia/Bosnia-Herzegovina versus Albania/Montenegro/the former Yugoslav Republic of Macedonia), as well as with resolved or conflictual borders (Montenegro versus Serbia-Kosovo). Such discrepancies can by far complicate the region's common objective of democratic

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<sup>6</sup> Stratulat Corina (ed.), EU integration and party politics in the Balkans, European Policy Center, Issue Paper No. 77, September 2014,

[http://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=10&cad=rja&uact=8&ved=0CF0QFjAJahUKEwj9\\_Xs8uHGAhXI\\_XIKHe4tBII&url=http%3A%2F%2Fwww.epc.eu%2Fdocuments%2Fuploads%2Fpub\\_4716\\_eu\\_integration\\_and\\_party\\_politics\\_in\\_the\\_balkans.pdf&ei=59CoVaToEuX7ywPu25CQCA&usq=AFQjCNHMZfY94ZW8iAxGli3Ef6daFODzTA&sig2=INxcG7Xu60yx9h\\_bzMuu9A&bvm=bv.97949915,d.bGQ](http://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=10&cad=rja&uact=8&ved=0CF0QFjAJahUKEwj9_Xs8uHGAhXI_XIKHe4tBII&url=http%3A%2F%2Fwww.epc.eu%2Fdocuments%2Fuploads%2Fpub_4716_eu_integration_and_party_politics_in_the_balkans.pdf&ei=59CoVaToEuX7ywPu25CQCA&usq=AFQjCNHMZfY94ZW8iAxGli3Ef6daFODzTA&sig2=INxcG7Xu60yx9h_bzMuu9A&bvm=bv.97949915,d.bGQ).

<sup>7</sup>The Stabilisation and Association Process (SAP) was established in 1999. It's the EU's policy framework towards the Western Balkans with a view for future membership. It includes contractual relationship, trade relations, financial aid as well as regional cooperation, the political and economic objectives being dependent on each countries' own merits. (European Commission, Stabilisation and Association Process European Commission - Enlargement - Stabilisation and Association Process, [http://ec.europa.eu/enlargement/policy/glossary/terms/sap\\_en.htm](http://ec.europa.eu/enlargement/policy/glossary/terms/sap_en.htm))

consolidation and EU membership prospect<sup>8</sup>. By the same token, **the countries of the region are at different phases of the EU integration.**

### **Albania**

Albania has been concluding Stabilization and Association Agreements with the EU since 2009 – also the year when it applied to the Union for a full membership. In June 2014 the EU granted the country the status of a candidate<sup>9</sup>. Albania is in the process of implementing the political and economic changes and reforms required for the EU accession. Candidate status is a significant political indicator, asserting the country's path to the EU as well as encouraging foreign investments, hence, also job creation.

### **Former Yugoslav Republic of Macedonia**

Macedonia was granted candidate country status in December 2005. It makes SAA with the EU, including financial and technical aid. The country is persistent in its EU-oriented policies and reforms and is considered to be a functioning democracy. It is worth noting that the country has input major efforts in forming a function market economy and is continuing to reform the economy, especially in the areas of property ownership, the business and investment climate as well as labour and financial markets. Yet, it still needs further reforms in such aspects as elections, juridical and police reforms as well as corruption.

### **Montenegro**

Since its independence in 2006, Montenegro has led a policy, promoting democracy, respect for rule of law, human rights market economy. In response, in December, 2010 the European Council granted the country the status of a candidate and opened the accession negotiation in June, 2012.

### **Serbia**

In 2010 Serbia submitted its EU accession application. The same year the visa liberalization for its citizens to travel to the Schengen zone entered into force. In March 2012, the country got officially candidate status and the accession negotiations were opened in January 2014<sup>10</sup>.

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<sup>8</sup> Stratulat Corina (ed.), EU integration and party politics in the Balkans, European Policy Center, Issue Paper No. 77, September 2014,

[http://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=10&cad=rja&uact=8&ved=0CF0QFjAJahUK\\_EwjK9\\_Xs8uHGAhXI\\_XIKHe4tBII&url=http%3A%2F%2Fwww.epc.eu%2Fdocuments%2Fuploads%2Fpub\\_4716\\_eu\\_integration\\_and\\_party\\_politics\\_in\\_the\\_balkans.pdf&ei=59CoVaToEuX7ywPu25CQCA&usg=AFQjCNHMZfY94ZW8iAxGIi3Ef6daFODzTA&sig2=INxcG7Xu60yx9h\\_bzMuu9A&bvm=bv.97949915,d.bGQ](http://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=10&cad=rja&uact=8&ved=0CF0QFjAJahUK_EwjK9_Xs8uHGAhXI_XIKHe4tBII&url=http%3A%2F%2Fwww.epc.eu%2Fdocuments%2Fuploads%2Fpub_4716_eu_integration_and_party_politics_in_the_balkans.pdf&ei=59CoVaToEuX7ywPu25CQCA&usg=AFQjCNHMZfY94ZW8iAxGIi3Ef6daFODzTA&sig2=INxcG7Xu60yx9h_bzMuu9A&bvm=bv.97949915,d.bGQ)

<sup>9</sup> A country is considered a candidate when after examining its accession application, the EU Council grants it the candidate status (European Commission, Economic and Financial Affairs, Accessing and candidate countries, [http://ec.europa.eu/economy\\_finance/international/non\\_eu/candidate/index\\_en.htm](http://ec.europa.eu/economy_finance/international/non_eu/candidate/index_en.htm)).

<sup>10</sup> Delegation of the EU in the US, European Enlargement and Neighborhood, Candidate Countries, <http://www.euintheus.org/what-we-do/policy-areas/european-enlargement-neighborhood/candidate-countries/>

The other two Western Balkan countries **Bosnia and Herzegovina and Kosovo** are potential candidates under the UNSCR 1244. The countries can get the EU membership prospect once they are ready to implement the political and economic reforms, essential for the EU membership.

### **Bosnia and Herzegovina**

Bosnia and Herzegovina was acknowledged as a potential candidate for EU accession in June 2003. Since then the relationship and cooperation scope between the two have increased to include visa facilitation and readmission agreements (2008) as well as Interim Agreement on Trade and Trade-related issues (2008). However, while the SAA has been adopted, it is still not in force.

### **Kosovo under UNSCR 1244**

The EU has been assisting to Kosovo under UNSCR 1244 since 1999, when the UN Security Council issued a civilian and military presence there. The EU provides up to 75 percent of the NATO-led KFOR peacekeeping force. The European also supports the country to reform its infrastructures and administration, strengthen economy and approximate to the EU norms. In 2008 the EU formed EULEX civilian mission in Kosovo. Coordinated by the EU Special Representative (EUSR) in Kosovo, the institution aims to develop a politically independent and multi-ethnic justice structure and police and customs service which act in correspondence to the internationally-recognized norms and best practices<sup>11</sup>.

To assess the progress in the countries, it is essential to investigate the annual reports of the countries. As such, the 2014 annual reports reveal that the countries still face a number of problems, such as the economic crisis, unemployment, corruption and lack of media freedom. In line with this the paper will go further, presenting separately the key features of each of the states, their progress and shortages as well as the position towards the EU and its criteria.

*After all, the biggest problems seem to be:*

*- for Albania: the perception of democracy, of parties, but also of a social fabric (not in cities, but the countryside) which has to fade away;*

*- for Macedonia: the perception of democracy, which led to a government crisis after the tapping of politicians, and now to the forthcoming withdrawal of the present prime minister, as well as some attacks on freedom of press;*

*- for Montenegro: corruption, criminality, assaults on journalists and hence press freedom - this is in a strange contrast to objective progress in legislation;*

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<sup>11</sup> Delegation of the EU in the US, European Enlargement and Neighborhood, Potential Candidate Countries, <http://www.euintheus.org/what-we-do/policy-areas/european-enlargement-neighborhood/potential-candidate-countries/>

- for Serbia: to overcome a general reluctance to work in a European integration, while declarations by politicians say the contrary, and the often confidential expressed intention to undermine a European foreign policy, e.g. towards Russia (sanctions!), as well as the relations to Kosovo, which should be settled by a kind of basic agreement;

- for Bosnia-Herzegovina: the "old" problem of the entities and the State level which has not yet enough power, and the reluctance of the Republika Srpska to discuss openly about the horrors of the past war;

for Kosovo: criminality, the will to discuss openly also about the role of the Albanian Liberation Army during the last war - this will take at least one more generation of citizens; the Serbian minority.

The EU had in 2205 an unofficial time-table assuming that an EU accession of the West Balkan states may be possible until first 2015, then 2018, later 2020. Due to some difficulties with present Member States, even the last date seems to be not realistic. However, it can speed up, it can end in a differentiate time table, and the unofficial time table of parts of the Commission was never more than an unofficial time table.

### **The Commission Evaluation of the 2014 Progress on Albania**

In its Communication "Enlargement Strategy and Main Challenges 2014-15" on Albania, the Commission noted that Albania made progress, while further actions were required in the field of the judiciary. The report acknowledges that the government in Albania demonstrated political will to prevent and fight against corruption. There were improvements in the legislation and also policy coordination and monitoring issues at central level. There was a positive trend in fighting against organized crime due to the intensification of law enforcement activities, particularly in the drug-related crimes, economic crimes as well as trafficking of human beings. Reforms were also undertaken to strengthen the legal recognition of the LGBT rights.

However, the communication also points out the shortcomings. Namely, more efforts are needed to fight corruption and organized crime so as the accession negotiations to be with the country. As such, Albania should further improve its public administration, by increasing its expertise and depoliticization, undertake a thorough reform of judiciary, by ensuring its independence, efficacy and liability through a comprehensive framework and in cooperation with the Venice Commission, should consolidate its anti-corruption policy and intensify its efforts in fighting against organized crime, by strengthening proactive investigations, prosecutions and convictions, as well as promote the reinforcement of human rights, including of Roma and anti-discrimination measures as well as exercise property rights. In the field of media freedom, the government did not implement the identified priorities. The constitutional rights of the Audiovisual Media Authority should be recognized and respected. In the economic field, Albania should seek to increase its

competitiveness, solve unemployment problems, as well as tackle away informal actions in the economy and business. One more challenge for the country to address is to implement the reforms in a productive environment between the government and opposition. The government should give the opposition the chance to practice its democratic control functions, while the opposition in its turn needs to be imposed to constructive dialogue and work in parliament. To facilitate the process and enhance the inclusiveness of the process, the Commission recommended to establish a National Council for European Integration, which would include all the parties engaged<sup>12</sup>.

### **The Commission Evaluation of the 2014 Progress on the Former Yugoslav Republic of Macedonia**

The Commission identified the EU accession process for the FYRM as stalled. The accession negotiations with the country have not yet been launched due to its failure to implement the Commission's recommendation to the Council. Furthermore, the government of the country failed to provide sufficient information on various issues, which hindered sustainable reform process and even led to regress in some fields.

There has been notable increase in politicizing the government institutions and government control on media, including the coverage at the elections, as found by the OSCE/ODIHR. Mistrust towards the government institutions is growing and there are concerns over selective justice. Media freedom gets increasingly limited. The recent political conflicts between the government and opposition parties revealed that as a matter of fact the party interests progressively overweigh national benefits. As in the case of Albania, the Macedonian government and opposition should ensure that the political debates are held in parliament. Furthermore, both side should ensure measures and opportunities to come to the table and cooperate. Yet, as of 2014 no meeting of the High Level Accession Dialogue was held. In the field of inter-ethnic conditions, confidence-building between the communities should be promoted. The Ohrid Framework Agreement provisions and recommendations are to be fulfilled. "Name issue" with Greece is to be resolved, with the parties falling short to reach a compromise after 19 years of the UN-mediated negotiations, the issue has a negative influence on the country's EU path.

Still, some progress has been recorded in the field of the public administration and regional and international cooperation and the EU agenda is still of key strategic importance for the country. Taking into consideration these aspects, the Commission concluded that overall that the political criteria of the country was sufficient. Yet, it also highlighted the necessity to curb politicization and independence-related shortcomings in the judiciary and media freedom. As for the economic criteria, the country has made some progress in the formation of a functioning market economy. To be competitive within the EU in the medium-term, the country should further implement

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<sup>12</sup> European Commission, Albania Progress Report, October 2014

structural reforms. While the economic recovery has advanced, it still remains narrowly based on the external factor and has a marginal effect on unemployment. On the other hand, financial stability was preserved and the FDI inflows were enhanced. But again, fiscal regulations and transparency as well as the amount of the government expenditure deteriorated. In the internal market area, the country has undergone a wide legislation approximations for capital movements, postal services and company law. The country has also made efforts in such fields as visa policy, external borders and Schengen, as well as police cooperation. Nevertheless, further actions are to be taken in particular regional policy, environment and climate change, social policy and education as well as public internal financial control<sup>13</sup>.

### **The Commission Evaluation of the 2014 Progress on Montenegro**

Following the accession negotiations, Montenegro completed the screening of the EU legislation. In December, 2014 negotiation on Chapter 23 and 24 - Judiciary and fundamental rights and–Justice, freedom and security, respectively, were launched with the EU having set 84 interim benchmarks for the two chapters. Overall, so far negotiations have opened on twelve chapters, for two of which they are provisionally closed. The country has started the implementation of its action plan with the approximation of the targeted legislation. As a result the constitution of the country was reformed in 2013, there have been new appointments in the judicial and prosecutorial offices and in 2014 the parliament also appointed a new Supreme State Prosecutor. The judiciary system has overall been improved, with strengthening the protection of fundamental rights and the Ombudsman office.

However, other reforms, particularly in the legislative field, e.g. measures on anti-corruption, have been more painful and slowly. The country is to adopt a sufficient legislation on political party finances. Tracking corruption related investigations, prosecutions and final convictions should be strengthened. Tools of seizure and confiscations of assets should be in systematic deployment. Media freedom should be ensured, while cases of violence against journalists should be further investigated.

A result-oriented political dialogue between the government and the opposition should be set, electoral processes are to be furthered to make them transparent and open. Reforms are required also in public institutions, also with making civil service depoliticized. Concerns also remain in the economic field, namely in tackling away unemployment and improving the business environment. The country also needs an adequate framework for the aluminium producer KAP. While Montenegro is the first country in the region to open Chapters 23 and 24, an adequate

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<sup>13</sup> European Commission, FYROM Progress Report, October 2014:

political commitment is required for deep and sustainable reforms to ensure rule of law and economic growth, essential for accession negotiations<sup>14</sup>.

### **The Commission Evaluation of the 2014 Progress on Serbia**

In response to Serbia's progress in reforms and the commitment to normalize relationship with Kosovo, the European Council has opened accession negotiations with the country, with the first intergovernmental conference on the issue being held in January 2014. The screening stage has been proceeded. As a result of the May, 2014 floods, the country suffered a significant socio-economic difficulties. With regard to this, the EU provided immediate rescue and relief aid and also held a donors' conference in July, 2014. Serbia got also international recovery assistance.

The country has made significant reforms in its public administration, by adopting a general strategy and improving coordination and planning. Important legislations and evaluation rules for the judges and prosecutes were ratified in the judiciary filed. A relevant number of Court Presidents have been appointed on a permanent ground. There is also a political commitment to fight corruption, there being investigated several high-level cases and policies taken to strengthen coordination. The country took an active part in regional law enforcement cooperation.

Yet, more efforts are required to ensure an efficient and independent judiciary. There are several key legislation aspects still to be ratified, such as the law on free legal aid, the law on whistle-blowers, and the law on conflicts of interest. There is still high level of corruption in various fields. The country should set a record track of certain outcomes in the fight against corruption an organized crime. There should be complete respect of basic rights in practice and this including for vulnerable groups. There are major shortcomings in ensuring freedom of expression. Despite the efforts, the reforms in public administration should be furthered. The reports of the independent actors should be considered at a wider extent. The country should also tackle its economic challenges and ensure its development options. Additionally, the country is to promote the participation and transparency for the accession process. The country needs to reform its planning, coordination and monitoring of the implementation of new legislation and policies. The EU has set opening benchmarks under Chapters 23 and 24, presupposing Serbia to present wide-ranging inclusive action plans. The country should continue its regional cooperation commitments and involvement in the normalization process with Kosovo as well as maintain its efforts in implementing the provisions reached in the dialogue with the EU<sup>15</sup>.

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<sup>14</sup> European Commission, Montenegro Progress Report, October 2014.

<sup>15</sup>European Commission, Serbia Progress Report, October 2014,  
[http://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCEQFjAAahUKEwiHmLeJufGAhWHfywKHSFCBOE&url=http%3A%2F%2Fec.europa.eu%2Fenlargement%2Fpdf%2Fkey\\_documents%2F2014%2F20140108-serbia-progress-](http://www.google.de/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCEQFjAAahUKEwiHmLeJufGAhWHfywKHSFCBOE&url=http%3A%2F%2Fec.europa.eu%2Fenlargement%2Fpdf%2Fkey_documents%2F2014%2F20140108-serbia-progress-)

## The Commission Evaluation of the 2014 Progress on Kosovo

A landmark event in the EU-Kosovo relations was the completion of the negotiation of a SAA and its initialing in July, 2014. It is the first comprehensive treaty between the two sides, providing an enhanced political dialogue, closer trade and economic integration, including launching EU markets to Kosovo's industrial and agricultural products and cooperation in new fields. Next stage would be the ratification and conclusion of the agreement. However, as a result of the June, 2014 elections, Kosovo has been facing an increasingly polarized political situation which impedes the implementation of certain important reforms. Kosovo has progressed its visa facilitation negotiations with the EU. Nonetheless, more efforts are needed in this regard to address the gaps, raised in the visa-related negotiations, including modifying the security and migratory risks of the potential visa liberalization.

The country has intensively cooperated with EULEX on issues related to the rule of law. The government has also demonstrated political will to reform the mission's mandate, meanwhile taking up more responsibilities and agreeing to set a specialist court for the cases which rise out of the investigation led by the Special Investigative Task Force. To make the process complete, Kosovo should ratify the required legislative reforms including to its constitution and cooperation with the planned court.

The country faces multiple challenges in various fields, including in the area of rule of law, such as in judicial independence, inadequate fight against crime and corruption. Furthermore, the situation in the north of Kosovo is still critical, presupposing all the stakeholders to cooperate with EULEX and not to be engaged into unilateral actions. Kosovo also lacks a comprehensive structural economic reform to curb the high level of unemployment. Reforms are urgent also in the fields of public administration and in electoral structures. The rights of the minorities should be ensured. To address the problems, the country should keep close cooperate with the EU and aim to implement the priorities stressed in the 2012 Feasibility Study and most recent Progress Reports.

In its turn the Commission reconfirmed its readiness to support Kosovo, in its Europeanization process. To the point, worthwhile is that, Kosovo's progress towards its EU integration has become feasible due to Kosovo's commitment to normalize relations with Serbia. To this end, the new government in Kosovo should maintain the trend and be open for regional cooperation, constructive dialogues with Serbia as well as the implementation of the provisions reached in the negotiations.<sup>16</sup>

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[report\\_en.pdf&ei=POSyVceFCIf\\_sQGhhJGIDg&usg=AFQjCNHrib3YnbzG0MDSermtkT2quLvflw&bvm=bv.98476267.d.bGg.](#)

<sup>16</sup> European Commission, Kosovo Progress Report, October 2014.

## **The Commission Evaluation of the 2014 Progress on Bosnia and Herzegovina**

The EU integration process of Bosnia and Herzegovina is at halt, with the country lacking collective political will from the side of the political elite to implement the reforms which are determining towards the EU accession. The country has recorded only a marginal advance in its political and economic fields and in aligning with the EU standards.

Moreover, the May, 2014 floods have further deteriorated the socio-economic situation of the country. To relieve the situation the EU provided rescue efforts as well as held a donors' conference in July. BiH have also received significant assistance from the international community for the recover and reconstructions. Nevertheless, the fragile socio-economic situation in the country still remains, proved also due to the wide protests in early, 2014. To improve the situation, the Commission has initiated three projects which are directly connected with the citizens' concerns. It has increased the spectrum of the EU-BiH Structured Dialogue on Justice to tackle away shortcomings in the field of rule of law, especially the fight against corruption. Furthermore, the Commission has launched a joint EU-BiH Working Group to ensure the efficient fulfilment of the EU-funded projects. The Commission has also enlarged the policies in the area of economic governance. As such, 'Compact for Growth and Jobs', in cooperation with international financial organizations, was set to measure the economic reform over the coming months as well as serve as a framework for the National Economic Reform Programme.

Still, the country is short of effective coordination and monitoring tools on the EU-related aspects which impedes its Europeanization process. To the point in 2014, three out of the last six subcommittee meetings under the Interim Agreement were canceled. Moreover, BiH still refuses to ratify the above mentioned treaty to consider its conventional trade with Croatia before the latter joined the EU, which caused the Commission to undertake actions, hindering BiH from certain trade benefits unless it is ratified by the end of 2015.

While BiH signed the SAA in 2008 and ratified it in 2011, the document is still not in force, with Bosnia having failed to meet the conditions. The political stakeholders have not managed to agree on the strategies necessary for the Pre-Accession Assistance in such sectors as energy, transport and environment. As a result, the funding allotted to the country in these fields has been reduced and the assistance has been focused on the areas that directly impact the citizens.

As seen, to give impetus to its relations with the EU, to begin with Bosnia needs government, elected in free and fair elections, political will and EU-oriented strategies. Additionally, the public administration should be depoliticized and reformed.<sup>17</sup>

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<sup>17</sup> European Commission, Bosnia and Herzegovina Progress Report, October 2014.

## Conclusion

Unstable environment and agonistic events in the Western Balkans have defined the EU's priorities towards the region which aims for preservation of peace, democratization, good governance and stability to ensure the countries' political and economic stability.

The countries continue to face various common challenges, difficulties as well as shortcoming. Drawing parallel, it is seen that in all the cases the monitoring the political will which can be determined through such measures as good governance, political stability and constructive dialogue between the countries is of determining significance for the development of the whole region as well as vis-à-vis their European paths. With regard to the issues related to the political aspect, i.e. democracy, stability and human rights, multiple and multifold actions and reforms are needed. As such improvements in the public administrations of the countries are to be highlighted. The independence of the institutions is to be ensured. In addition the sector is to be decentralized and empowered with high-level professionals. Furthermore, approximations to the EU standards are to be implemented. The role of the parliaments in all the countries is to be strengthened. Also, the countries need to fight against organized crime and corruption. Besides, ensuring free and fair elections still remains a problematic aspect in all of the countries. Additionally, the capacity and the position of the civil society is to be increased at local, regional a national levels. The countries of the region also face intimidations and limitations in the field of freedom of media and speech. One more vulnerable field common in all the cases is the judiciary. The reform of the field will not only support the countries' EU ambitions but will also contribute there to the rule of law. They should also address the problems related to ethnic and interethnic relations, minority and refugee rights.

Another indispensable aspect for the EU accession is the economic integration. Complex phenomena, among them the fiscal crisis, the recent floods etc., have negatively impacted on the economic situation of the Western Balkans, especially problematic being the high level of unemployment, weak competitiveness of local economies, energy security as well as high level of public debts. Further impediments for the countries on their way to the EU are border related issues, conflicts as well as the establishment of neighborly relations.

Thus, while the EU has a common approach towards the whole region, i.e. integration of the countries into a union of consolidated democracies with market economy, so far there remain multiple loopholes and problems in the countries, requiring on the one hand innovative policies and instruments by the EU towards the region, on the other hand, the accession to the Union being a merit-based phenomenon, in their turn, the countries should show political will and capacity to address the country and regional level challenges and problems as well as overcome the current standstill of the EU accession process.

# *Landlockedness as a Challenge for Development: The Case of Armenia*

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**Narek Harutyunyan**



## **Abstract**

This research aims to find the main challenges of the landlocked states and identify how the landlockedness affects their development. In this regard, the study uses the following research tools: meta-analysis of other researches, a two-stage regression analysis of data from World Bank, IMF and UN Datasets, semi-structured in-depth interviews and document analyses of agreements and strategy papers.

The findings are grouped in two main parts. The first part discusses the overall development problems of landlocked states, while the second part of the research focuses on Armenia as a landlocked country. The first stage of the analysis shows that the landlockedness creates additional 1070 \$ export cost per container. Besides, it identifies that the landlockedness affects country's development through the export cost by 5.8%. The second part of the research illustrates Armenia's specific characteristics as a landlocked state.

The research concludes that except for several developed landlocked states, their overall level of development is lower than that of the coastal neighbors. The hypothesis is supported because the landlockedness highly affects the export cost and decreases the HDI by 5.8%, which is 1/3 of the HDI's standard deviation. However, the development-related issues, that Armenia faces, are not primarily caused by its landlockedness.

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FDI – Foreign Direct Investment  
GDP – Gross Domestic Product  
GNI – Gross National Income  
HDI – Human Development Index  
IMF – International Monetary Fund  
LLC – Landlocked Countries  
LLDC – Landlocked Developing Countries  
PC – Per Capita  
PPP – Purchasing power parity  
UNCTAD – United Nations Conference on Trade and Development  
UN-OHRLLS - United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States  
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## Introduction

Even from the ancient times, early civilizations were created near the seas or rivers. Since those days, sea transport has been considered as the cheapest means of transportation. There is no need to construct roads in the sea to transport goods from one place to another. This cheap transportation helps to transfer them easily and with little costs. Transfer of goods, or in other words, trade between the countries, is the main indicator of the economic development.

Currently, around 20% of the states do not have open access to the seas and are considered to be landlocked. Few landlocked states succeed to overcome the difficulties, caused of not having sea borders and being deprived of this cheap transportation means. Particularly, these are the European landlocked states, which have developed their cooperation with the coastal members and got an opportunity to use their territories as a transit easily and steadily without any discrimination or obstacles.

A simple glance at the Human Development Index shows that the landlocked economies are mainly concentrated on the lower parts of the table. This suggests that the landlockedness creates specific challenges for the country's development. To the point, the question is - how can the landlockedness affect the country's development?

Armenia is among these landlocked countries and its economic development also faces specific challenges, and, in particular, in the field of international trade, from which the country's economy is highly dependent. Poor natural resources and absence of alternative transit routes leave the country with fewer opportunities for full development. As a landlocked state, Armenia has a bunch of problems, both specific to the country and general challenges, common to landlocked economies.

Thus, the aim of the research is to find the answer to the above-mentioned question by finding the path of the impact of having no access to the sea on the country's development indicators, in particular, in this case on Human Development Index. There are numerous works done on this topic. However, none of them tried to find the impact of being landlocked on the Human Development Index.

The first part of the study is the literature review and the methodological base of the research. This creates a theoretical background for the future analyses. Then, the landlockedness is discussed as a challenge for overall country's development, followed by the econometric analysis of data from the World Bank database. This analysis helps to identify the direct influence of the landlockedness on Human Development Index.

In the next stage, the research concentrates on the case of Armenia as a landlocked country and discusses the special characteristics and hardships that the Republic of Armenia faces during its economic development. A landlocked, small economy, with closed borders with two neighbors

and limited opportunities with the third neighbor, creates a special interest for the analysis. In this part, the study aims to reveal Armenia's economic performance as a landlocked country. With the in-depth interviews and the document analyses, the study also aims to discuss the policy responses to the landlockedness in Armenia.

## Literature Review

To get comprehensive understanding of the topic and to find what other researchers and theorists found about the impact of landlockedness in general and particularly on country's development, the research now concentrate on the existing literature about the landlocked economies. The analyzed literature showed that the researcher in all over the world have different viewpoints regarding the landlocked states. This section of the thesis brings up the main challenges and obstacles that were identified by others as a direct cause of landlockedness and the responses of the landlocked states to them.

As a first category of the problems of landlocked states the geographical conditions are mentioned in a group of researches<sup>18, 19, 20</sup>. In particular, Lahiri and Masjidi illustrate in their study that state that the geographic shortcomings along with the relief and remoteness include climate conditions and make landlocked states' trade dependent on weather whim. They point out the difficulties during the winter period<sup>21</sup>.

Glassner tries to compare the status of the landlocked states before 1965 and after. This was the year of the Convention on the Transit Trade of Landlocked States. This was a significant step-forward in this issue. Glassner refers to the sea as a "window on the world". He states that landlocked states have high transport costs for exporting and importing goods. Besides, he mentions the major difficulties for them such as mountainous terrain and dense forests, which significantly harm the infrastructural development. The latter is extremely important for LLCs. Moreover, he points out that the hardships concerning the topographic issues and poverty makes it very difficult to manage and maintain good roads and infrastructure<sup>22</sup>. Mengistu and Adams also illustrate the major difficulties that landlocked economies face when they try to connect to the international market<sup>23</sup>. Faye et al. also discuss the geographic problems of landlocked states and

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<sup>18</sup> Lahiri, Bidisha and Feroz K. Masjidi. 2012. "Landlocked Countries: A Way to Integrate with Coastal Economies." *Journal of Economic Integration*, Vol. 27, No. 4

<sup>19</sup> Bosker, M. and H. Garretsen. 2006. "Geography Rules too! Economic Development and the Geography of Institutions", Munich: CESIFO Working Paper No. 1769

<sup>20</sup> Mengistu, B. and S. Adams. 2007. "Foreign Direct Investment, Governance and Economic Development", *The Journal of Social, Political and Economic Studies*, Vol. 32, No 2

<sup>21</sup> Lahiri and Masjidi. 2012. "Landlocked Countries: A Way to Integrate with Coastal Economies."

<sup>22</sup> Glassner, Ira Martin. 1978. "Transit Rights for Land-locked States and the Special Case of Nepal", *World Affairs*, Vol. 140, No. 4, (spring), p. 306

<sup>23</sup> Mengistu, B. and S. Adams. 2007. "Foreign Direct Investment, Governance and Economic Development"

highlight the remoteness from the seas and international markets. Referring to the post-soviet landlocked economies they mention that some of them are about three thousand kilometers far from the seaports. This results in time-consuming and costly trade for these countries<sup>24</sup>.

Regarding the disadvantages of the landlocked states Gallup et al. mention the distance from the sea. They argue that the landlocked state is in worse conditions than the remote regions of coastal states, where the products or people have to pass longer distance to get to the seaports compared to the landlocked states, which have shorter distance from open seas. They explain this by bringing three main reasons: firstly, migration within the country and labor movements are much easier than migration between countries; secondly, the ease of infrastructure development compared to the hardships of the same across the national borders; and, finally, the coastal neighbors can charge landlocked state with certain costs for using their roads and ports to get access to the sea for political or other reasons<sup>25</sup>.

However, concerning the issue of labor market, in his research Feldmann concludes that labor-market outcomes are not dependent on the distance of the country from the ocean. Although he states that different geographical positions have various impact on labor market<sup>26</sup>.

In his study, Ricardo Hausmann argues that the country's geographic position and its advantages and disadvantages have been changed along the history. Particularly, they mention that previously, the countries that were in the center of several other states played significant role as a transit country and this was mainly identified as a priority for that country. However, with the development of maritime transportation this priority became a disadvantage for the central, non-coastal country. To put it another way, the geographical situation of the country remained the same, but the change of circumstances shifted the country's advantage into disadvantage<sup>27</sup>.

High transit costs are another group of shortcomings that landlocked economies face. The researches showcase that the landlocked states have higher transit costs than their coastal neighbors<sup>28,29</sup>. High costs for transportation makes the products of the landlocked states expensive and less competitive in international markets. Lahiri and Masjidi calculated that the total

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<sup>24</sup> Faye M. L., McArthur J. W., Sachs J. D. 2004. "The Challenges Facing Landlocked Developing Countries", *Journal of Human Development*, Vol. 5, No. 1, Carfax publishing, (March), p. 62

<sup>25</sup> Gallup, John Luke, Jeffrey D. Sachs, and Andrew Mellinger. 1999. "Geography and Economic Development", *CID Working Paper No. 1*, Cambridge, MA: Center for International Development at Harvard University.

<sup>26</sup> Feldmann, Horst. 2009. "Geography and Labor Market Performance", *Eastern Economic Journal*, Vol. 35, No. 2 (Spring)

<sup>27</sup> Hausmann, Ricardo. 2001. "Prisoners of Geography", *Foreign Policy*, No. 122 (Jan. - Feb.)

<sup>28</sup> Limão, Nuno, and Anthony J. Venables. 2001. "Infrastructure, Geographical Disadvantage, Transport Costs, and Trade." *World Bank Economic Review*, Vol. 15, No. 3

<sup>29</sup> Hummels, David. 1998. "Data on International Transport Costs: A Report Prepared for the World Bank." *Development Economics Department*, World Bank, Washington, D.C.

transportation costs for landlocked states are 9% higher than for the coastal ones<sup>30</sup>. As mentioned in the UNCTAD study the high transportation costs reduce the level of export of the country<sup>31</sup>.

Discussing the importance of the roads and infrastructure in country's development Raballand and Macchi mention that transportation costs and infrastructural difficulties hamper the development. Their research states that the transportation end-users not always benefit from the assistance to construct or repair roads. That is why they suggest the donors to take everything under their control to reach their goals<sup>32</sup>. Arvis et al.<sup>33</sup> and Hallaert et al.<sup>34</sup> highlight the importance of the regulatory policy in transport issue in the LLC's trade and overall development.

Raballand used four indicators of being landlocked to identify the effect of landlockedness on trade. Firstly, he used a dummy variable to obtain data; second indicator measures the shortest distance to the nearest seaport; the third one identifies the number of the borders of maritime countries; and the last one deals with the number of the LLC's borders. Raballand found that when measured by the dummy variable the landlockedness decreases the trade by about 80%. Then his further findings suggest that this mainly depends on the distance from the nearest markets, airports and seaports. Furthermore, it is important to take into account the number of borders and transportation alternatives of the LLCs<sup>35</sup>.

Raballand et al. suggest that the infrastructural development works better when there is a regional cooperation and liberalization<sup>36</sup>. This mainly effects the transit costs of the products in LLCs. Borchert et al. also mentions the importance of the regional and international cooperation. They also state that any investment and assistance in this sphere should be accompanied with national policies that should regulate the work and prepare good conditions for them<sup>37</sup>. Lall et al. stress the

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<sup>30</sup>Lahiri, Bidisha and Feroz K. Masjidi. 2012. "Landlocked Countries: A Way to Integrate with Coastal Economies." *Journal of Economic Integration*, Vol. 27, No. 4, p. 509

<sup>31</sup> UN Conference on Trade and Development, 2013. "The Way to the Ocean: Transit corridors servicing the trade of landlocked developing countries", *Transport and Trade Facilitation Series*, No. 4, New York and Geneva, Accessed 08 April, 2015 [http://unctad.org/en/PublicationsLibrary/dtltlb2012d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/dtltlb2012d1_en.pdf)

<sup>32</sup> Raballand, Gaël and Patricia Macchi. 2009. "Transport Prices and Costs: The Need to Revisit Donors' Policies in Transport in Africa", *Bureau for Research and Economic Analysis of Development, BREAD Working Paper 190*

<sup>33</sup>Arvis, Jean-François, Jean-François Marteau, and Gaël Raballand. 2010. "The Cost of Being Landlocked Logistics, Costs, and Supply Chain Reliability." *Directions in Development – Trade*, 55837, Washington DC: The World Bank.

<sup>34</sup> Hallaert, Jean-Jacques, Ricardo Cavazos Cepeda and Gimmin Kang (2011), "Estimating the Constraints to Trade of Developing Countries", *OECD Trade Policy Working Paper*, No. 116, Paris: OECD.

<sup>35</sup>Raballand Gael, 2003. "Determinants of the negative Impact of being landlocked on Trade: An Empirical Investigation through the Central Asian case", *Comparative Economic Studies*, Vol. 45

<sup>36</sup>Raballand, Gaël, Charles Kunaka and Bo Giersing. 2008, "The Impact of Regional Liberalization and Harmonization in Road Transport Services: A Focus on Zambia and Lessons for Landlocked Countries", *World Bank Policy Research Working Paper No. 4482*.

<sup>37</sup>Borchert, Ingo, Batshur Gootiiz, Arti Grover and Aaditya Mattoo, 2012. "Landlocked or Policy Locked? How Services Trade Protection Deepens Economic Isolation", *The World Bank, Policy Research Working Paper Series 5942*

importance of the competition between the transport services in the reduction of the transportation costs in landlocked states<sup>38</sup>.

Maurice Schiff and Alan Winters talked about the issue of the cooperation and integration as well. Particularly, they state that regional cooperation can help to get equal and uninterrupted access to the public goods such as rivers, lakes, roads and infrastructure. However, not in all cases this can work, because the neighboring states should have amicable relations and do not create difficulties for each other<sup>39</sup>.

The link between transportation costs and the infrastructure is discussed by Pomfret. He states that for the landlocked country it is essential to have developed infrastructure, but it is not enough, because the trade mainly depends on the transit country. Therefore the infrastructure of the transit state also should be in good conditions<sup>40</sup>. As regards the transportation system, Ndeffo et al. highlight the importance of the construction of new highways and railroads<sup>41</sup>.

De states that an average landlocked state's transportation costs are higher by 55% than these for their maritime neighbors are<sup>42</sup>. On the same issue Grigoriou argues that the development of good infrastructure of the neighboring transit country can stimulate the international trade of the LLCs by more than a half. Then the study suggests several ways to deal with the issue: infrastructural development, alternative roads and international cooperation and integration<sup>43</sup>.

As regards the development of the country, Faye et al. state that landlockedness brings low level of development, but do not mention directly to what extent<sup>44</sup>. Ramesh Paudel found that landlockedness negatively affects the economic growth. This research also concludes that the extent of this impact can vary because of the methods used for estimation. When trying to explain the differences that exist among the landlocked states regarding the economic growth the study

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<sup>38</sup>Lall, Somik V, Hyoung Wang and Thomas Munthali. 2009, "Explaining High Transport Costs within Malawi," World Bank Policy Research Working Paper 5133

<sup>39</sup> Schiff, Maurice, L. Alan Winters. 2002. "Regional Cooperation, and the Role of International Organizations and Regional Integration", World Bank Policy Research Working Paper No. 2872, (July)

<sup>40</sup>Pomfret, Richard & Patricia Sourdin, 2010. "Why do trade costs vary?", Review of World Economics (Weltwirtschaftliches Archiv), Springer, Vol. 146, No. 4

<sup>41</sup> Ndeffo, Nembot Luc, David Kamdem and Roger Tsafack Nanfosso. 2013. "Foreign Direct Investments and Economic Growth in Sub-Saharan African Countries: A Comparative Analysis between Landlocked Countries and Countries Having Access to the Sea." International Journal of Economics and Finance, Vol. 5, No. 6

<sup>42</sup>De, Prabir. 2006. "Trade, Infrastructure and Transaction Costs: The Imperatives for Asian Economic Cooperation", Journal of Economic Integration, Vol. 21, No. 4, p. 714

<sup>43</sup>Grigoriou, Christopher, 2007. "Landlockedness, infrastructure and trade: new estimates for central Asian countries", The World Bank, Policy Research Working Paper Series 4335

<sup>44</sup>Faye M. L., McArthur J. W., Sachs J. D. 2004. "The Challenges Facing Landlocked Developing Countries", Journal of Human Development, Vol. 5, No. 1, Carfax publishing, (March)

states that different policy responses, openness of the economy, relations with neighbors and infrastructural development have their major impact and decide these differences<sup>45</sup>.

Andrew Huelin links the development of the landlocked economies with their difficulties to get engaged in international trade. To somehow reduce this negative impact of landlockedness he recommends to develop private sector in the country and create better business atmosphere for them<sup>46</sup>. The underdevelopment of the landlocked states is also discussed by Kelly Bird and Hall Hill in the case of Laos. They state that economic liberalization and effective policy changes and reforms can have a significant influence on reducing the impact of landlockedness and small economy which they called “initial condition”<sup>47</sup>.

In their study Gallup et al. argue that the landlocked states have lower GDP per capita compared with the coastal states. The prices of the products in landlocked states are much higher because of the transportation and other costs and therefore less competitive in the international market. According to their study, the LLCs do not attract foreign investors as their maritime neighbors. These hardships bring high unemployment rates in the country<sup>48</sup>. MacKellar et al. analyzing the influence of the landlockedness on the country’s economic stance, argue that the growth rates of the LLCs are 1.5% lower than these of their coastal neighbors<sup>49</sup>.

Arvis et al. even went deep to calculate the cost penalty and time penalty of using transit states as corridors. Their estimations vary from 8% - 250% for the cost and 9% - 130% for time<sup>50</sup>. Radelet and Sachs argue that insurance and transport costs are two times higher for LLCs in comparison with their coastal neighbors<sup>51</sup>.

Rodrigo Cárcamo-Díaz studied the impact of the landlockedness on foreign direct investments in the country. They mention that in landlocked states the risks are higher therefore the investors are not attracted to make investments in those economies. High transportation costs and bad infrastructure are main reasons identified by the author as factors that pull back their intention to

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<sup>45</sup>Paudel Ramesh. 2014. “Economic Growth in Developing Countries: Is Landlockedness Destiny?”, Working Paper No. 2014/01, Arndt-Corden Department of Economics Crawford School of Public Policy ANU College of Asia and the Pacific

<sup>46</sup>Huelin, Andrew. 2013. “Enhancing Trade in Landlocked Countries through the Private Sector”, International Trade Centre, Trade Forum (December)

<sup>47</sup>Bird, Kelly, Hall Hill. 2010. “Tiny, Poor, Land-locked, Indebted, but Growing: Lessons for Late Reforming Transition Economies from Laos”, Oxford Development Studies, Vol. 38, No. 2, (June), p. 118

<sup>48</sup>Gallup, John Luke, Jeffrey D. Sachs, and Andrew Mellinger. 1999. “Geography and Economic Development”

<sup>49</sup>MacKellar, Landis, Andreas Worgotter and Julia Worz, 2000. “Economic Development problems of land locked countries”, Transition Economic Series, No. 14, p. 9

<sup>50</sup>Arvis, Jean-François, Jean-François Marteau, and Gaël Raballand. 2010. “The Cost of Being Landlocked Logistics, Costs, and Supply Chain Reliability”.

<sup>51</sup>Radelet, Steven and Jeffrey D. Sachs. 1998. “Shipping Costs, Manufactured Exports, and Economic Growth”, Annual Meeting of the American Economics Association, Chicago, (January 3-5)

make investments<sup>52</sup>. Like the study conducted by Pomfret, this research also highlights the role of the neighboring transit states and points out that political and economic instability in neighboring states also have their decisive impact on investors' intentions.

Macroeconomic fluctuations of neighbors are discussed by Diaz too, and he argues that these instabilities are another factor that forces foreign investors "stay away" from landlocked economies. On the other hand, a research done by Arvis et al. argues that landlockedness does not have a decisive impact on the number of FDI in the country. They particularly mention that there are significant number of investments in resource-rich countries despite being landlocked and remote from the seas<sup>53</sup>.

The relations with the neighboring transit states are discussed by Faye et al. (2004), who mention that the instability and fluctuations in transit state's economy or in political life have their impact on landlocked country. They particularly mention the necessity of the creation of solid contractual base for the bilateral relations of these states. In case of strained relations with coastal neighbors, the economy of the landlocked state can highly suffer. Moreover, as an obstacle for the development of the landlocked economy the study mentions the existence of conflicts in the region, which also negatively affects the integration possibilities in the region.

The same issue is discussed in Glassner's research. Particularly, he states that the landlocked states are not only vulnerable to their internal fluctuations, but also they are highly dependent on the interior situation of their coastal neighbors<sup>54</sup>.

Idan and Shaffer discussed the influence of the landlockedness on the foreign policy making of the Post-Soviet states. Particularly, they analyzed the cases of Kazakhstan, Uzbekistan and Azerbaijan. They found that these countries have multi-directional strategic orientation; they conduct specific policies towards their coastal neighbors; and do investments in these states. In the study they argue, that the coastal states in Post-Soviet territory could shift their orientation from Moscow to the West, while the landlocked ones maintained strong ties with Russia. Among these countries the ones who have oil resources could also find integration with other regional states. However, the others, who lack any oil or other natural resources, stay "loyal" to Moscow<sup>55</sup>.

Sachs also argues that geography plays an important role in foreign policy. This research argues that landlocked states are restricted in their foreign policy options and have to reconsider their interests every time when some geopolitical changes occur in neighboring states. Then the research

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<sup>52</sup>Cárcamo-Díaz Rodrigo, "Towards development in landlocked economies", CEPAL - SERIE Macroeconomía del desarrollo, Vol. 29, Santiago, Chile, February 2004

<sup>53</sup>Arvis, Jean-François, Jean-François Marteau, and Gaël Raballand. 2010. "The Cost of Being Landlocked Logistics, Costs, and Supply Chain Reliability

<sup>54</sup>Glassner, Ira Martin. 1978. "Transit Rights for Land-locked States and the Special Case of Nepal"

<sup>55</sup>Idan, Avinoam & Brenda Shaffer. 2011. "The Foreign Policies of Post-Soviet Landlocked States", Post-Soviet Affairs, Vol. 27, N 3, p. 245.

goes deep into describing main difficulties for landlocked states, which have already been discussed in this literature review<sup>56</sup>. In his study, Edmund Dale even mentions a low level of national consciousness in landlocked states and summarizes that LLCs lack strength, homogeneity and cohesion<sup>57</sup>.

Portugal-Perez et al. posit several ways to soften the impact of landlockedness on the economy. Particularly, they suggest treating them differently in accordance with their needs and necessity. Then they mention the importance of the regional and international cooperation and the need of economic integrations. As another step to decrease the disadvantageous situation of the economy these researchers highlight the significance of the infrastructural development and national certain policies regarding this issue. Surprisingly, they also suggest to booster uncontrolled cross-border trade. The research stresses the importance of understanding the role of this black market and then tries to come up with regulations<sup>58</sup>.

As policy responses for these challenges and difficulties the literature suggests certain guidelines. In particular the literature stresses the importance of the creation of solid and working infrastructure systems (highways, railroads and pipelines). As another means of solving difficulties the literature suggests the landlocked states to get into the regional integration projects. Then the steps directed to the economic development and export encouragement are highlighted<sup>59, 60, 61</sup>.

## **Methodology and Design**

### **Research Questions and Hypothesis**

The analyzed literature gave a thorough understanding about the topic, which led to the formulation of the research questions and the hypothesis. The research questions to which this research is going to answer are following:

- Research Question 1: To what extent does the landlockedness affect country's development?

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<sup>56</sup>Sachs J. 1997. "The limits of convergence. Nature, nurture and growth", *Economist*. (Jun 14)

<sup>57</sup>Dale, Edmund H. 1968. "Some Geographical Aspects of African Land-Locked States", *Annals of the Association of American Geographers*, Volume 58, Issue 3, (September)

<sup>58</sup>Portugal-Perez, Alberto and John S. Wilson. 2008. "Trade Costs in Africa: Barriers and Opportunities for Reform", *World Bank Policy Research Working Paper # 4619*.

<sup>59</sup>United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS), 2012. "Comprehensive Ten-Year Review Conference of the Almaty Programme of Action 2014", February, Accessed 08 April, 2015 <http://www.lldc2conference.org/custom-content/uploads/2013/08/Concept-Note.pdf>

<sup>60</sup>Shrestha Hemanta K and Hefiley Dennis 2003, "Regional Integration and Industrial Location in a landlocked Spatial Economy", Department of Economics working paper, University of Connecticut

<sup>61</sup>Shrestha, Hemanta K. and Mukti P. Upadhyay. 2004. "Political Economy of Regional Trading Arrangements in South Asia", *Journal of Economic Integration*, Vol. 19, No 3

- Research Question 2: How does the landlockedness affect Armenia's development?
- Research Question 3: What are the policy responses to the landlockedness in Armenia?

The reviewed literature helped to formulate the hypothesis of the research, which is going to be discussed in the first part of the research. The hypothesis refers to the direct impact of the landlockedness to country's development. Thus, the hypothesis is:

H: High export costs, driven by landlockedness, negatively affect country's development.

## **Methodology**

To answer to the abovementioned research questions and to approve or disapprove the hypothesis the research used mixed method. A sequential-qualitative design was used to get the needed results. First, the research went deep into the other researches and reports of the respective bodies to identify the exact consequences of being landlocked. For this meta-analysis of the research and policy papers was conducted. This prepared a theoretical background by deriving necessary variables for the future analyses.

In the next stage, which was a pure quantitative analysis, a huge dataset was created that contained data for all the countries for last ten years. The needed data were taken from the World Bank, IMF and UN Datasets. Besides, for several countries even the national statistical services' data were used. Then the averages for years 2004-2008 and 2009-2013 were used for the next analyses. A linear regression modeling was conducted to measure the direct impact of the landlockedness on the country's development. Here, besides the cross-country data a dummy variable was introduced, which marked landlockedness.

Then the economic indicators of Armenia have been compared with the averages of the developing countries, with the averages of the landlocked countries and with the world averages. To identify the policies that the government of Armenia conducts to decrease the impact of landlockedness the research did a document analysis of the strategy papers and other types of documents that deal with the economic policy of Armenia. To understand the main concepts and provisions on which the relations of Armenia and Georgia are based as a transit providing country for Armenia research also analyzed the agreements signed by these two countries.

To fill the gaps, in-depth semi-structured interviews were conducted with eight economists and policy-makers to find their interpretation of the data on Armenia's economic development as a landlocked state. Particularly the interviews were held with the leading economists, senior lecturers and heads of the faculties and programs chairs in the field of economics of the three prominent universities in Armenia: American University of Armenia, Yerevan State University and Armenian State University of Economics. The interviews with the head of the Department of Economic Development Policy and member of the Economic Affairs Committee of the National

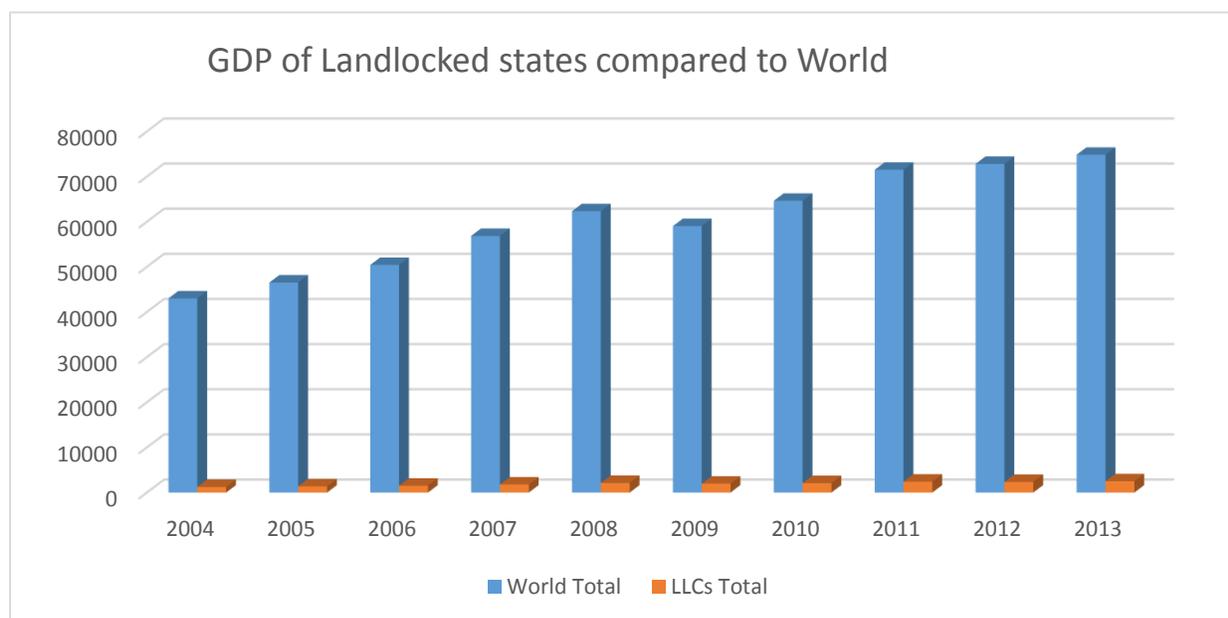
Assembly of the Republic of Armenia also helped to find what kind of policies Armenia conducts to reduce the impact of landlockedness on the economic development.

By analyzing, reviewing, comparing and interpreting the necessary data the research answers to the aforementioned research questions. This helps to approve or disapprove the hypothesis of the research. The next section describes the variables that have been chosen through the meta-analysis of other researches that are dealing with the impact of landlockedness on the country's development.

### Problems Faced by Landlocked States: General Overview

Although in 45 landlocked states live about 7% of the world population, and they comprise about 11% of the world area, only 3.22% of GDP goes to these countries (See Graph 1). As identified in the literature review the landlocked states face certain difficulties compared with their maritime neighbors in their development. In comparison with their coastal neighbors, they have lower economic performance. There is a huge gap between landlocked and non-landlocked countries, and it has an increasing tendency. A strong correlation between geography and development is obvious. LLCs suffer from their fate of being far from the sea and this isolation from international markets and economic centers creates obstacles for their successful development.

Graph 1: World average GDP for 2004-2013 and the proportion of the landlocked states. The data are given in billions.  
*Source: Author's calculations, based on the World Bank Datasets*



As identified in literature review landlockedness results in high transit costs, which make the exporting goods very expensive therefore less competitive in international market. The infrastructural problems and distance from the sea, infrastructure of the transit state, geographical difficulties all these factors contribute to the high transit costs. This high costs reduce the trading level of the country. Besides, the landlocked states are less attractive for the foreigners to do investments, unless they are rich with oil or other natural resource.

As shown in the literature review landlockedness brings lower development and is considered a geographical burden for a state. However, there can be other specific reasons for country's bad performance. To find the impact of the landlockedness on the country's development and relatively to decrease the influence of other factors the research compares the average GDP Per Capita for 2004-2013 of landlocked states with the same of their maritime neighbors. To do this the states were grouped in 8 geographic groups. These groups are conditional and were created just only for this case to compare the levels of development of neighboring states. This approach helps to compare the GDP Per Capita of the landlocked state directly with its maritime neighbors and to reduce variations in the development levels of states in different parts of the world. Table 1 shows that in all cases, except for the Western and Northern Europe cluster, maritime states are doing well as compared to their landlocked neighbors.

Table 1: Average GDP Per Capita of the Landlocked and Maritime States divided by regions.  
*Source: Author's calculations, based on the World Bank Datasets.*

<b>Regions</b>	<b>Average GDP Per Capita for 2004-2013</b>	<b>Regions</b>	<b>Average GDP Per Capita for 2004-2013</b>
<b>Southern Africa</b>		<b>Central and South Asia</b>	
Average of LLCs	4876	Average of LLC	6468
Average of maritime	7327	Average of maritime	13850
<b>Western Africa</b>		<b>Eastern and Central Europe</b>	
Average of LLCs	1383	Average of LLCs	15488
Average of maritime	5986	Average of maritime	16831
<b>Eastern Africa</b>		<b>Western and Northern Europe</b>	
Average of LLCs	1263	Average of LLCs	73409
Average of maritime	2269	Average of maritime	37407
<b>South and Southeast Asia</b>		<b>Latin America</b>	
Average of LLCs	4145	Average of LLCs	6208
Average of maritime	5832	Average of maritime	16489

A large number of landlocked states are situated in Africa and the comparison of their economic performance with their coastal neighbors shows that in Western Africa none of the landlocked states has higher GDP PC than the regional average. The situation is slightly better in Southern Africa, where Botswana and Swaziland have higher GDP Per Capita than regional average; however, the overall average for the LLCs is about 66% of the average of the maritime states in the region. In the Eastern Africa, the picture is the same as in Western: none of the landlocked states has higher GDP PC than the regional average.

Asian landlocked states are doing relatively better compared with the African ones. However, both in the Central and Southern and Southeastern Asia the average GDP Per Capita of the landlocked states is lower than the regional average. In this region the so called leaders of development within the landlocked states are Kazakhstan and Turkmenistan and this is because of the natural resources and particularly oil and gas in these countries, which attract the attention of the investors, thus reducing the geographical burden.

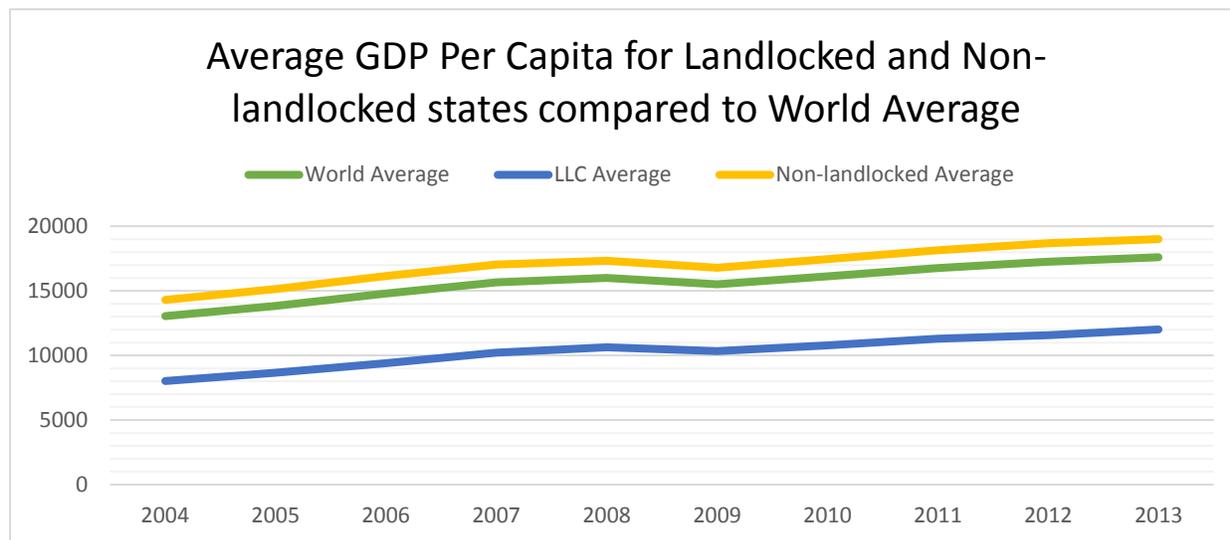
Concerning the performance of the LLCs in Central and Eastern Europe the table shows that the overall average is slightly lower than the regional average and this is because of the Czech Republic, Hungary and Slovak Republic, which are considered to have very high human development. The only case when the average of the GDP Per Capita of the landlocked states is higher than their neighbors' is in Western and Northern Europe.

Last cluster that was analyzed is Latin America. Here the tendency is the same. The overall average of the GDP Per Capita of LLCs is lower than that of their maritime neighbors. Besides, none of the landlocked states has higher average than the regional average.

This analysis of the performance of the landlocked states shows that except for several developed landlocked states their overall level of economic development is lower than that of the coastal states. This shows that although there are some variations within the landlocked states, their indicators are generally lower than those of maritime ones are.

Graph 2 illustrates the trend of the GDP Per Capita for the World, LLCs and for non-landlocked countries for last ten years (from 2004 to 2013). It can be observed from the graph that the average for landlocked states for last ten years was always low from the world average.

Graph 2. The average GDP Per Capita for landlocked, non-landlocked states and the world average for 2004-2013.  
 Source: Author's calculations, based on the World Bank Datasets.



A short glance at the Human Development Index shows that most of the landlocked states are in the groups of middle and low level development. To reduce the variations of the results and to provide the solid basis for the analysis the research took the average of the Human Development Indices of 2004-2013. This showed that out of 48 countries that have very high human development, only eight countries are landlocked and these are the abovementioned European states that have higher GDP Per Capita. Only 6 out of 51 states that have high human development are landlocked. Within 40 countries that have medium human development, 10 are landlocked and the highest number of landlocked states is in the last part of the table, where the states that have low human development are; out of 48 states, 17 are landlocked.

## Empirical Evidence

### Defining Variables

So, what explains this underdevelopment? Does landlockedness have direct impact on country's HDI rank? To answer to these questions the research again goes back to the literature and highlights the major negatively influenced indicators by landlockedness. The meta-analysis helps to identify what are the major consequences of being landlocked.

Firstly, the researchers identify mainly the infrastructural problems, which result in high transportation cost and high cost for export. Sea transport has always been cheaper than air or land-transports. Several case studies and researchers found that transportation problems that landlocked economies face hinder their development. Particularly, they harm the competitiveness of the

products both imported and exported. High transportation costs make the products cost higher thus reducing competitiveness. However, some suggest that in landlocked states investments in infrastructural development is not sufficient to decrease the transportation costs<sup>62</sup>. As Lall et al. argues the internal market of the landlocked states should be changed and some regional common policies should be implemented to decrease the negative impact of landlockedness<sup>63</sup>.

Landlocked states largely have all necessary requirements to have high costs for export and import. First, they are far from the international markets and this remoteness adds additional cost for exporting goods. Second, they use air and land transportation, which is more expensive compared to the sea-transportation. Venables and Limão went deep into the topic to compare the costs of land and sea transports. They found that sea transport is 7.3 times cheaper than land transport. Third, they lack sufficient infrastructure. As another condition for high transportation cost that should be mentioned is the additional borders that goods from landlocked country should cross to get to open sea<sup>64</sup>.

All the above-mentioned difficulties make the trade of landlocked states costly; the exported and imported goods have higher cost, which harms their competitiveness significantly. This made another group of researchers to concentrate on the trade. The analysis of other researches shows that landlocked countries trade less compared with their maritime neighbors. Overall, they state that these all indicators result in lower GDP for landlocked state<sup>65, 66, 67, 68</sup>.

The reviewed articles help to identify other hardships that landlocked economies face. The analysis of the researches done during last decade in different parts of the world helps to argue that landlocked countries are less attractive for the foreign investors<sup>69, 70</sup>. The main reason is also connected with high transit costs and infrastructural difficulties. Foreign direct investments are essential for the country's development. Especially in developing states, the national resources and savings are limited therefore there is a need for foreign money to be invested in the country.

Therefore, the distance from developed countries' markets, no direct access to the open sea, small-size national markets, not sufficient infrastructure and weak capacities are the main characteristics

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<sup>62</sup>Raballand, Gaël and Patricia Macchi. 2009. "Transport Prices and Costs: The Need to Revisit Donors' Policies in Transport in Africa"

<sup>63</sup>Lall, Somik V, Hyoung Wang and Thomas Munthali. 2009, "Explaining High Transport Costs within Malawi,"

<sup>64</sup>Limão, Nuno, and Anthony J. Venables. 2001. "Infrastructure, Geographical Disadvantage, Transport Costs, and Trade." , p. 455

<sup>65</sup>Huelin, Andrew. 2013. "Enhancing Trade in Landlocked Countries through the Private Sector"

<sup>66</sup>Bird, Kelly, Hall Hill. 2010. "Tiny, Poor, Land-locked, Indebted, but Growing: Lessons for Late Reforming Transition Economies from Laos"

<sup>67</sup>Gallup, John Luke, Jeffrey D. Sachs, and Andrew Mellinger. 1999. "Geography and Economic Development"

<sup>68</sup>MacKellar, Landis, Andreas Worgotter and JuliaWorz, 2000. "Economic Development problems of land locked countries"

<sup>69</sup>Pomfret, Richard & Patricia Sourdin, 2010. "Why do trade costs vary?"

<sup>70</sup>Cárcamo-Díaz Rodrigo, "Towards development in landlocked economies"

of the landlocked economies that discourage the investors to put their money in landlocked states. Consequently, the low level of FDIs in the country brings unemployment and several researches make this reference<sup>71,72</sup>.

Therefore, to explain the underdevelopment of the landlocked states the study now concentrates on the abovementioned indicators, particularly, on the average GNI per capita, PPP (current international \$) for 2004-2008, average unemployment rate for 2004-2008, average FDI net inflows (% of GDP) for 2004-2008, and average cost to export (USD Per Container) for 2004-2008, average exports of goods and services (% of GDP) for 2004-2008. These are the main indicators that are going to be used to measure the impact of the landlockedness on country's development.

In this stage, the research identifies the main variables used in the further analyses and provides short description for them, before going ahead to the econometric analysis. The indicators were from the World Bank, IMF and UN databases. The GNI per capita, PPP (in current international \$) is a gross national income per capita measured by the international dollar which has the same value in all countries as the US dollar in the United States. Unemployment rate is the proportion of the available labor force that is able to work and now looks for a job. Foreign Direct Investments Net Inflows (% of GDP) is the overall sum of reinvestment of earnings, equity capital, other long and short-term capitals divided by the GDP of the respective year. Cost to export (USD Per Container) represents the overall cost in US dollars for the 20-foot container including the documentation costs, administrative expenses for customs services, any broker fees, inland transportation and other costs that are officially registered for the export of a product. Exports of goods and services (% of GDP) is the overall share of the exported goods and services of the GDP of the respective year<sup>73</sup>.

As an indicator of development, the research uses the Human Development Index, which has three components: life expectancy at birth (in years), mean years of schooling (in years), expected years of schooling (in years), and gross national income (GNI) per capita<sup>74</sup>. The HDI is a measure of overall social and economic development of the country and helps to illustrate the changes in development levels of the states.

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<sup>71</sup>Gallup, John Luke, Jeffrey D. Sachs, and Andrew Mellinger. 1999. "Geography and Economic Development"

<sup>72</sup>MacKellar, Landis, Andreas Worgotter and JuliaWorz, 2000. "Economic Development problems of land locked countries"

<sup>73</sup>World Bank. 2015. "Indicators | Data". Accessed February 11, 2015. <http://data.worldbank.org/indicator>.

<sup>74</sup>Human Development Reports, 2015. "Data | Human Development Reports" Accessed February 7, 2015 <http://hdr.undp.org/en/data>

## Regression Analysis

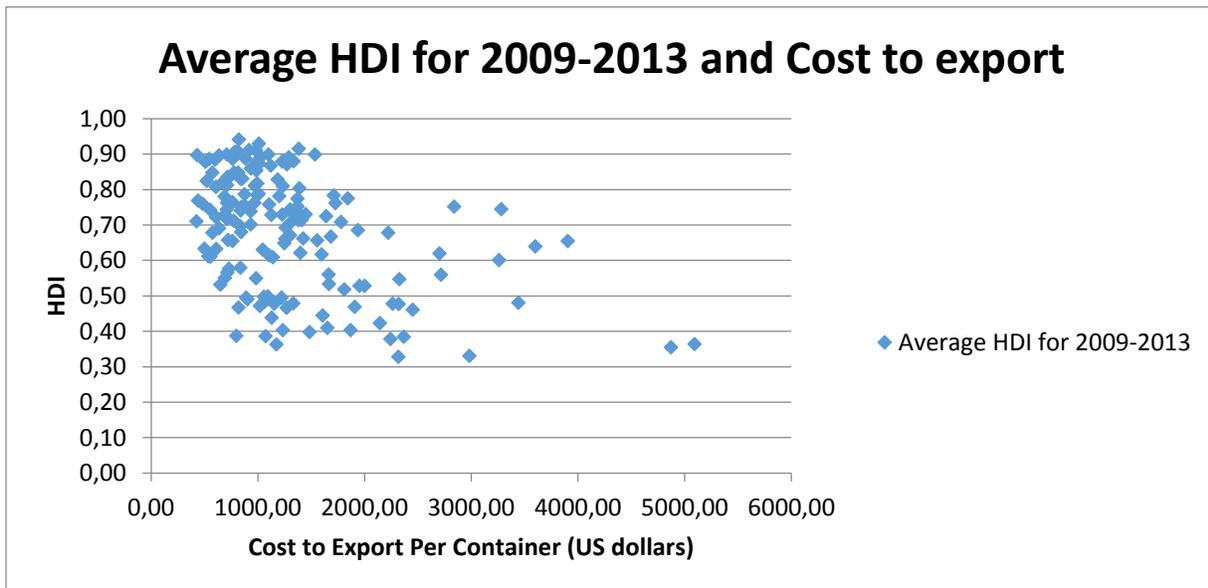
To test our hypothesis and find answers to our research questions the research in this stage concentrates on the econometric analysis of the abovementioned variables. So, at the beginning the research hypothesized that high export costs, driven by landlockedness, negatively affect country's development. To approve or disapprove the hypothesis, firstly, the research tries to find the impact of the landlockedness on the cost to export.

To reduce the impact of the exceptional years, the averages of five years have been taken. All the dependent variables are the averages for years from 2004 to 2008, and the independent variables are the averages for 2009-2013. This has been done to measure the impact of the independent variables on the dependent variable, as the impact can be seen after some period of time.

When just trying to measure the impact of the cost to export on Human Development Index, the picture explains a little about their relationship. The Graph 3 shows that there is no apparent relationship between these two variables and it is very hard to make any conclusion.

Graph 3: The relationship of the cost to Export with the HDI for landlocked and non-landlocked states.

Source: Author's calculations, based on the World Bank and UN Datasets.



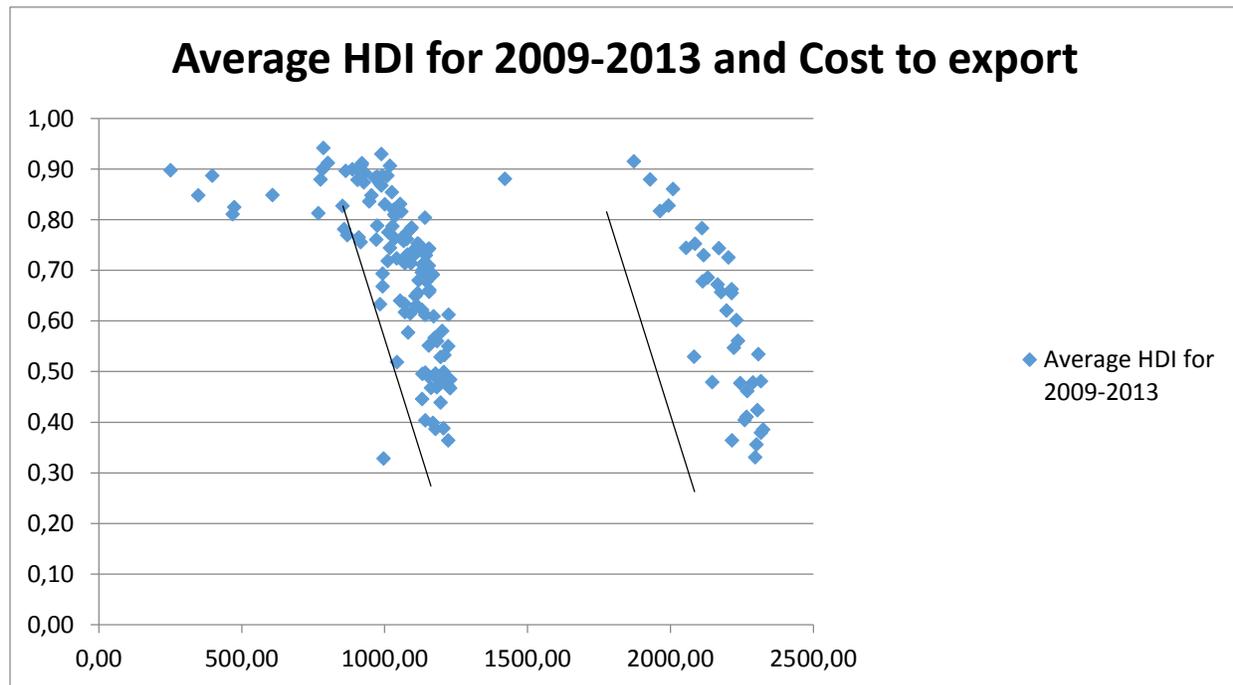
In this case, the export cost contains error terms that do not let to see the real picture. Thus, to capture the direct impact of landlockedness on country's development, channeled by export costs, a two-stage model has been constructed. To measure direct impact of the landlockedness, the research created a dummy variable for landlocked countries. This variable is 1 in case the country is landlocked and 0 when the country is not landlocked. Thus, the first model for the impact of the landlockedness on cost to export is

$$\text{Cost to Export} = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \alpha_5 d_L + \varepsilon$$

In this case, where the Cost to export is the independent variable and the dependent variables for this analysis are the following:  $X_1$  is the average GNI PC for 2004-2008,  $X_2$  is the average unemployment rate for 2004-08,  $X_3$  is the average exports of goods and services (% of GDP) for 2004-2008,  $X_4$  is the average FDI net inflows (% of GDP) for 2004-2008,  $d_L$  is dummy variable for landlockedness, and  $\varepsilon$  is the error term.

In this first stage, the export cost is explained by landlockedness. Here the residuals are extracted from the export cost and the model left only the part of the export cost that can be explained by landlockedness. Now when trying to see the relationship between the landlockedness, the cost to export and HDI, the image is quite different. Stata-analysis shows that the dots on the left side of the Graph 4 are landlocked states, while the non-landlocked states are situated mainly on the right side. This means that when landlocked and non-landlocked countries have the same HDI, they have very different export cost and landlockedness obviously adds some cost to export. In other words, if all other factors are fixed the landlockedness brings higher export costs.

Graph 4: The relationship of the cost to Export with the HDI for landlocked and non-landlocked states, where the horizontal axis is the component of the export cost, explained by landlockedness, and the vertical axis is the HDI.  
*Source: Author's calculations based on the World Bank and UN Datasets.*



In this first stage of the regression analysis, the research found that the landlockedness adds 1070 US dollar cost to export per container on average. The Table 2 below shows that one unit change in Dummy variable brings 1070 unit change in Dependent variable, which is in this case cost to export per container in US dollars. To put another way, the landlockedness creates additional 1070 US dollar cost to export per container.

Table 2: The results of the first stage of the regression analysis. Dependent variable is Cost to Export per Container in US dollars average for 2004-2008. The table shows the impact of landlockedness on the export cost.

Source: Author's calculations, based on the World Bank Datasets.

Independent variables	Coefficients	Standard Error	P-value
Average GNI PC for 2004-2008	-0.007	0.003	0.025
Average Unemployment Rate for 2004-08	-1.172	8.502	0.891
Average Exports of goods and services (% of GDP) for 2004-2008	-2.618	2.092	0.213
Average FDI Net Inflows (% of GDP) for 2004-2008	-3.010	10.754	0.780
Dummy landlocked	1070.811	116.989	0.000

Now, when the research identified the exact part of the export cost that is driven by landlockedness, it is the time to do the second stage of the regression analysis. In this stage, HDI is explained by the part of export cost, which is driven by landlockedness:

$$\text{HDI} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

In this model, dependent variable is Human Development Index. As independent variables the model uses the abovementioned indicators that suffer because of landlockedness: average GNI PC for 2004-2008 ( $X_1$ ), average unemployment rate for 2004-08 ( $X_2$ ), average exports of goods and services (as % of GDP) for 2004-2008 ( $X_3$ ), average FDI net inflows (as % of GDP) for 2004-2008 ( $X_4$ ), and the part of cost to export per container in US dollars that is directly driven by landlockedness that the research identified in the first stage of the analysis ( $X_5$ ). This analysis will help to find whether our hypothesis is approved or not. The analysis will identify whether landlockedness per se impedes country's development or not, and if there is, to what extent?

Table 3: The results of the second stage of the regression analysis. Dependent variable is the Human Development Index average for 2009-2013. The table shows the impact of landlockedness on development.

Source: Author's calculations, based on the World Bank and UN Datasets.

Independent variables	Coefficients	Standard Error	P-value
<b>Average GNI PC for 2004-2008</b>	0.000	0.000	0.000
<b>Average Unemployment Rate for 2004-08</b>	0.004	0.002	0.015
<b>Average Exports of goods and services (% of GDP) for 2004-2008</b>	0.000	0.000	0.887
<b>Average FDI Net Inflows (% of GDP) for 2004-2008</b>	0.003	0.002	0.163
<b>Average Export cost for 2004-2008 (USD Per Container)</b>	-0,000054312	0.000	0.008

Further analysis of the data shows that high export costs driven by landlockedness reduces country's Human Development Index by approximately 5.8%. In other words, all other factors fixed the landlockedness itself reduces country's HDI by 5.8%. To increase the level of accuracy and to determine the exact impact of landlockedness on HDI the research found that 1/3 of the standard deviation of HDI is driven by landlockedness.

In sum, the chapter discussed the main hardships that the landlocked economies face. These are mainly connected with the transportation costs that are added to export cost of the product thus making them expensive and less competitive in international markets. High risks and transportation issues affect negatively the business atmosphere of the country and therefore, reduce the number of FDIs in landlocked countries. This little investments brings higher unemployment rates in the country.

Second part of the chapter analyzed the existing data from international datasets to find the impact of landlockedness on country's development. Firstly, the analysis showed the exact influence of having no direct access to the open seas on the cost to export per container. The research found that landlocked economies have about 1070\$ higher cost to export than the coastal states.

Secondly, the chapter identified the exact change in HDI that occurs because of landlockedness. The research found that there is an impact and it is about 5.8% of the index. Landlockedness decreases the HDI by its 5.8%. Therefore, our hypothesis that high export costs, driven by landlockedness, negatively affect country's development is approved.

## **Armenia as a Landlocked State**

The previous section of the thesis discussed the major difficulties that landlocked economies face during their development. Hereby, the research goes deep into Armenia's case as a landlocked country with its special characteristics and difficulties. In this stage, the research highlights the development challenges in Armenia and discusses how Armenia responds to these challenges.

When looking at the world map, it can easily be observed that Armenia is relatively closer to the seaports compared to other landlocked states. Nevertheless, the mountainous relief of the country creates additional hardships for goods' transfer. This unfavorable relief makes the transportation of goods through these roads time-consuming in spite of shorter distance.

This issue was also expressed by almost all the experts. Despite the short distance, Armenian roads to the international markets have little opportunities and alternatives. They are mainly mountainous. In addition, during winter it becomes quite challenging to transport goods through these mountainous roads, which in case creates additional hardships for Armenia's international trade.

Yet another difficulty for Armenia's economic development is the small population size. With its 3 million residents, Armenia has quite a small market. Such a small-scale economy can hardly compete in international markets, and this is having a major impact on Armenia's production size. Therefore, this is another difficulty for Armenia's economy to deal with.

Poor natural resources create additional hardships for the country's economy. This leaves Armenia with little production in the country and creates dependency from imported goods. The landlockedness of the country raises the transportation costs and cost to import and export. Both exporting and importing products have to pass an additional hub to get to their destination point. Therefore, this raises the prices for both import and export. This harms not only the people, but also the business atmosphere in the country.

Political relations with neighbors negatively influence Armenia's trade as well. Armenia is constrained with limited opportunities to get into international market. Armenia has two closed borders in the west and in the east with Turkey and Azerbaijan respectively. The Armenian-Azerbaijani border is closed because of on-going conflict over Nagorno-Karabakh. The border in west with Turkey was closed in 1993 again, because of the above-mentioned conflict. The issue of the opening borders with Turkey has been on the agenda since 2008, when the so-called Football Diplomacy started. However, the reconciliation process has been frozen and nowadays there is a low possibility of opening borders in near future.

The southern neighbor of the Republic of Armenia is Islamic Republic of Iran, which faces major economic issues due to the sanctions imposed on it. These difficulties also influence Iran's economic cooperation with Armenia. Besides, the border with Iran is very short and the relief is

not appropriate for infrastructures. These factors limit the opportunity to use Iran as full alternative to Georgian transit.

This lack of alternatives places Armenia in a very bad situation and makes Armenian economy depend mainly on Georgian transit. The major transportation and energy routes pass through Georgia to link Armenia to the world market. Georgia plays a decisive role for Armenia as a landlocked state. According to different estimations about 70% of Armenia's foreign assets circulation passes through Georgia.

Regional cooperation and integrations are identified in the literature review as successful way to reduce the impact of landlockedness and to ensure stable and uninterrupted transit. However, present realities and particularly absence of political relations with two neighbors keep away Armenia from all of these cooperation projects in the region. The existing cooperation and continuing integration of Georgia, Azerbaijan and Turkey can indirectly affect Armenian-Georgian relations too, as identified through the interviews. Although their cooperation has no provision directly against Armenia, the country is left out from any project in the region, therefore increasing Armenia's isolation.

As it is illustrated, Georgia is the major transit country for Armenia. Therefore, it is important to discuss the provisions according to which Armenia and Georgia construct their relations. Both Armenia and Georgia are part of the "Convention on Transit Trade of Land-locked States" which in Article 2 particularly states that "...Consistent with the terms of this Convention, no discrimination shall be exercised which is based on the place of origin, departure, entry, exit or destination or on any circumstances relating to the ownership of the goods or the ownership, place of registration or flag of vessels, land vehicles or other means of transport used..."<sup>75</sup>.

Moreover, Armenia and Georgia signed a significant number of treaties that discuss the economic relations of these two countries, such as free trade between Armenia and Georgia, transit issue, tariffs, customs duties and transportation. In 1995, the parties signed a free trade agreement, according to which the parties agreed to implement a policy of non-discrimination and exempt customs duties for importing and exporting goods that pass the borders to get to the third country or come from a third country to one of the parties<sup>76</sup>. The parties also agreed not to impose any restrictions or additional taxes for transit goods. They also stress the importance of the freedom of transit and undertake the responsibility to provide "free and duty free transit" in Article 9<sup>77</sup>, which is highly important for Armenia as a landlocked country. Armenia and Georgia signed bilateral treaties in 1993 regulating the transit sphere. According to the treaties the parties agree to provide

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<sup>75</sup> The United Nations Conference on Transit Trade of Land-locked Countries. 1965. "Convention on Transit Trade of Land-locked States", General Assembly of the United Nations, New York, on 8 July 1965, p. 48

<sup>76</sup> The Government of the Republic of Georgia and the Government of the Republic of Armenia. 1995. "Agreement on Free Trade between Georgia and Armenia", Stepanavan

<sup>77</sup> Ibid, p. 3

a transit for goods through their territories to the destination point according to the international law (Article 3) and guarantee secure and uninterrupted transit for them (Article 4).

Regarding the customs duties, in 1993 the parties signed an agreement on cooperation in tariff affairs. According to the agreement, the transporting goods that pass the borders to get to the third country or come from a third country to one of the parties are not checked regularly unless there are evident reasons that they contain illegal goods<sup>78</sup>. Yet another treaty on customs regulations between Armenia and Georgia states that the parties agree to provide most favorable conditions for customs services (Article 1). Another agreement about the transportation and transit of people obliges the parties to provide free transit for people through their territories (Article 4)<sup>79</sup>.

When discussing the contractual base of the relations it is important to mention that most of the provisions discussed above have been followed by the countries. The experts and policy makers did not encounter any major problems or difficulties concerning the transit issue through Georgia. The latter continues to imply non-discriminatory and non-segregating policy towards the Armenian transit.

As shown in the literature landlocked states usually make investments in their transit states to guarantee secure and uninterrupted transit. Particularly, they make investments in infrastructure development. However, this is not the case for Armenia. Armenian investments in Georgia are mainly in business sphere. Meanwhile, Azerbaijan continues to be one of the major investors in Georgian infrastructure.

So the research identified the main difficulties that Armenian economy face during its development. These are connected mainly to the geographic positioning of the country and political relations with neighbors. As identified above, Georgia is the main transit of Armenian export and import. Although Armenia also uses Iran as a transit, the capacity is very low because of certain geographic and other problems related to the Iranian economy. In the next stage, the research discusses the sectors of the Armenian economy that theoretically can be influenced by landlockedness.

International trade is essential for country's economic development. It is the main factor that shapes the production in the country. Landlockedness and geographical difficulties are additional hardships that country's economy faces mainly through its trade with others. As identified in the literature review and discussed in the previous section landlockedness highly affects transportation costs making export costs per container very high. In this regard, Armenia also is not an exception.

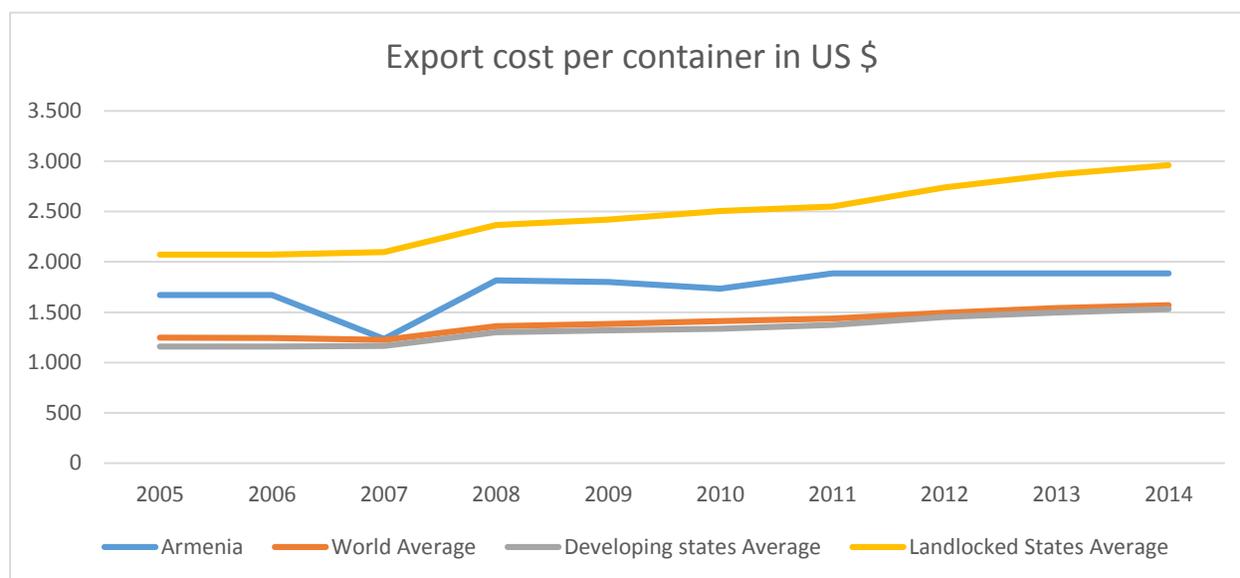
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<sup>78</sup> The Government of the Republic of Georgia and the Government of the Republic of Armenia. 1993. "Agreement on the Principles of Transit between the parties", Yerevan

<sup>79</sup> The Government of the Republic of Georgia and the Government of the Republic of Armenia. 1998. "Agreement on International Automobile Transportation between Armenia and Georgia", Yerevan

Graph 5: The differences between Armenia's and the world and developing country's average export costs for 2005-2014.

Source: Author's calculations, based on the World Bank Datasets.



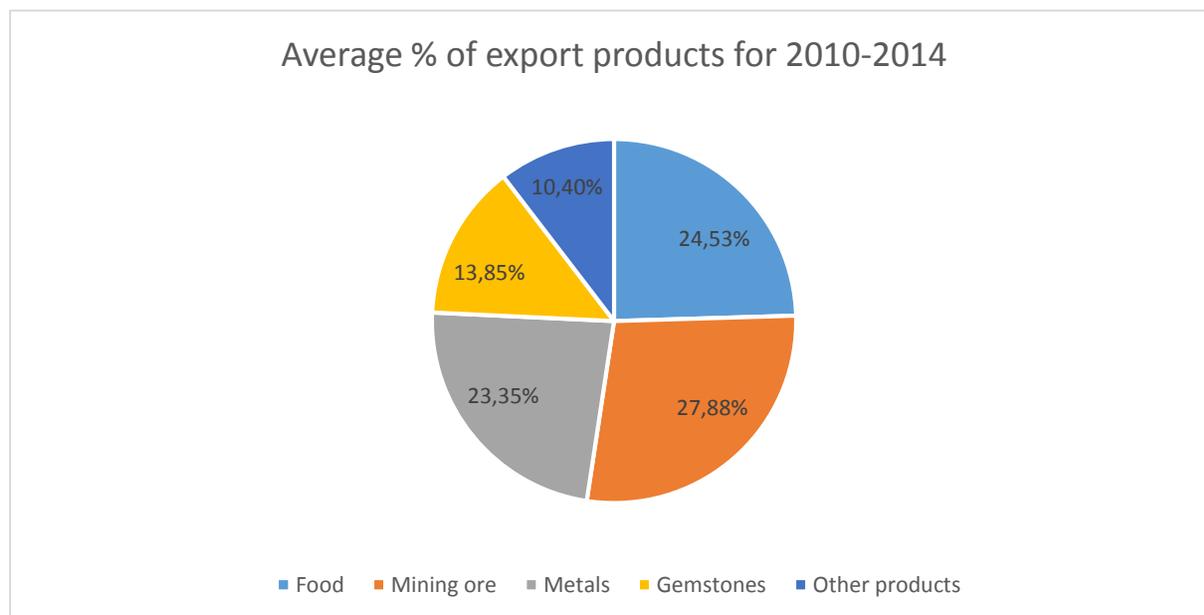
When looking at the data for the cost to export per container for Armenia and comparing them with the world average, or with the averages of developing states it can be easily observed that Armenian export cost is high compared to both the world and developing countries averages for the last ten years. However, a comparison with the average transportation costs of the landlocked states shows that the cost to export from Armenia is lower than the average of landlocked states. According to the experts, this last point can be explained by the short distance to the sea and international markets for Armenia. The destinations for the exporting products are mainly Russia and the European Union and Armenian export pass shorter distance to get to the markets and open seas compared to other landlocked states.

Referring to the export of the country, the literature suggests, that landlocked economies usually have an export mainly dominated by one or two spheres. Landlockedness shapes the country's export. To find whether this applies to Armenia or not, the research provides an extensive analysis of the existed data of the Customs Service of the Republic of Armenia<sup>80</sup>. The pie chart below shows the averages of the percentages of dominant spheres of the Armenian export for last five years (from 2010 to 2014).

<sup>80</sup> Customs Service of the Republic of Armenia, . 2015. "Armenian Foreign Trade By Products". Accessed April 6, 2015. <http://www.customs.am/Content.aspx?itn=csCIForeignTradeByProducts>.

Graph 6: The averages of the percentages of the main sectors of Armenian export for 2010-2014.

Source: Author's calculations, based on the Customs Service of the Republic of Armenia Data



Poor diversification of the export is also apparent in Armenia's case. However, the experts argue that landlockedness is not the main reason for this image, and there are some other factors that determine Armenian export. Landlockedness and geographical problems add their additional negative impact on export. The interviewed economists and economic policy makers in Armenia mention that for diversified export the country should have a manufacturing production, and develop industry, which Armenia does not.

In this regard, it is very important to have manufacturing supply chain for the development of the export-oriented economy. The results of the conducted interviews indicate that having manufacturing supply chains in the region can highly boost Armenian manufacturing production and increase the share of manufactured products in country's export. However, there are no manufacturing supply chains in the region, except in Turkey. Therefore, economic relations and open borders with Turkey have more importance for the export development in Armenia than landlockedness. Almost all the expert expressed the importance of the relations with Turkey.

To illustrate the fact that landlockedness have little impact on Armenia's export again the data from the World Bank has been analyzed, particularly the cost to export per container in USD for last ten years (2004-2013) and export of goods and services as a percentage of GDP for the same period of time. The analysis showed no significant correlation between these two variables. In other words, high cost to export has little impact on Armenian export and there are some other factors that negatively affect the export. This comes to back the argument of the experts stated above.

Armenia did not adopt a special economic policy that particularly deals with the decrease of the negative impact of landlockedness on the economic development. Instead, there are several strategic papers and other types of documents that have provisions dealing with landlockedness related issues. To deal with the export problem and to increase and promote export in the country in 2011 Armenia adopted a document called “Export Oriented Industry Policy Strategy of the Republic of Armenia”. This strategy paper aims at the increase of the competitiveness and sustainability in Armenia economy and intends to enlarge the export-oriented production in the country<sup>81</sup>.

The content analysis of the documents regarding the economic policy in Armenia showed that infrastructural difficulties, particularly, high transportation costs, bad quality of roads, mountainous relief, instability and other limitations play a significantly negative role in Armenian export and production development. In the “Armenia’s Transportation Sector Development Strategy 2020” landlockedness is emphasized as a major challenge for Armenia’s economic development. Regarding the transportation issues the Strategy states that the landlockedness creates special kind of dependency of the transportation sector on few alternatives that exist for Armenia<sup>82</sup>.

It is of utmost importance for landlocked states to have developed infrastructure to link them with the international market. Particularly, highly developed transportation routes play essential role in the development of those countries. In case of Armenia when analyzing the data on the percentage of the paved roads of total, the research found that about 90% of the roads in Armenia are paved<sup>83</sup>. However, when comparing the statistics of the total roads per 1000 people, the research found that Armenia is in the 136 rank with about 3 km roads per 1000 people<sup>84</sup>.

When referring to the infrastructure of Armenia most of the experts express their concerns about it. Particularly, they state that Armenia’s relief is not appropriate for highly developed infrastructure, mainly; mountainous relief is a huge obstacle for railroads. The Southern part of Armenia that links the country with Iran has quite unfavorable geographical conditions, which raise the risk of any infrastructural construction. Another point that the experts refer is the low quality of roads in Armenia. They mainly state that roads in Armenia are narrow and are not appropriate for overloaded transportation.

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<sup>81</sup> Government of the Republic of Armenia. 2011. “Export Oriented Industry Policy Strategy of the Republic of Armenia”, Session N. 49 (December 15), Yerevan

<sup>82</sup> Ministry of Transport and Communication of the Republic of Armenia. 2008. “Armenia’s Transportation Sector Development Strategy 2020”, Asian Development Bank, (November), Yerevan, p. 3

<sup>83</sup> Nation Master,. 2015. “Countries Compared By Transport Roads Paved: % of Total Roads”. Accessed April 29, 2015. <http://www.nationmaster.com/country-info/stats/Transport/Roads/Paved/%25-of-total-roads>.

<sup>84</sup> Nation Master,. 2015. “Countries Compared By Transport Roadways: Total per 1000”. Accessed April 29, 2015. <http://www.nationmaster.com/country-info/stats/Transport/Roadways/Total-per-1000>.

The government took certain actions to increase the quality of the roads and make transportation easier and timesaving. Particularly, they started the construction of the North-South highway, which is going to connect Armenia's northern border to the southern. This project aims to develop the Armenian economy and regional trade<sup>85</sup>. However, the experts are skeptic about this project and most of the interviewers stated that the road could have its impact on Armenian economy, but only in long run. These kind of long run projects can be important in case of sustainable and developed economy and Armenia has much important problems to tackle with to gain short-term benefits. As first steps, Armenian economy needs programs with short-term payback to develop.

However, the government representatives do not agree to these points. To the points of the other interviewees that this project has only long-term benefits they particularly mention that the construction of the road has positive externalities, such as it creates demand for construction materials in the country thus forcing the local businesses to produce more construction materials. Besides, the project has a huge staff working on it so it created workplaces and increases the employment rate.

Thus, this project has both advantages and shortcomings, however, no one can deny its importance in a long-run. Armenia wants to become a transit state for Iran and link the country to the world and this project can be a significant step for that. The overall benefits of the project can outweigh the costs in a long-run perspective.

Transportation problems, high transit costs, high costs to export have their significant influence on the foreign direct investments in the landlocked countries. The literature on the difficulties and challenges of the landlocked states shows that foreign direct investments are lower compared to their maritime neighbors. High transit costs and underdeveloped infrastructure decrease the intentions of foreign investors to make investments in landlocked countries.

Speaking about the FDIs, the experts mention high risks for foreigners to make investments in landlocked economies and particularly, in Armenia because of high transportation costs, bad infrastructure which is connected with the mountainous relief. They even mention that landlockedness can be an obstacle for the local investors to do investments. The results of the expert interviews indicate that FDIs generally have two directions; firstly, they are directed to the domestic market of the host-country, and secondly, the investors use the host-country's resources, particularly, cheap labor force, to produce their final goods in lower cost and to export them to the international markets. Small developing states are mainly used for the second purposes.

When analyzing the statistics of the last ten years on FDI Net Inflows as a percentage of the GDP in Armenia the research found that the Armenian indicators are better than those of the average of

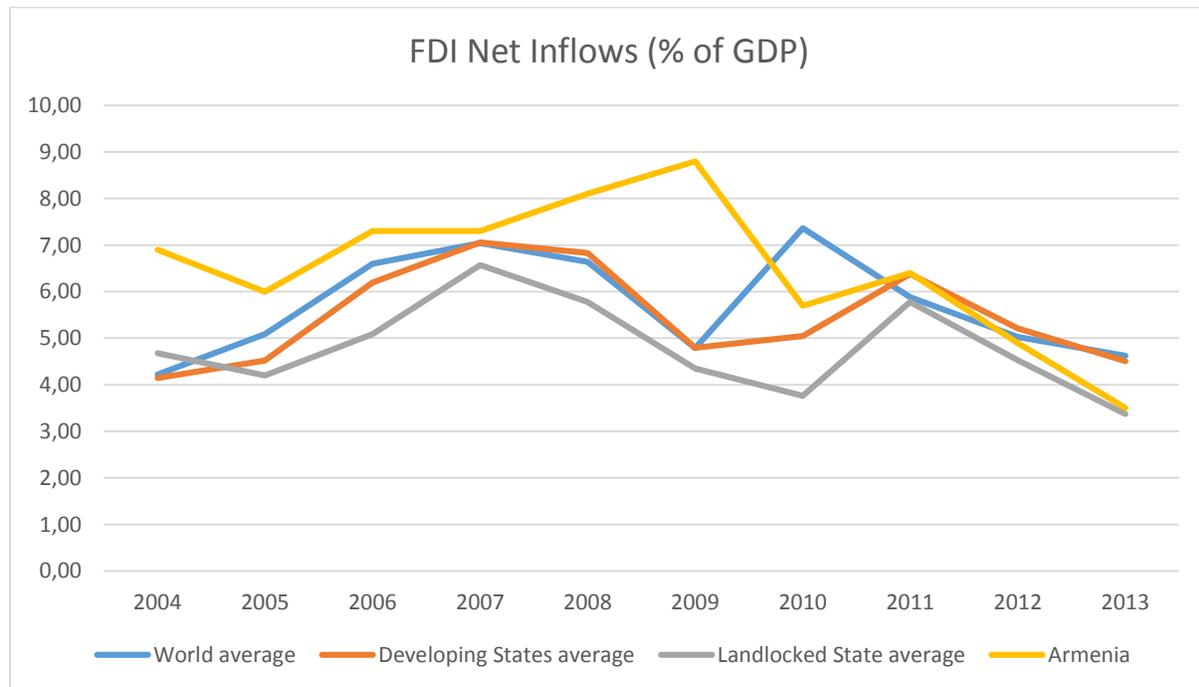
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<sup>85</sup> Government of the Republic of Armenia. 2010. "North-South Transportation Corridor Investment Project", N 14A Decision, (January 14), Yerevan

the landlocked states and developing states. Armenia even has higher results compared with the world average. As shown in the graph 7, although the net inflow of the FDIs in Armenia fall during last four years, the averages are higher than in other landlocked states' average.

Graph 7: The FDI Net Inflows (% of GDP) in Armenia, World average, average for landlocked and for developing countries for 2004-2013.

Source: Author's calculations, based on the World Bank Datasets.



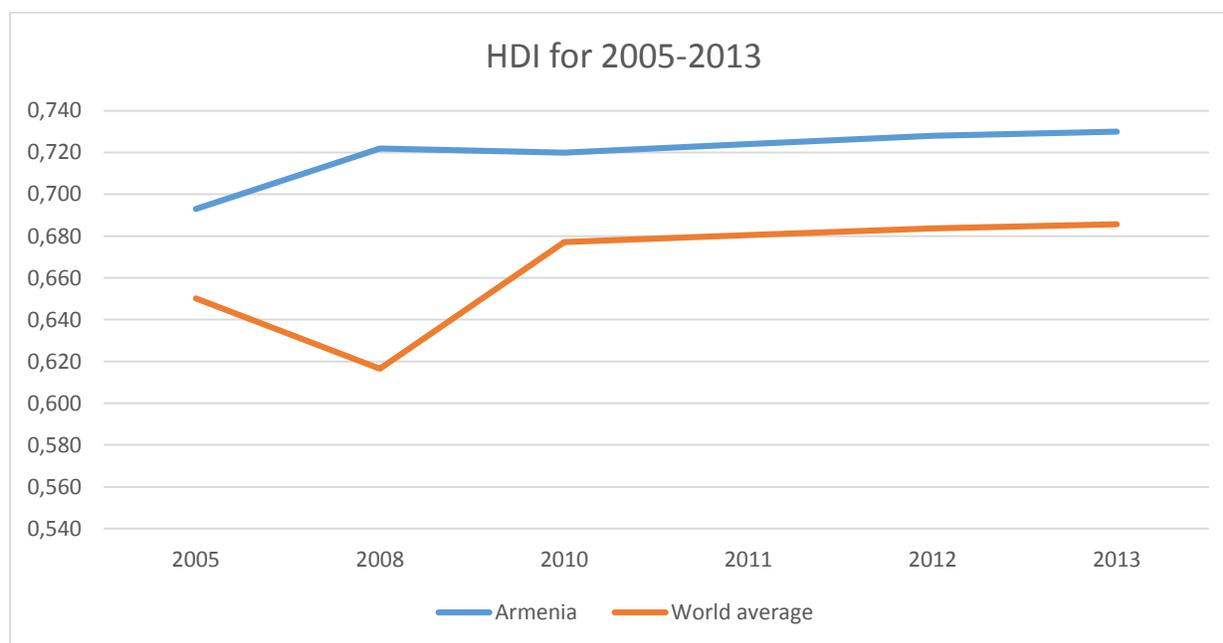
Despite being landlocked Armenia's FDI Net inflow was higher from the world average before the 2009 crisis. However, it fell down after the financial crisis. The experts explain this fact by the fact that the FDIs in Armenia are mainly directed to three main sectors: mining, IT and communication and energy. In mining sector, the investments are not directed to the ore development and the raw minerals are exported without any production in the country. High risks connected to the high transportation and export costs create obstacles for foreign investors to make investments in production and manufacturing.

All these hardships that occur because of the landlockedness, high cost to export, high cost to import, little share of export in the economy, risky business environment and low level of FDIs, bring to the decrease in country's GDP Per Capita. Armenia's indicators for the last ten years are significantly lower from the world average and even from the average of landlocked states in the world. The analysis of the data from World Bank shows that Armenia's average GDP Per Capita for the last ten years is about 2824 USD, which is about 21% of the World average. Armenia's

GDP PC is even lower than the average of the landlocked developing states, which is approximately 3674 USD. As found in the first part of the thesis, the landlockedness reduces the HDI by 5.8%. Now the research tries to find what the trend of the HDI in Armenia was for last years. To find this the research refers to the data provided by UNDP dataset for the period of 2005-2013. In the latest 2013 report, Armenia is the 87th 187 countries with 0.730 points out of one. The graph 8 shows the trend of the HDI in Armenia during last decade in comparison with the world average. It can easily be observed that the Armenian indicators are higher from the world average and they constantly increase during this period.

Graph 8: The HDI of Armenia in comparison with the world average for 2005-2013.

Source: Author's calculations, based on the World Bank Datasets.



To sum up, the chapter identified the major difficulties that Armenia's economy faces because of being landlocked. The analysis showed that closed borders with two neighbors negatively influenced the Armenia's economic development. This has more impact on the Armenian economy than landlockedness.

Then the chapter discussed the particular sectors of the economy that are negatively influenced by landlockedness. The analysis showed that although the landlockedness has its negative impact on these sectors, there are other more influential factors that mainly determine Armenian economy. The impact of landlockedness is seen in the export and FDI Net inflows in the country; however, this impact is assessed not very high by the experts of the field. As identified in the previous part of the thesis landlockedness decreases HDI of the country by 5.8%, which is only 1/3 of its

standard deviation. In Armenia, although there is an impact of landlockedness on the economic development, it is not decisively high. Thus, the findings of the first part are relevant also in Armenia's case.

## Conclusions

The paper mainly discussed the difficulties and challenges faced by landlocked economies. It highlighted the sectors of the economy and the economic indicators that are negatively influenced by the landlockedness. In general, the paper found that the landlocked states have lower level of economic development and high costs to export for a product. By econometric analysis, the paper found the direct linkage between landlockedness and Human Development Index. During the first stage of the demonstrated econometric analysis, it was identified that landlockedness has a negative direct impact of cost to export per container. In particular, the landlockedness raises the export cost in general by 1,070 USD per container.

Regarding to the first research question to measure the impact of this high export cost on country's HDI the second stage of the model was constructed and analyzed. The research found that landlockedness overall reduces the HDI by 5.8%. This is the 1/3 of its standard deviation. However, its 2/3 part depends on some other factors. Thus, the landlockedness has a negative impact on the country's development. These findings help to state that the research Hypothesis that high export costs, driven by landlockedness, negatively affect country's development.

Trying to answer to the second research question about the influence of the landlockedness on Armenia's economic development, the research identified major difficulties that Armenia face during its development. Particularly, the research found that political relations with neighbors and closed borders in the west and in the east negatively influence the Armenian economy. The mountainous relief created additional difficulties for export and import and Armenian infrastructure has major issues to deal with.

Then the role of Georgia in Armenian transit was discussed and the research found that the countries have a solid contractual base for these relations and they mainly follow these provisions. However, Armenia is left out from the regional infrastructural developments because of political issues, which could have extremely important role for Armenia as a landlocked country.

From the analysis of the existing data on the economic indicators that mainly affected by landlockedness and the interviews conducted to fill the remained gaps it can be stated that landlockedness obviously has its impact on Armenia's economic performance; however, this is not the main reason of Armenia's low level of development. Other factors, such as political relations and closed borders with the neighbors, absence of manufacturing production chains in the region, poor diversification of export have greater influence on Armenian economy.

Concerning the third research question on the policy response of the Republic of Armenia to the landlockedness, the research found that there is no specific state policy that deals with the landlockedness and tries to compensate the existing hardships. However, the analysis of the strategy papers and development visions of the Republic of Armenia showed that the sectors that are influenced by the remoteness from open seas and international markets are tackled by the government and state makes necessary interventions wherever needed for the improvement of the state economy.

To sum up, the landlockedness is a challenge that creates additional hardships for the country. However, this cannot be decisive in country's development and market itself with selective interventions from the state can create better atmosphere for development. Technological advancements in the 21<sup>st</sup> century can help to create better strategies for development and reduce the impact of not having direct access to the open seas.

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# *Armenia's Economic and Security Relations with Russia*

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## **Grisha Aghajanyan**



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*Russian-Armenian relations have been relatively constant during the post-soviet era. The focal orbs of collaboration are security and economics.*

### **Economic Relations**

Armenia is a country, which eases, rather than intensifies Russia's wounded self-image. While the distinctive relationship between the two countries is barely new, instead the snowballing intensity has imperative consequences for Armenia's future, as well as for the equalization of power in the Southern Caucasus region and through Russia's previous scope of authority.

Close ties with Russia are fundamental for Armenia. Nevertheless, latest allowances to the Russian side for virtuous affairs may have possibly wounding results for Armenia in the near future, but it will not last long. Dispensations have partially caused Russian supremacy in the economic segment, overdependence on the Russian side for energy requirements, and also the continuation of Armenian compliance to Russian interests.

As Socor, (2010) states “Landlocked and in possession of few natural resources, Armenia has relied heavily on service, industrial, and agricultural-based industries. Further complicating its economic status is the reality of its double-blockaded borders with neighboring Turkey and Azerbaijan. In place since 1993, the blockades have had two main effects on Armenia's economy. First, it has pointedly heightened Armenia's reliance on Russia for trade and energy. The largest crude oil pipeline in the region, the Baku-Tbilisi-Ceyhan line, which runs from Azerbaijan to Georgia and ends in Turkey, purposefully bypasses Armenia, excluding it from a lucrative share

in the exportation of Caspian oil to Europe. Primarily, Armenia's source of crude oil comes from Russia, via the North Caucasus-Transcaucasia pipeline and the smaller Mozdok-Tbilisi pipeline. The Tabriz-Yersakh natural gas pipeline, which runs between Iran and southern Armenia, had the potential to supply almost twice the amount of Armenia's yearly natural gas consumption and showed great promise in decreasing Armenia's energy dependence on Russia. However, this dependence was not realized due to concessions by the Armenian government in exchange for the continuation of subsidized prices for Russian oil. Because of the Armenian submissiveness that led to these concessions, Russia now holds the majority stake in the Tabriz-Yersakh pipeline as well, crushing Armenian hopes to curtail dependence on Russia for Armenia's energy needs."

The blockades have also enlarged conveyance charges of Armenian merchandises. The government of Armenia evaluates that the continuance of the closed borders costs huge amounts of money per annum to Armenian businesses in the circumstances of increased transportation charges. Armenia's government's rationality of going to markdowns to Russia, inhibit Armenia's economic freedom. Mainville, (2010) notes "The first and most pointed example of Armenian concessions in response to Russian pressure is the 2003 Equity-for-Debt deal. The five major assets traded in the Equity-for-Debt deal include key energy, research and development, and manufacturing facilities. Russia has implemented the strategy of buying another nation's debt to Russia in exchange for Russian ownership in that nation's key enterprises since the early 2000s. In addition to applying this tactic to Armenia, Russia has also brokered similar deals in Central Asia, with countries such as Tajikistan and Kyrgyzstan, in order to gain key regional energy assets. In Armenia's case, however, the debt owed by Armenia totaled only 93 million dollars. This is a relatively small amount by international standards, especially considering that US aid to Armenia totaled over \$1.6 billion from 1992-2005 alone."

Russia continued to push hard, and as Danielyan, (2003) states "In 2003, the Russian government demanded repayment of this debt. When the Armenian government did not immediately pay, it instead handed over five major Armenian assets to Russia. With no foreign policy process to speak of, the decision to do so was made largely by Kocharyan and his Defense Minister Serzh Sargsyan without communicating to other members of the government or Armenian citizens the terms of the deal. Only after the exchange did Armenians begin to protest explicitly handing over essentials of the Armenian state to Russia. Additionally, Kocharyan and Sargsyan were criticized for not even attempting to renegotiate the loan payments or find other alternatives. Other countries, such as Georgia and Ukraine, also had acquired national debts to Russia that totaled in the hundreds of millions in the early 2000s. Unlike Armenia, both Georgia and Ukraine negotiated a harder line with the Russians and were able to reschedule their debt payments."

President Kocharyan was unable to drive a hard line because he was illegitimate at home, and Vladimir Putin was the first foreign president to acknowledge Kocharyan's presidential victory in the year 1998, when most of the Western countries were criticizing him for the falsified, twisted

and oppressive mode in which the elections were guided. Thus, he was subjective to Putin and could not refuse anything brought up by the Russian side.

### **Security Relations with Russia**

As Giragosian, (2010) explains “Most small states are compelled to look to large powers for security, and Armenia is no exception. For a small country like Armenia, which is doubly landlocked -- with no outlet to the sea and with two of its four borders closed -- security concerns are paramount to national survival.”

Armenian compliance, preserved by Armenians’ insecurities over the 1915

Genocide enacted by the Ottoman Empire, has allowed for concessions that house Russia in a point of military supremacy in security agreements. These pacts highlight the inequity with which Russia cooperates with Armenia, compared to relations with other CIS countries.

As Iskyan (2004) explains, “Goodwill between Armenia and Russia has deep historical roots and is sustained by Russia's recent role as Armenia's protector. Russia is the ace up Armenia's sleeve against feared aggression by Turkey, Armenia's historical enemy, and as a deterrent to a renewal of the war between Armenia and Azerbaijan over the disputed enclave of Nagorno-Karabakh (during which Russia supplied critical military assistance to Armenia). As a consequence of the war, both Turkey and Azerbaijan blockade their borders with Armenia. Armenia plays eager host to a few Russian bases and a few thousand Russian troops, who patrol Armenia's borders with Turkey and Iran. During the Georgian political crisis in November 2003, the Russian and Armenian defense ministers signed agreements deepening their military cooperation, and, a few days later, then Russian Foreign Minister Igor Ivanov called Armenia Russia's only ally in the south.”

Armenia and Russia are supposed to be strategic partners, but "strategic partnership," some Armenian analysts acclaim, has become outlined more by a precarious amount of Armenian overdependence than unbiased cooperation. Russia embraces a unique place in the Armenian foreign policy notion of ‘complementarism’. Armenia considers the military-political cooperation with Russia as a critical component of its policy in the scope of defense and security.

Collective Security Treaty Organization- Armenia was one of the innovative cosigners of the Collective Security Treaty (CST) (1994), in line with Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, and Tajikistan. As Adam (2007) states “Created shortly after the collapse of the Soviet Union, the short-lived CST confronted primary in-house problems. As strong nationalist feelings emerged within the former Soviet Union, many newly independent nations’ governments were hesitant entering into a military agreement with Russia, believing Moscow’s aim to be consolidation of military control over the region”.

Besides, many members persisted cautious that the agreement operated exclusively to defend Russian interest and territorial integrity. The CST was incapable of averting the war between Armenia and Azerbaijan over Nagorno-Karabakh Similarly; the CST nosedived to react to political turmoil in Tajikistan that caused the casualties of thousands of people and the dislocation of hundreds of thousands. Through both of these occurrences, the CST was unsuccessful to assemble a considerable collective response, verifying unproductive in dealing with the crises. As Mearsheimer, (1994/95) states “ Collective security, therefore, can be seen as a convenient construct, which occurs when smaller, weaker states join larger, more powerful states to lessen the threat of an external entity or state. For example, the Armenian government feared invasion by Turkey following the collapse of the Soviet Union. Because Armenia retained strong ties with Russia, however, it was able to leverage its association with Moscow to stave off the threat of Turkish attack from the west while focusing on defeating Azerbaijan in the east during the Nagorno-Karabakh War.”

According to ([www.odkb.gov.ru](http://www.odkb.gov.ru)) “On 7 October 2002, the Presidents of Armenia, Russia, Tajikistan, Kyrgyzstan, Belarus, and Kazakhstan signed a charter in Tashkent founding the CSTO (Collective Security Treaty Organization). The CSTO charter reaffirmed the desire of all participating states to abstain from the use or threat of force. Signatories would not be able to join other military alliances or other groups of states, while aggression against one signatory would be perceived as an aggression against all.”

Armenia is an active member of the Collective Security Treaty Organization as a military-political alliance under the patronage of Russia. Armed and military-technical co-operation between the two countries have grown proficiently both on the mutual level and within the CSTO structures. As Minasyan (2012, p. 81) states “Formally both bilateral and multilateral (within the CSTO) obligations of Russia in the sphere of security and mutual defense only apply to the internationally recognized borders of the Republic of Armenia, not the territory of Nagorno-Karabakh. However, it is likely that, due to the extreme militarization of the region and the radical positions of the conflicting parties, military actions will not be limited to the territory of Nagorno-Karabakh, and will spread along the perimeter of the very long border between Armenia and Azerbaijan, which now is the frontline.”

Armenian-Russian Security Pact 1995, 2010- In 1995, the Armenian government appealed to Russia to position Russian troops in northern Armenian city of Gyumri and alongside Armenia’s border with Turkey and southern neighbor Iran. As Lasha, (2008) notes “By August, Russia had approximately 4,300 troops, 80 tanks, and 26 over 100 pieces of artillery in Armenia – a relatively small figure that proved to be mostly symbolic of Russia’s guardianship.”

The dangerous commercial and military placing of Armenia tailing the Nagorno-Karabakh war, the reinforcement of its security relations with Russia made comprehensive considered meaning, specifically in the fear of the likelihood of Turkish assault. I would note that it was not the principle

of stationing of Russian bases in Armenia that comprised a concession on the side of the Armenia's government, but instead, it was the commercial details of the treaty, which uncovered relational disparities between the two "strategic partners".

Conditions of the agreement postulated that the Armenian side would take the financial obligation of accommodating the Russian base, which includes the coverage of elementary but considerable expenses, including utilities and maintenance of the grounds. Giragosian, (2010) explains "During diplomatic discourse regarding the presence of Russian troops stationed in Armenia, Russia looked towards its own interest and took advantage of the weakness and insecurity of the Armenian government. The Russian government sensed an opportunity to expand its influence and reestablish a military presence in the Caucasus at almost no cost to itself. Because protection from Turkey was Armenia's biggest security priority following the Nagorno-Karabakh War, the Armenian government was willing to financially support Russian troops in exchange for national peace of mind."

The fact of having a Russian military base in Armenia was for sure in the interests of Armenia's national security, considering the Nagorno-Karabakh war and imminent threats from Turkey. The question is at what price? Unfortunately the price turned to be Armenia's sovereignty.

Armenian and Russia signed a military pact that stunned the political opponents of Armenia's incumbent President Serzh Sargsyan. The contract on the Gyumri base was unpredictably protracted until 2044. As O'Rourke, (2010) states "The defense pact is actually an upgrading of a 1995 treaty allowing Russian ground and air forces access to a base in the west of the country. It expands the Russian mission from protecting only the interests of the Russian Federation, to also ensuring the security of the Republic of Armenia. Under the pact, Moscow will also supply Yerevan with modern weapons and "special" military hardware. The existing base houses MiG-29 fighter jets and S-300 missile-defense systems, as well as troops."

Both the condition contiguous the signing of the pact and its features once again disclose the inclination of the Armenian government to anxiously make concessions to Russia without accurately examining the long-term effects, of the concessions made.

From the historic moment, when Russia began to pursue its interests in the Caucasus region, Russia's policy in this region with its Armenian component, includes one singularity. It is worth noting that due to historical objective and subjective reasons, Russia has never had a special policy regarding Armenia. Armenians have rarely had their own state during history; they have mostly been occupied by powers of every era. Armenians have always turned to Russians for their security either from the Turks, Persians or Arabs. Russia has always seen Armenia and Armenians as an object that lives and survives only due to Russia's mercy. It is true in the sense that Armenia has never had a balanced political course and has always favored one or the other and put its destiny in the hands of world powers, particularly Russia.

When the independent Armenian statehood was established Russia again did not have a special policy regarding Armenia, as the latter was seen as a part of Russia's policy in the Caucasus region. History shows that Russia's and Armenia's interests in the region have merely met. The historical occurrences, which include the formation of the first Armenian Republic and today's Armenia, excluding Soviet Armenia, show that these have happened, when Russia was not present in the region and Russia's presence in the region is accompanied by Armenia's weakening state. Russia is using its status as Armenia's protector in the region and by using 'soft power' occupies it economically and in terms of security.

Russia sells newest weaponries to Azerbaijan and some to Armenia as well and then claims that it wants to maintain the balance of power in the region.

Not arguing with the fact that Russia is a significant player for Armenia's security, especially in the circumstances of Armenia's blockade by Turkey and Azerbaijan, I oppose that this should happen at the stake of Armenia's sovereignty.

Armenia should adopt a balanced approach and complementary foreign and security policy, for this first it must solve its internal problems, giving priority to proceed from the political school of elections driven by politics instead of power, and leadership determined more by election than selection.

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# *Georgia's Trajectory on South Ossetia and Russia's Creeping Occupation*

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**Ofelya Sargsyan**

As the Georgian Ministry of Foreign Affairs state on July 10, 2015, Russian troops in South Ossetia moved the demarcation line between South Ossetia and the rest of the Georgian territory, placing the so-called “border” on the territory close to the village of Tsitelubani of Gori municipality and the village of Orchosani in occupied Akhalkgori district adjacent to the Tbilisi-Gori central highway<sup>86</sup>.

The incident occurred soon after Georgia concluded an air defense treaty with France and NATO launched its “Fragile Spirit” multi-national trainings in the country. The movement of the “state border” markers for 450 meters further into Georgia from the South Ossetia demarcation line by the Russian troops, assumes that the local Georgian farmers will lose 10 hectares of wheat fields and cattle pastures<sup>87</sup>.

Furthermore, it means that a 1.6 km-long segment of the Baku-Supsa oil pipeline will fall under the control of Russia. Owned by the British Petroleum (BP), the pipeline is also known as the Western Route Export Pipeline (WREP). Running from Azerbaijan to the Georgian Black Sea terminal of Supsa, it has 833 km in length and a capacity of 145,000 barrels a day. However, BP Chief Spokesman in Georgia Gia Gvaladze stated that the change would mean nothing, with them needing no physical access to preserve the pipe<sup>88</sup>. Another spokesperson of BP Georgia, Tamila Chantladze, stated on July 13, 2015, that WREP was operating as normal and along the international standards. In his turn, Energy Minister Kakha Kaladze assured that Georgia will reroute the Baku-Supsa pipeline around the de-facto border in case there is any problem to its functioning<sup>89</sup>.

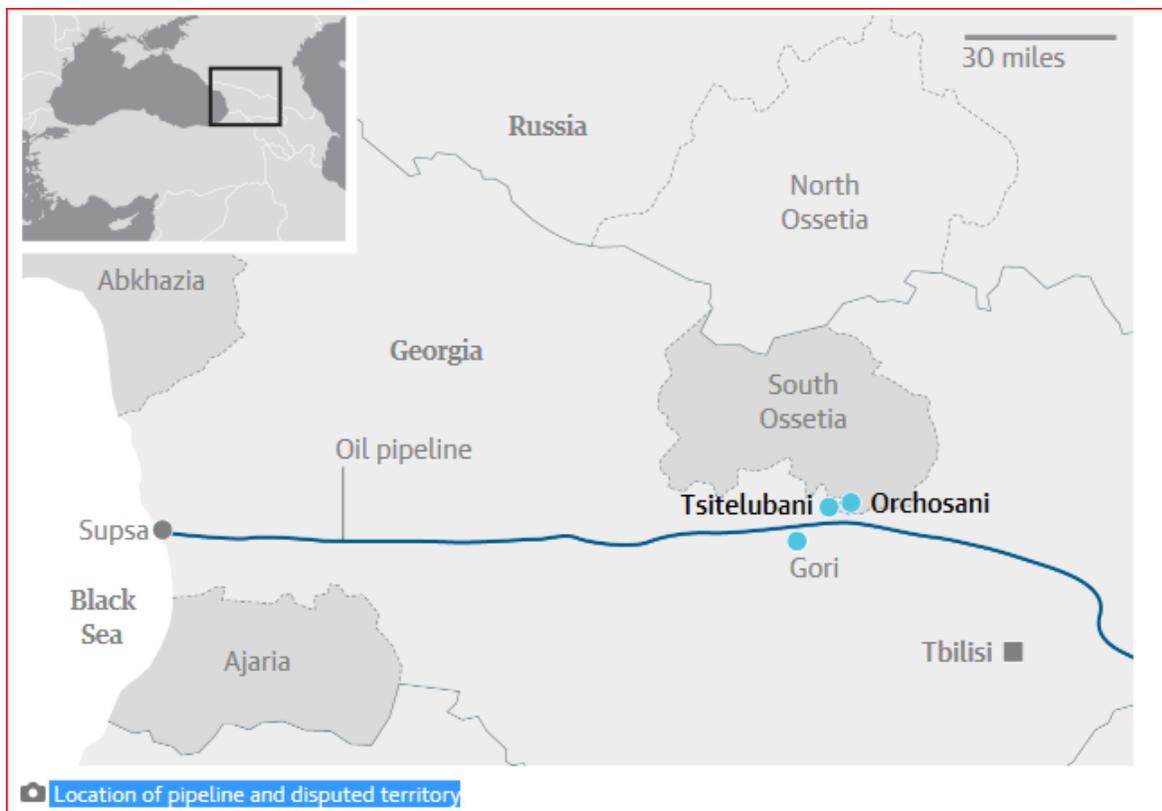
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<sup>86</sup>Ministry of Foreign Affairs of Georgia, Statement of the GFM, [http://www.mfa.gov.ge/News/საქართველოს-საგარეო-საქმეთა-სამინისტროს-განც-\(377\).aspx?CatID=5](http://www.mfa.gov.ge/News/საქართველოს-საგარეო-საქმეთა-სამინისტროს-განც-(377).aspx?CatID=5)

<sup>87</sup> Rettman Andrew, EU urges Russia to halt Georgia 'provocations', EU Observer, Brussels, 17.7.2015

<sup>88</sup> Japarashvili Nino, Russia Creeping Closer, 17 July, 2015, <http://georgiatoday.ge/news/646/Russia-Creeping-Closer->

<sup>89</sup> Civil Georgia, President: Russia's Border Marking Activities in S.Ossetia will not Lessen Georgia's Transit Role, Tbilisi, 13.07.2015, <http://www.civil.ge/eng/article.php?id=28428>.



Source: <http://www.theguardian.com/world/2015/jul/14/georgia-accuses-russia-of-violating-international-law-over-south-ossetia>. The map highlights the situation of Abkhazia and South Ossetia, two "frozen conflict" areas for Georgia, as well as Ajaria which some years ago had first opted for going separately, too, but then returned into the state.

While both Georgia and the international community keep accusing Russia on breaking international law and violating the territorial integrity of another state, Russia rejects its role, stating that its troops had been patrolling the same administrative border since the 2008 Russian-Georgian war over South Ossetia.

As such during the phone conversation between the Head of Georgian Delegation in the Geneva International Discussions, David Dondua, and the Head of Russia's Delegation in Geneva Discussions, Grigori Karasin; on 13 July 2015, Mr Karasin stated that the banners marking the "state border" were exactly on the same place where they stood until April 18, 2015, when they were shown during a TV show of the Georgian TV Channel "Imedi". Furthermore, the diplomat highlighted that the Georgian side was well aware that there was no border movement<sup>90</sup>.

<sup>90</sup>Sputnik, МИД РФ: В Тбилиси знают, что никакого "передвижения границы" нет (MFA RF: They know in Tbilisi that there is no "border movement", 14.07.2015, <http://sputnik-ossetia.ru/world/20150714/320187.html>)

On the other hand, Georgia condemns Russia on illegal replacement of banners. Furthermore, the MFA of Georgia considers the Russian action as a continuation of the so-called “borderization” process within Georgia which breaches the 12 August 2008 Ceasefire Agreement and fundamental principles of the international law. Hence, Georgia calls the international community for support and measures against Russia for violating the country’s sovereignty and territorial integrity.<sup>91</sup>

As mentioned above, also the international community has expressed solidarity with Georgia. To the point the EU reaffirmed its support for Georgia’s territorial integrity. Describing Russian step as “provocative” the Union and its monitoring mission (EUMM) called for deploying such tools as the Geneva International Discussions and the Incident Prevention and Response Mechanism (IPRM) to neutralize tensions<sup>92</sup>. This is also in line with the UN statement, made on behalf of Secretary-General Ban Ki-moon who highlighted the negative impact on the daily lives of the locals because of the developments on the demarcation line<sup>93</sup>.

The President of the Council of Europe’s Congress of Local and Regional Authorities, Jean-Claude Frécon, also apart from condemning Russia, expressed the concern that “The moving of the demarcation line beyond the villages of Tsitelubani and Orchosani placing the Baku-Supsa pipeline under the control of the Russian forces creates a further risk of destabilising the whole region”<sup>94</sup>.

Furthermore, in her statement Anne Brasseur, President of the Parliamentary Assembly of the Council of Europe (PACE), acknowledged the alarming aspect of the actions and reiterated the Assembly’s support for the territorial integrity of Georgia.<sup>95</sup>

Russian actions were officially criticized also by a number of individual states, such as Latvia, Lithuanian, Ukraine, Romania, and Japan.

Reaction to the issue came also from the USA. To the point, while the US Ambassador to Georgia, Richard Norland, described the land-grab as a step to “humiliate and provoke” Georgia’s pro-

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<sup>91</sup>Ministry of Foreign Affairs of Georgia: The Georgian Foreign Ministry has held a meeting with the diplomatic corps in reaction to the illegal placement of banners by the Russian occupying forces on 10 July 2015 marking the so-called “border” on the territory adjacent to the village of Tsitelubani of Gori municipality and the village of Orchosani in occupied Akhlagori district, <http://www.mfa.gov.ge/News/საგარეო-საქმეთა-სამინისტროში-რუსეთის-საოკუპაციო-დასახლება-საქმეთა-სამინისტროში-რუსეთის-საოკუპაციო-დასახლება.aspx?CatID=5>

<sup>92</sup>EEAS, Statement by the Spokesperson on developments at the administrative boundary line of Georgia's breakaway region of South Ossetia, 15.07, 2015, Brussels, [http://eeas.europa.eu/statements-eeas/2015/150715\\_04\\_en.htm](http://eeas.europa.eu/statements-eeas/2015/150715_04_en.htm)

<sup>93</sup>Georgia today, <http://georgiatoday.ge/news/685/UN,-International-Community-Condemn-Russia%E2%80%99s-Creeping-Annexation>

<sup>94</sup>Council of Europe, Georgia: Jean-Claude Frécon warns Russia over resurgence of regional tension, 15.07.2015, <http://www.humanrightseurope.org/2015/07/georgia-jean-claude-frecon-warns-russia-over-resurgence-of-regional-tension/>

<sup>95</sup>PACE, Anne Brasseur concerned by changes to the Administrative Border Line in Georgia , 16.07.2015, <http://assembly.coe.int/nw/xml/News/News-View-EN.asp?newsid=5721&cat=15>

Western government<sup>96</sup>, John Kirby, spokesperson of the US Department of State, urged Russia to implement the provisions of the 2008 ceasefire agreement and withdraw its forces to pre-conflict positions, recognize Abkhazia and South Ossetia as Georgian regions as well as enable free entry for humanitarian aid to these regions<sup>97</sup>.

Meanwhile, on July 19, 2015, the Georgian Minister of Defence Nina Khidasheli declared that Russia is testing Georgia's patience, attempting to enroll it into a conflict which is unacceptable for the Georgian government.<sup>98</sup>

Yet, the situation has generated a number of protest by activists and journalists. To the point, on July 14, 2015 more than 50 Georgian journalists held a protest "NO to Occupation" in the village of Khurvaleti and crashed the newly-established border sign saying "Republic of South Ossetia" and set there a Georgian flag which was however replaced by the Russian and South Ossetian armed forces two days later.

Another demonstration with thousand protesters took place outside the State Chancellery building in central Tbilisi on July 18, 2015. Apart from the slogans like "Stop Russia", the protestors also criticized Prime Minister Irakli Garibashvili's government for being weak and incompetent to withstand the Russian creeping occupation. Moreover, several of the protest organizing groups - among them the television station Rustavi-2, magazine Tabula and NGOs Georgian Democracy Initiative and Georgia's Reforms Associates - seem to be in favor of the United National Movement (UNM), the party of former Georgian President Michail Saakashvili. Notable is also the fact that also a number of well-known public figures participated and were even among the organizers of the rally. As such, Salome Samadashvili, once Georgia's ambassador to the EU, talked against the Russian politics, highlighting that it is time for Georgia to become a modern European state. Also, Giga Bedinshvili, editor-in-chief of Tabula magazine, mocked the current set-up of the Georgian-Russian bilateral relations which presupposes face-to-face meetings between Georgia's special envoy for Russia Zurab Abashidze and Russia's Deputy Foreign Minister Grigory Karasin, whose last meeting was on 15 July, 2015, in Prague. He stated that the framework was suggested by UNM parliamentarians, coining the Garibashvili government as "defeatism"<sup>99</sup>. Yet, some locals expressed concerns regarding the protests, stating that they further exacerbate the living conditions

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<sup>96</sup>Interpressnews, Encroachment on Georgian territory is an attempt to humiliate and provoke Georgia – Richard Norland, 13.07.2015, <http://www.interpressnews.ge/en/politicss/70579-encroachment-on-georgian-territory-is-an-attempt-to-humiliate-and-provoke-georgia-richard-norland.html?ar=A>

<sup>97</sup>US Department of State Diplomacy in Action, John Kirby, Spokesperson, Daily Press Briefing, Washington, DC, 13.07.2015, <http://www.state.gov/r/pa/prs/dpb/2015/07/244845.htm>

<sup>98</sup>Interpressnews, Russia tests our patience on a daily basis - Defense Minister, 20.07.2015, <http://www.interpressnews.ge/en/politicss/70746-russia-tests-our-patience-on-a-daily-basis-defense-minister.html?ar=A>

<sup>99</sup>Edwards Maxim, South Ossetia's creeping border, openDemocracy, 20.07.2015, <https://www.opendemocracy.net/od-russia/maxim-edwards/south-ossetia-s-creeping-border>

in the immediate vicinity of the administrative border. Moreover, on July 17, 2015, the police limited the entry of non-locals to the territory.<sup>100</sup>

As a response, the Prime Minister of the country, Irakli Garibashvili, accused the UNM of leaving the country with 25,000 internally displaced people and 150 villages out of central government control. He also urged the opposition not to intervene in the government's efforts in settling the problem.<sup>101</sup>

To solve the situation a meeting was held on July 20, 2015, in Ergneti under the auspices of the Incident Prevention and Response Mechanism (IPRM), co-facilitated by Kęstutis Jankauskas, the Head of the EU Monitoring Mission in Georgia (EUMM), and Ambassador Angelo Gnaedinger, the Special Representative of the OSCE Chairperson-in-office for the South Caucasus. The Georgian Interior Ministry officials and representatives of the de-facto authorities of South Ossetia agreed that the local Georgian population can have access to their farmlands which are now within the territory of South Ossetia. Additionally, the return of Vazha Totladze, a Georgian citizen of the village of Knolevi in Kareli district who was kidnapped from his garden by armed men and taken into South Ossetia on 18 July, 2015, was agreed upon. Yet, the South Ossetian side refused to remove the border signs, installed by the Russian troops as well as declined to return the Georgian flag that the Russian forces had taken down.<sup>102</sup>

As seen, while the current Georgian Dream coalition government came to power promising to improve the relationship with Moscow, the latest developments demonstrate, that Russia even furthered its positions in South Ossetia with the new border signs having been set and so far seem to remain there. To note, this is not the first incident of line-drawing in South Ossetia – it has been separating itself from Georgia, installing wired fences since 2008. However, notwithstanding its claims for independence, as a matter of fact it lacks autonomous infrastructures, with its budget, economy, and almost all political processes being controlled by the Russian Federation. Furthermore, the Russian border guards control and detain trespassers along the demarcation lines. Russia finances its border signs, fences as well as tracking cameras. South Ossetia also concluded a military agreement with Russia, entitling the latter to protect the disputed territory. With these aspects at stake, Georgia has limited options to act.

It cannot set border forces since it does not recognize the South Ossetian independence, thus, that border being nonexistent to it. The country does not want another military upheaval, either. Hence, it remains for the country to talk against the situation, present its concerns and describe the actions

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<sup>100</sup> Civil Georgia, Defense Minister: 'Russia Tests Our Patience, Tbilisi, 19.07.2015, <http://www.civil.ge/eng/article.php?id=28450>

<sup>101</sup> Edwards Maxim, South Ossetia's creeping border, openDemocracy, 20.07.2015, <https://www.opendemocracy.net/od-russia/maxim-edwards/south-ossetia-s-creeping-border>.

<sup>102</sup> Japarashvili Nino, Outcomes of an Emergency Meeting between Georgian Officials and De-facto Authorities, Georgia today, 20.07.2015, <http://georgiatoday.ge/news/696/Outcomes-of-an-Emergency-Meeting-between-Georgian-Officials-and-De-facto-Authorities>.

as illegal and provocative and call for international reactions and actions. Yet, there seems to be little opportunity, if ever, that Georgia will be able to regain the 20% of its territory. It looks like everyone will eventually accept the new borders as in the Crimean case. On the other hand, Georgia's reunion cannot be entirely brushed off – Germany got reunited after 45 years of separation.

#### ***Briefing on the stance of South Ossetia***

*With a territory of 3,885 km<sup>2</sup> and population of 51,547, South Ossetia is a disputed region in the South Caucasus, situated in the South Ossetian Autonomous Region within the former Georgian SSR of the Soviet Union. It declared its independence from Georgia in 1990, announcing itself as the Republic of South Ossetia. Georgia has never recognized South Ossetia's independence and the conflict escalated to fighting and wars in 1991-1992 as well as in 2004 and 2008. The latter crisis resulted in the Russian-Georgian war, following which the Ossetian and Russian forces stabled de facto control over the former South Ossetian Autonomous Region. After the 2008 war, only Russia, Nicaragua, Venezuela and Nauru (South Pacific) recognized South Ossetia's independence. However, Georgia does not recognize South Ossetian independence. Furthermore, most of the international community considers that the South Ossetia's occupation by Russia violates the international law and is in conflict with Georgia's territorial integrity.*

## *Union for the Mediterranean: €5 Billion Urban Investment in 27 Projects*

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Union pour la Méditerranée  
Union for the Mediterranean  
الإتحاد من أجل المتوسط

The Union for the Mediterranean (UfM) has launched a Technical Assistance Programme under the framework of the Urban Projects Finance Initiative (UPFI). The

purpose of this technical assistance — with the support of European Commission funding (€5 million) and the association of international financial institutions (IFI) and donors — is to identify and select sustainable and innovative urban development projects that offer bottom-up, regionally replicable solutions to the major urban development challenges the region is facing as a result of the important demographic shifts from rural to urban areas.

At present, the UPFI has identified up to 27 projects in nine countries on the southern and eastern shores of the Mediterranean. Globally, these initiatives account for a €5 billion investment which means that UfM technical assistance is reaching 8% of the regional investment requirements that the European Investment Bank (EIB) has estimated for the next 20 years. According to this financial organisation, the Mediterranean basin will need an investment of €60 billion in urban infrastructure initiatives within the next two decades. The second leg of the UPFI programme, the Technical Assistance phase, was officially launched in June with a workshop held at the UfM headquarters in Palau Reial de Pedralbes, Barcelona. This meeting brought together for the first time all the actors involved in the UPFI process — namely project promoters, financial partners and consultant teams.

While the first phase of the initiative consisted of the selection of the projects and the definition of the technical assistance needed, the second phase will focus on the implementation of the identified technical assistance with a view to ensuring the projects' standards and bankability by international financial institutions.

*“The UfM Secretariat plays the role of ‘trusted third party’ amongst different countries and institutions in order to foster the exchange of information, assure project implementation and help cooperation logics to prevail, thereby making the initiative more efficient and the actions of each partner more transparent”,* said Secretary General Fathallah Sijilmassi during the kickoff workshop. *“The Urban Project Finance Initiative (UPFI) can set an example for other fields in which regional cooperation represents a real added value”,* added Sijilmassi.



*Workshop session at the UfM in Barcelona.*

### **UPFI: facing regional urban challenges**

**By 2050, the regional population will double (646 million) compared to the population in 2010 (357 million). And in the 2030 horizon, nearly 80% of the Mediterranean population will be concentrated on 10% of the land — predominantly urban areas along the coast. Thus, the Euro-Mediterranean region is facing important demographic shifts with rapid urbanisation, which present a major regional challenge calling for collaborative solutions, regional approaches and public-private partnerships.**

In the words of Guy Fleuret, UfM Managing Director for Transport and Urban Development, “*the new approach of UPFI lies not only in the support and the consensus building amongst the different stakeholders taking part in the process, but also in the integrated approach as UPFI projects seek to develop regional capacities by leveraging synergies across social, economic, infrastructural and sustainable dimensions*”.

## UfM labelled urban projects

Presently, three projects have already been labelled by the UfM and a new one may be labelled in the Mashreq (Eastern part of the Mediterranean) in the coming months. In addition to the support of the UfM members, the labelling facilitates financial access and technical support.

**Imbaba Urban Upgrading Project (€100 million):** This project aims to strengthen the integration of Imbaba, one of the most populated and unplanned urban areas of **Egypt**, with the city of Cairo by providing its 700.000 inhabitants with basic facilities, infrastructure and services.



*The ambitious Imbaba project in Egypt, worth 100 mill. € of UfM add-ons, will start in October 2015. Another big infrastructure project in this country, after the successful by-pass of the Suez Canal this year.*

**Sfax Taparura Project (€403.2 million):** Sfax is the second biggest city in **Tunisia** and the most important industrial and commercial centre. After the northern coast depollution following contamination caused by the local phosphate industry, the project foresees the rehabilitation of its beaches and the development of 420 hectares of land to extend the metropolitan area.

**Bouregreg Valley Development Project (€394 million):** With a view to achieving social diversity and sustainable development, this project in **Morocco** will develop new professional and residential neighbourhoods, public amenities and spaces such as a metropolitan hospital and the rehabilitation of Chellah, in addition to other environmental actions.

UPFI is one of the pillars of the Euro-Mediterranean Sustainable Urban Development Strategy, as stated in the declaration of the First Ministerial Conference of the UfM on Sustainable Urban Development, held in Strasbourg on 10 November 2011. The initiative was launched during the Senior Officials Meeting on 7 April 2014, and received the endorsement of the representatives of the 43 UfM member countries.

Under the umbrella of the UfM Secretariat, UPFI is managed by the French Development Agency (AFD) and the European Investment Bank (EIB) with the support of the European Commission. The KfW Development Bank, the Caisse des Dépôts et Consignations (CDC), the European Bank for Reconstruction and Development (EBRD), and the Finnish Development Cooperation Organisation (Fida) are closely associated, whilst other IFIs and investors have expressed interest.

### ***About the UfM***

*The Union for the Mediterranean (UfM) is an intergovernmental organisation bringing together 43 countries: 28 EU member states and 15 Southern and Eastern Mediterranean countries. It provides a platform for political dialogue, coordination, and regional cooperation, meriting to be better known in Northern Europe and third countries.*

*It can somehow be compared to the Eastern Partnership with six Eastern European countries of the Former Soviet Union, but in the South. Due to the different focus of policies and the accent on basic and infrastructure issues as well as to a wide-ranging exclusion of democracy issues, except basic questions, and foreign policy, right now the UfM can be named as relatively efficient, compared to the Eastern Partnership. Both should not be mixed up with the European Neighbourhood Policy.*

*The Secretariat of the Union for the Mediterranean, established in Barcelona in 2010, focuses on enhancing regional cooperation and integration through the implementation of regional cooperation projects and initiatives. During 2015 the Secretariat has developed and accelerated the implementation of new regional projects that are key socio-economic and strategic drivers: 33 regional labelled projects worth around €5 billion in areas including inclusive growth, youth employability, women's empowerment, promotion of student mobility, integrated urban development and sustainable development. The Secretariat works in close collaboration with government agencies and an active network of Euro-Mediterranean partners to assist project promoters throughout the entire project cycle, from technical assistance to project implementation, as well as financial planning and fundraising.*



## Présentation

Multipol est un réseau international et interdisciplinaire de chercheurs et d'experts en droit international et relations internationales, provenant de milieux professionnels tels que la justice internationale, la diplomatie multilatérale et bilatérale, la recherche et la formation, la fonction publique internationale.

Sa première et principale réalisation est le site <http://reseau-multipol.blogspot.com> plateforme d'échanges, d'analyses et d'informations en temps réel sur l'actualité internationale. Ce nouveau media se positionne ainsi entre les publications journalistiques, qui manquent parfois de recul et de données précises sur les événements de la scène internationale, et les publications scientifiques, qui paraissent dans un délai souvent tardif.

Multipol est né à Genève, durant l'été 2006, de la rencontre de passionnés de relations internationales. Le réseau est régi par une association de droit suisse, apolitique, non religieuse et à but non lucratif. Il est composé d'une vingtaine de membres spécialisés dans les différentes branches des relations internationales (droit international, science politique, géopolitique, économie internationale, géostratégie, etc.).

## Objectifs

Animer un réseau de chercheurs et de professionnels issus de cultures, de nationalités, de localisations, de formations et d'environnements professionnels différents.

- Proposer un support d'information innovant, rigoureux et gratuit, offrant à la fois des analyses de fond et des brèves d'actualité internationale, publiés par des chercheurs et des experts en relations internationales.
- Permettre aux membres de ce réseau de publier leurs analyses et les informations dont ils disposent dans un délai très court, et susciter des commentaires pertinents de la part des autres membres du réseau et des lecteurs.
- Organiser des colloques visant à diffuser la connaissance du droit et des relations internationales.
- Établir des liens avec des institutions et organismes poursuivant des buts analogues ou voisins.
- Proposer l'expertise scientifique des membres du réseau.

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## *Agri-food trade in 2014: EU-US Interaction strengthened*

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*The EU is the biggest exporter and importer in agricultural trade in the world. This is an analysis for products, countries, trade flows etc., including also an assessment of the Russian - EU agri-trade sanctions (see page [http://ec.europa.eu/agriculture/publi/map/index\\_en.htm](http://ec.europa.eu/agriculture/publi/map/index_en.htm)). The present analysis is made by the Agricultural Trade Policy Analysis unit in the EU Commission, Directorate General Agriculture & Rural Development. It can be found, together with other material, under [http://ec.europa.eu/agriculture/publi/map/index\\_en.htm](http://ec.europa.eu/agriculture/publi/map/index_en.htm). In total, this analysis concludes that the EU agri-food exporters in 2014 maintained a net surplus of €18 billion, despite the Russian import ban. 2014 trade statistics in particular indicate a growing importance of the US market for EU agri-food trade.*



With limited potential for additional demand on EU food markets, export has become a key factor for generating growth and jobs in agriculture and the food industry. Fundamental reforms of the EU Common Agricultural Policy have progressively allowed the EU agri-food sector to improve market orientation and gain international competitiveness. With the export flag ships in wines and spirits, dairy products, processed products, meats, olive oil and pasta, but also with commodities such as cereals and milk powders, the EU offers a diverse array of competitive products at all levels of the agricultural value chain.

In the second half of 2014 the political debate on EU trade in agri-food was dominated by the import restrictions imposed by the Russian Federation. Nevertheless, EU exporters managed to diversify destinations and even slightly increase the overall value of agri-food exports. The EU

maintained its position as No.1 exporter in 2014, with agri-food exports representing more than 7% of all goods exported and with a net surplus of €18 billion.

The long-term perspective of EU trade conditions has been enhanced in 2014 by the WTO Bali Ministerial and through a wide range of EU bilateral and regional trade agreements and negotiations, including with Canada, Japan and other Asian countries, several African regions and the EU's top partner in agri-food trade, the United States of America. 2014 figures for the EU confirm the growing importance and strengthened links with the US in agri-food trade.

## **1. International setting**

In the aftermath of the global economic crisis – which peaked in 2009 at -1.7 % annual GDP growth rate and the rebounded in 2010 to +4.3 % – the world community struggled to return to previous levels of growth<sup>103</sup>. A majority of the world economies has now shifted to a noticeably lower development path compared to pre-crisis levels.

2014 marks an advancement compared to the previous year by reaching a global GDP growth of 2.6 %. It possibly heralds the moderate but robust development path for the coming years. The annual growth increase in 2014 was mainly effectuated by advancements in developed economies. Most developing countries witnessed equal growth rates like in the previous year, with the exceptions of China, western Asia and Latin America where the economies had to accept slowdowns in growth.

World merchandise trade growth followed in principle the global GDP development pattern, but with greater amplitude during the 2008/09 break down and the directly following rebound. In 2012 and 2013 it coincided with the GDP growth rates, but in 2014 regained more momentum and expanded by about 3.3 %.

Worldwide agricultural trade experienced even more turbulences in the recent years. Traded values had shrunk in 2013 by around -2 %. Following this decline, agricultural trade rebounded in 2014 with an increase of about 3.2 % and reached an estimated value of €714 billion<sup>104</sup>.

Worldwide agricultural production was high in 2014, with high crop harvests in all regions. This generated higher supplies ready to be traded. The FAO food price index, comprising the averaged prices of the most important agricultural product categories weighted with their average shares in world trade, started off in the beginning of 2014 at the lowest level since 2011 and – after picking

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<sup>103</sup> World economic situation and prospects 2015, United Nations report.

<sup>104</sup> This value is based on available data covering some 92 % of global trade.

up during the first three months – further declined. However, price levels were still 40 % higher than the 2002-2004 average.

Regarding exchange rates, the developments in 2014 were dominated by the appreciations of the US Dollar with considerable gains against the Euro (+12 %), the Japanese Yen (+13 %), the Pound Sterling (+5 %) and most emerging market currencies. The Chinese Renminbi represents the only currency that kept up with the US Dollar (through targeted action by the People's Bank of China).

Against the Euro most emerging-market currencies (except the Renminbi) remained fairly stable. The Russian Rouble lost about half of its value against most currencies between August and December 2014, after its economy became internationally isolated due to economic sanctions imposed by several developed countries in relation to the Ukrainian crisis.

Demand for agricultural products is on the rise, mainly driven by global population growth and the diversification of nutrition and diets towards more animal products due to the increase of average incomes.

Around the globe, policy makers are aligning their trade policy towards market openness. On the multilateral level, the Doha Development Agenda (DDA) advanced considerably during the WTO Bali ministerial in December 2013.

In the same time, mega bilateral (and multi-nation) trade deals are currently under negotiation. In the Asian Pacific area, the Trans-Pacific Partnership<sup>105</sup> (TPP) is the most advanced negotiation. Other initiatives for regional agreements in the region have also been launched, like the Free Trade Area of Asia Pacific<sup>106</sup> (FTAAP) or the Regional Comprehensive Economic Partnership<sup>107</sup> (RCEP).

The EU is running several bilateral trade negotiations too, including the Transatlantic Trade and Investment Partnership (TTIP) vis-à-vis the US. In 2014, the negotiations on a Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada were concluded. Once ratified, this would be the first so-called new generation FTA for the EU. Compared to older FTAs, the level of ambition is higher, integrating all economic and business sectors of the involved countries (all merchandise trade, services and finance) with fewer exceptions to the general agreement text, while safeguarding individual national standards and sensitivities.

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<sup>105</sup>Trade agreement under negotiation between the US, Japan, Canada, Mexico, Australia, New Zealand, Singapore, Vietnam, Malaysia, Peru, Chile and Brunei (excluding China).

<sup>106</sup>Envisaged trade agreement among the APEC countries (Australia, Brunei, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, US, Taiwan, Hong Kong, China, Mexico, Papua New Guinea, Chile, Peru, Russia and Vietnam).

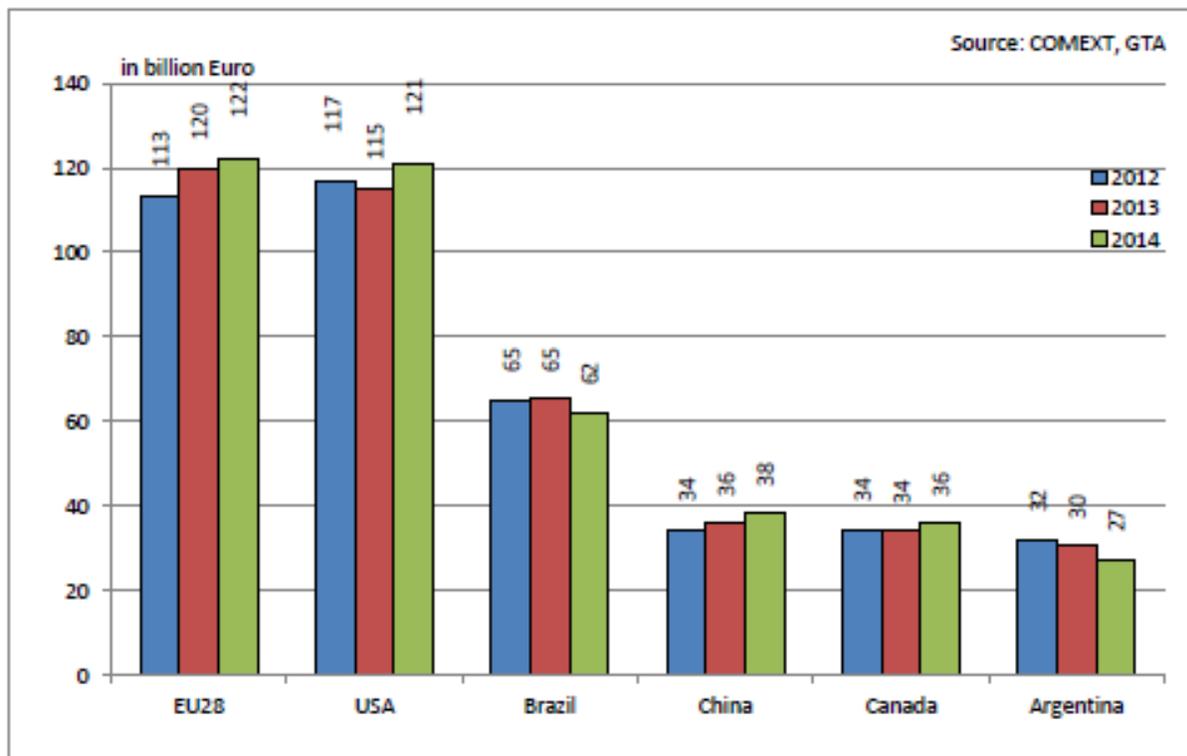
<sup>107</sup>ASEAN plus Australia, China, India, Japan, South Korea and New Zealand.

## 2. World trade in agri-food

The ranking of the top world agri-food exporters did not change in 2014, after the EU28 took over the leading position from the US in 2013. EU28 exports reached €122 billion, with an annual increase of 1.6 %. The US remained an equally strong exporter, selling just about €1 billion less to world markets<sup>108</sup>. The gap to the third strongest exporter in agri-food is much wider, since Brazil shipped out approximately half of the value of EU28 exports.

The developed economies EU28, US and Canada expanded their world exports and hence contributed to the growth in global agri-food trade, while Brazil and Argentina experienced decreased export values. China was able to increase its supply to world markets by 5 %. The recent downward trend in global food prices, especially for sugar and other crop commodities, has certainly had a negative impact on the export values of the Latin American countries.

Graph 1: Top world agri-food exporters

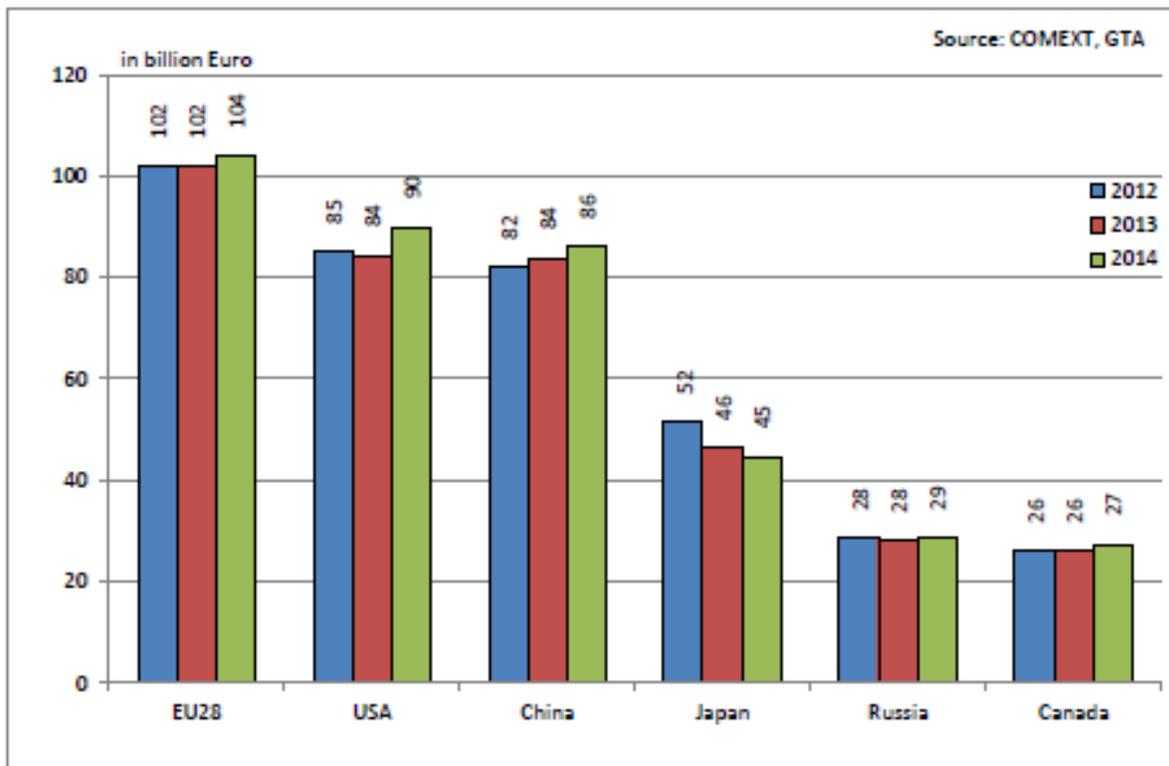


<sup>108</sup>The definition of agri-food products in US export statistics is different from the definition used for this publication.

Embedded in this structure of top agri-food exporters, developing countries acquire continuously higher shares in world trade. In particular, agri-food trade between developing countries – the so-called 'South-South trade' – is growing at a higher rate than trade involving developed countries<sup>109</sup>. Since 2009, South-South trade has grown by 80 %, compared to 66 % for North-South trade. This qualitative shift in world trade patterns comes about with the demand growth being located in developing countries with high population and income growth (India, China, South-East Asia and Africa), and a growing supply by emerging economies.

As to agri-food imports, EU28 continues to be the leading country with a value of imports of €104 billion. It is followed by the US and China, with €90 billion and €86 billion respectively. Most top import countries recorded an increase for 2014 compared to the previous year, ranging between 2 % (EU28) and 7 % (US). Russia and Canada imported around 4 % more products in value than in the previous year. Among these top agri-food importers, Japan is the only one with a decreased value in 2014.

Graph 2: Top world agri-food importers



<sup>109</sup>USDA 2015: International agricultural trade reports, 17 March 2015. Developing countries include Brazil, China, India, Argentina, Indonesia, Thailand, Malaysia, Mexico, Ukraine and Turkey among the exporters.

The EU28, US, China and Canada are to a great extent integrated in world agricultural markets and global value chains. They are in the same time among the top exporters and importers – in addition to their strong domestic production. Brazil and Argentina primarily act as supplier, whereas Japan and Russia mainly appear as purchasers on world agricultural markets.

### **3. EU performance in agri-food trade**

Agriculture and the food industry together produce a value added of €420 billion per year, and the food supply chain including food retail and services employs 47 million people in the EU. Export markets now, and even more in the future, represent important income opportunities and they are key drivers for jobs and growth in the European agri-food sector.

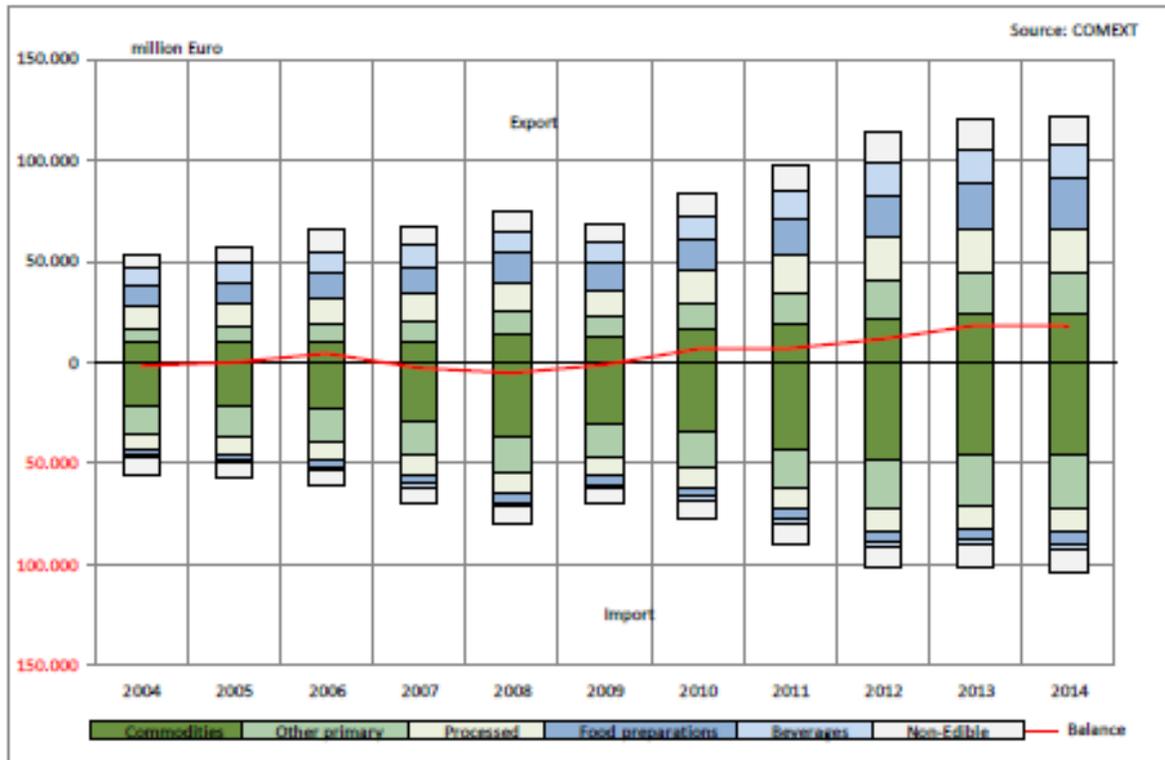
The EU remains the top exporter and importer of agri-food products. In 2014, total export and import values reached €122 billion and €104 billion respectively, resulting in a positive trade balance of €18 billion. Agri-food exports contribute more than 7 % to total EU exports in goods. Moreover, in 2014 the net surplus in agri-food trade corresponds to 80% of the overall surplus in EU trade in goods.

With the exception of 2009, EU28 agri-food exports and imports expanded continuously during the last decade. The annual growth rates, however, slowed down in recent years. Export growth decreased from 12 % in 2012 over 5.8 % in 2013 to 1.6 % in 2014. Import growth rates developed from 13 % in 2012 over 0 % in 2013 to 2.1 % in 2014.

As is apparent from graph 3, about half of the EU28 exports traditionally consist of agricultural food and feed products (commodities, other primary and processed agricultural products). Around one third consists of food preparations and beverages. Non-edible agricultural products contribute for about one sixth. EU imports, on the other hand, are more dominated by agricultural food and feed products, representing about 80 % of all imports, while food preparations and beverages account for 8 % and non-edible products make up 11 % of total imports. During the last decade this trade pattern did not change substantially in relative terms, although both, imports and exports, have more than doubled since 2004.

Looking at the agri-food trade structure in more detail, the graph illustrates that EU exports are quite evenly distributed over the six product classes. The export portfolio includes products at various quality and value-added levels with similar shares in the total. This points to the fact that European agriculture is diverse and in the same time competitive, concerning basic agricultural food and feed products as well as food preparations.

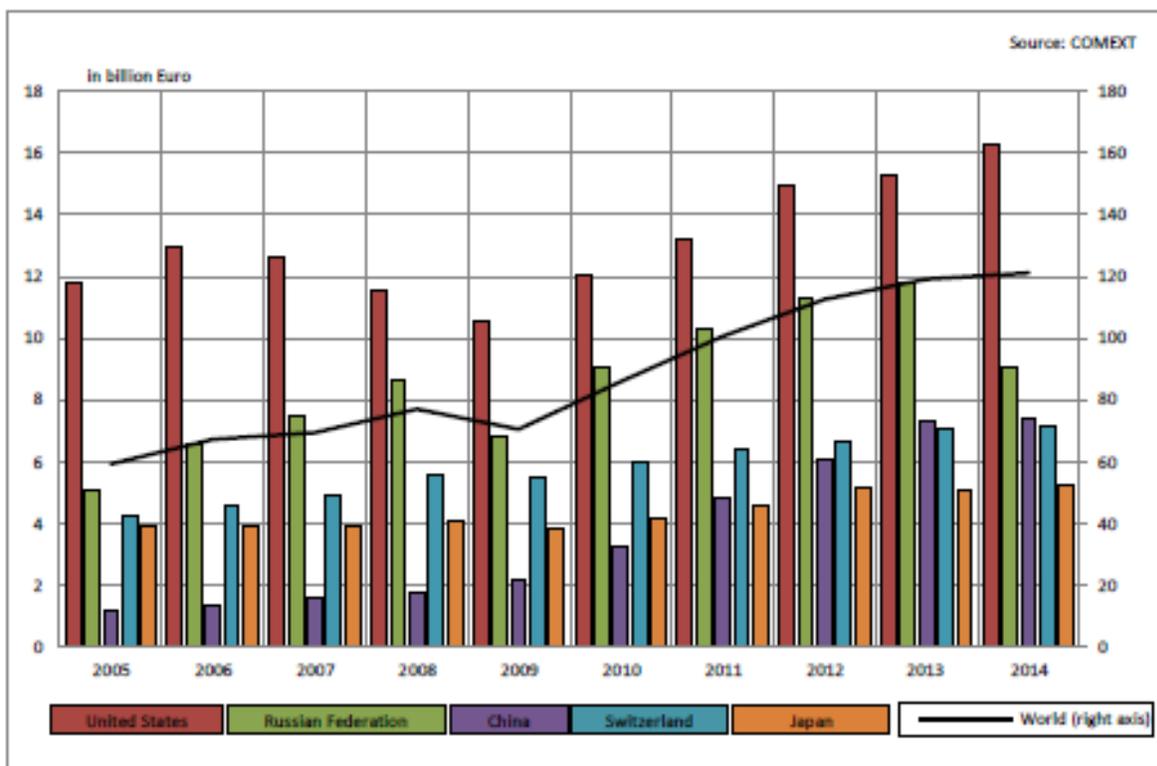
Graph 3: Structure of EU28 agri-food trade 2004-2014



In contrast, the imports are dominated by commodities and other primary products.

Altogether, the farming sector with its food and feed products as well as the food processing industry with their food preparations and beverages both sell well on third markets, while in the same time complementing their sourcing in raw material and intermediate products from external providers.

Graph 4: EU28 agri-food exports by destination



Currently, the top five destinations for EU28 agri-food exports are the US, Russia, China, Switzerland and Japan. The US by far is the dominant partner, absorbing 13 % of total exports. In 2014, sales to the US grew faster than to any other top five country (+7 %). The second most important export destination is Russia, in spite of a dramatic drop in sales by -23 % due to the Russian import embargo for certain products in the second half of the year. Among all destinations with exports above €1 billion, the highest increase rate was registered for Iran (+41 %).

### Definition of agri-food products

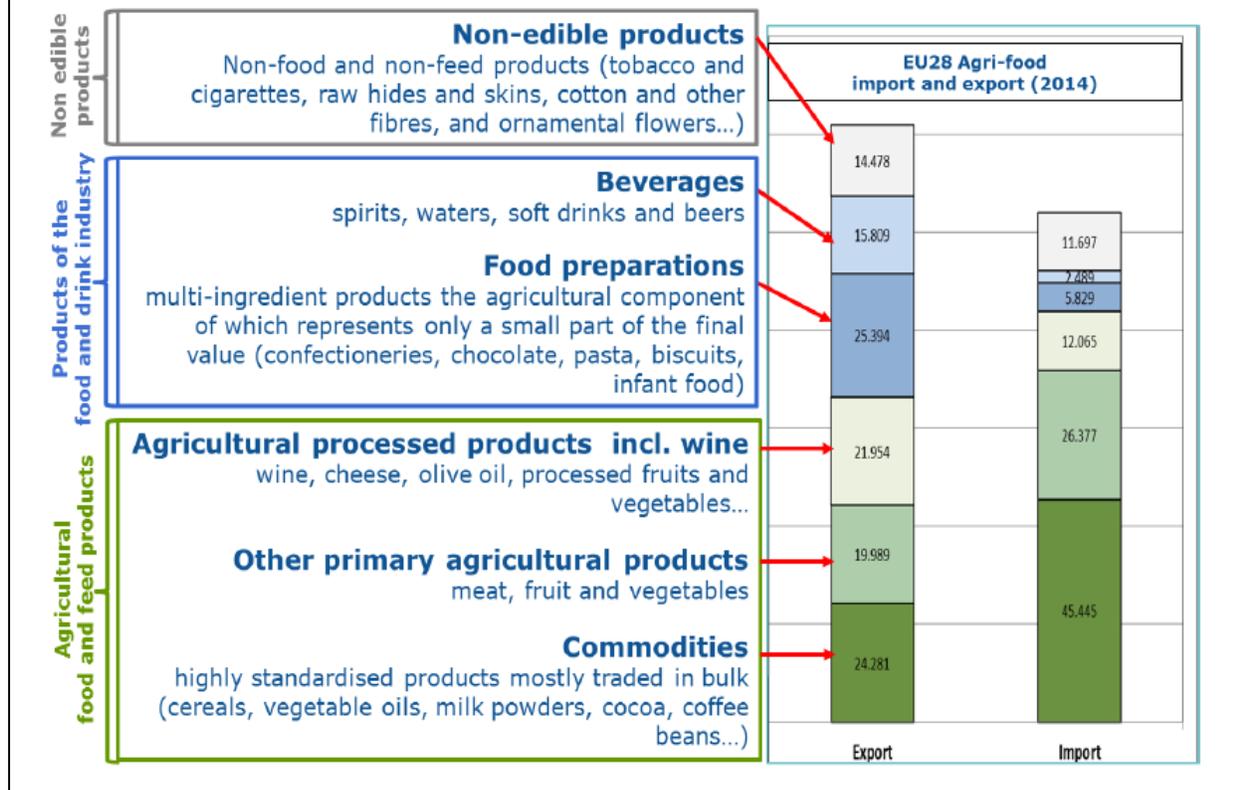
The definition "agri-food products" used for this analysis has not changed compared to previous publications. It is based on the WTO definition of agricultural products and includes the chapters 1-24 (excluding fish and fish products) of the Harmonised System, and a number of headings in chapters 33, 35, 38, 41, 43 and 51-53. The aggregate of EU agri-food trade does not contain tariff codes CN 3302.10.40 and CN 3302.10.90 (some odoriferous substances which are regarded as industrial products).

## **New classification of agri-food products**

With the objective to reflect best the characteristics of the European agricultural sector, agri-food products are grouped into 68 product categories. In reference to the Harmonised System (HS), these categories range between the four and six digit level (see annex for specifications).

To provide a more general overview about agri-food trade, the product categories have been further aggregated into classes of products (see visualization below). The classification is based on separating edible (food and feed) from non-edible agricultural products as well as on the weight of value-added combined with the level of input-diversity integrated in the product: (1) Agricultural food and feed products comprise the core agricultural products (primary and processed) that are closely connected to the farming business and farmers' income. They are composed by commodities (highly standardised products mostly traded in bulk such as cereals, vegetable oils, milk powders, cocoa and coffee beans), other primary products (essentially meat, fruit and vegetables), and processed agricultural products (e.g. wine, cheese, olive oil, processed fruits and vegetables). (2) Food preparations and beverages (other than wine) cover multi-ingredient products which incorporate substantial value-added of the food and drink industry. This product group is made up by the product classes food preparations (e.g. confectioneries, chocolate, pasta, biscuits, infant food) and beverages (other than wine) (e.g. spirits, waters and beers). The product group (3) Non-edible covers non-food/non-feed products, notably tobacco and cigarettes, raw hides and skins, cotton and other fibres, and ornamental flowers.

## Visualization of the new product classification



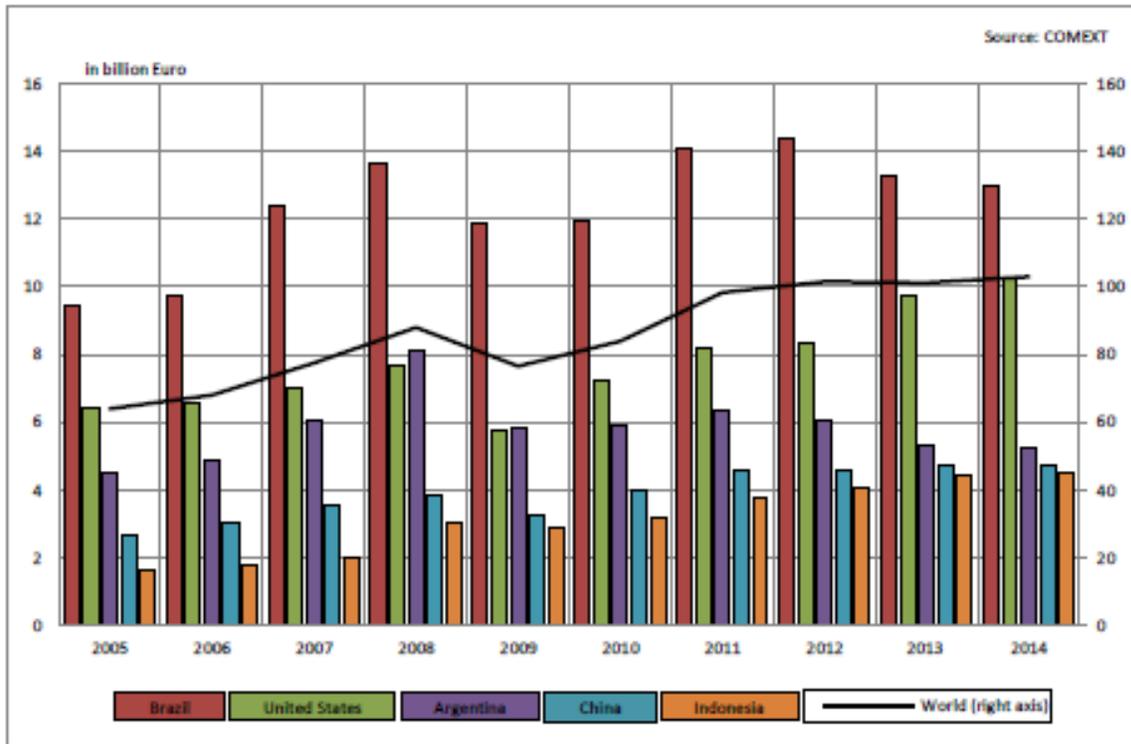
China stands out in the group of top export destinations, as it considerably increased its share over the last five years. Ranking fifth in 2010, China now is the third most important market for European agri-food exports. In 2014, however, exports to China increased by merely 2 %, similar to Switzerland (2 %), while exports to Japan increased by 4 % and sales to the US grew by 7 %.

Concerning trade relations with China, it has to be acknowledged that Hong Kong to a large extent functions as a transit country. Adding the EU28 exports towards Hong Kong (€4.5 billion) would magnify the

Chinese export market to almost €12 billion. In this perspective, China would advance to be the second biggest agricultural export market for the EU, outpacing Russia. Altogether, EU exporters managed to diversify destinations, in line with the long-term trend.

The EU continues to mainly source its agri-food imports from Brazil, the US, Argentina, China and Indonesia. The trends encountered in 2013 continued in 2014, with decreasing imports from Brazil (-3 %) and Argentina (-2 %) and a growth in imports from the US by 5 %. Among all origins with imports above €1 billion, the highest increase was registered for Canada (+18 %)

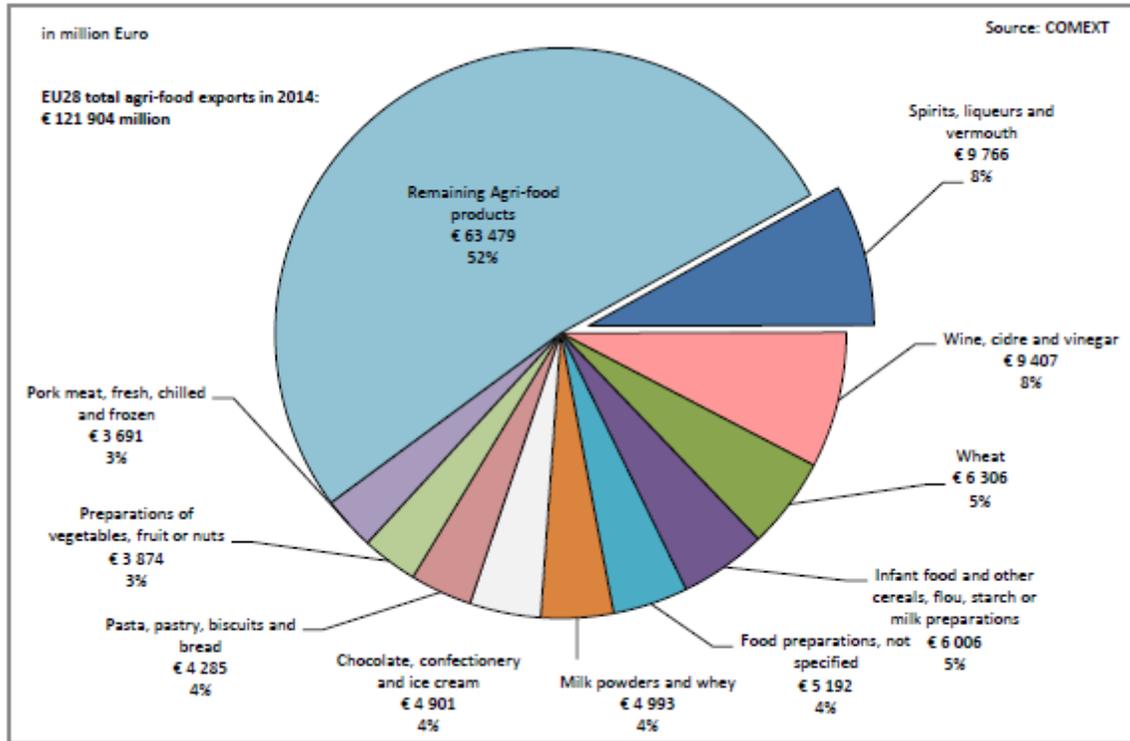
Graph 5: EU28 agri-food imports by origin



### 3.1. EU agri-food exports

Compared to the previous year, the top ten exported product categories – out of a total of 68 categories – increased their mutual share in EU28 agri-food exports by five percentage points from 43 % in 2013 to 48 % in 2014. In other words, approximately every second Euro of EU28 agri-food exports is generated by a product that belongs to the top ten product categories.

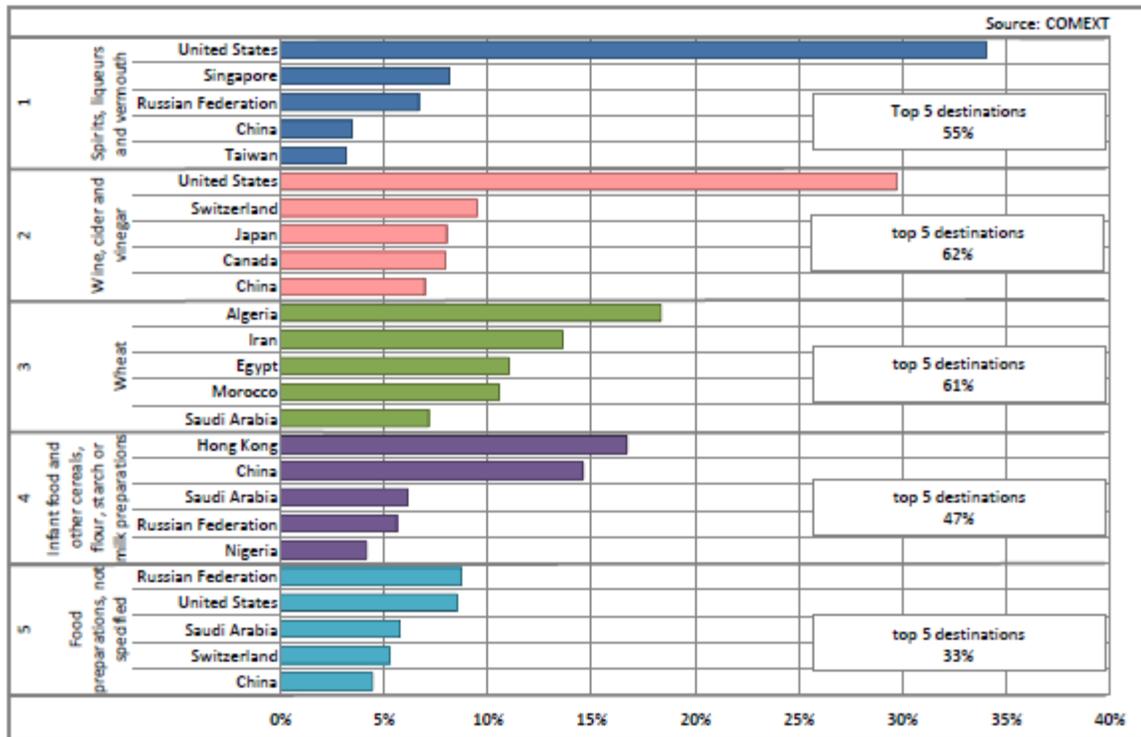
Graph 6: Composition of EU agri-food exports in 2014



'Spirits and liqueurs' and 'wine, cider and vinegar' continue to dominate the basket of exported products, each of them representing 8 % of total EU28 agri-food exports. From the ten most important export categories, four are part of the product group 'agricultural food and feed products' and six originate from the group 'food preparations and beverages'. The former is strongly linked to the farm production and the latter is provided by the food and drink industry.

For each of the five top export categories, graph 7 depicts the most important export destinations. The first two are heavily dominated by the US. US consumers buy 34 % of all exported European spirits and liqueurs and also take 30 % of all wines and ciders sold to third countries.

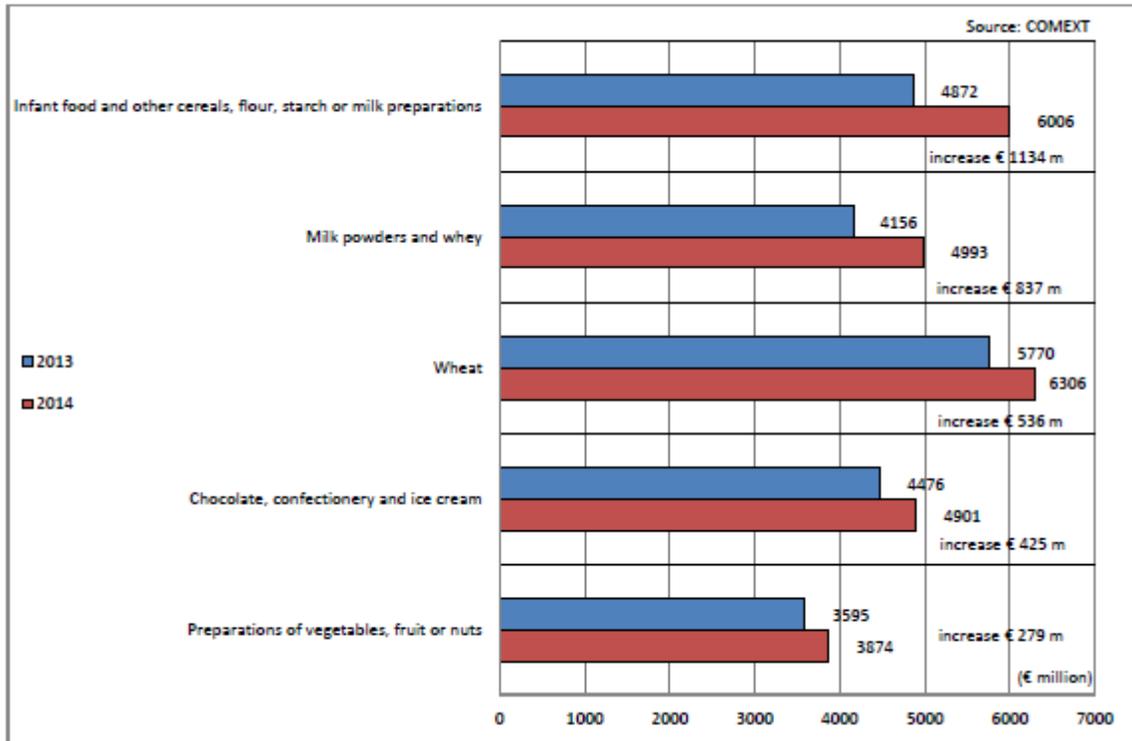
Graph 7: Distribution of exports in main product categories by top destinations



The top five destinations in general absorb between 33 % and 62 % of total exports in these individual product categories. Adding Hong Kong to the picture – as the well-known transit country for Chinese imports – changes in some cases the order of top destinations. Including the traded values towards Hong Kong, China would rank second for wines and ciders and third for food preparations. In the case of infant food and other cereals, China and Hong Kong together represent the dominant sales market with 31 % share of the total.

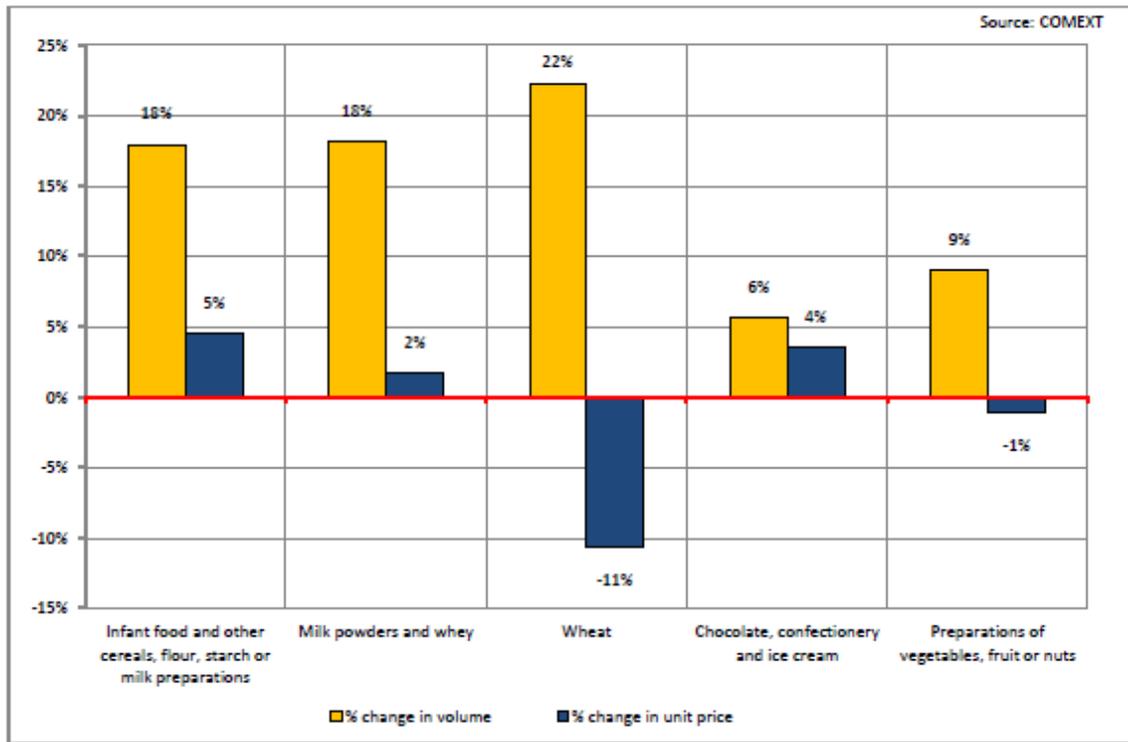
Highest gains were achieved for products which already represent a high share in agri-food exports. The product categories with the highest annual increase in export values are shown in graph 8.

Graph 8: Product categories with the largest absolute annual export value increase 2014



The first two categories were shipped out in 23 % and 20 % higher value than during the previous year. The other export increases mentioned in graph 8 ranged between 8 % and 9 %.

Graph 9: Annual percentage change in volume and unit price for the product categories with the largest export increases 2014

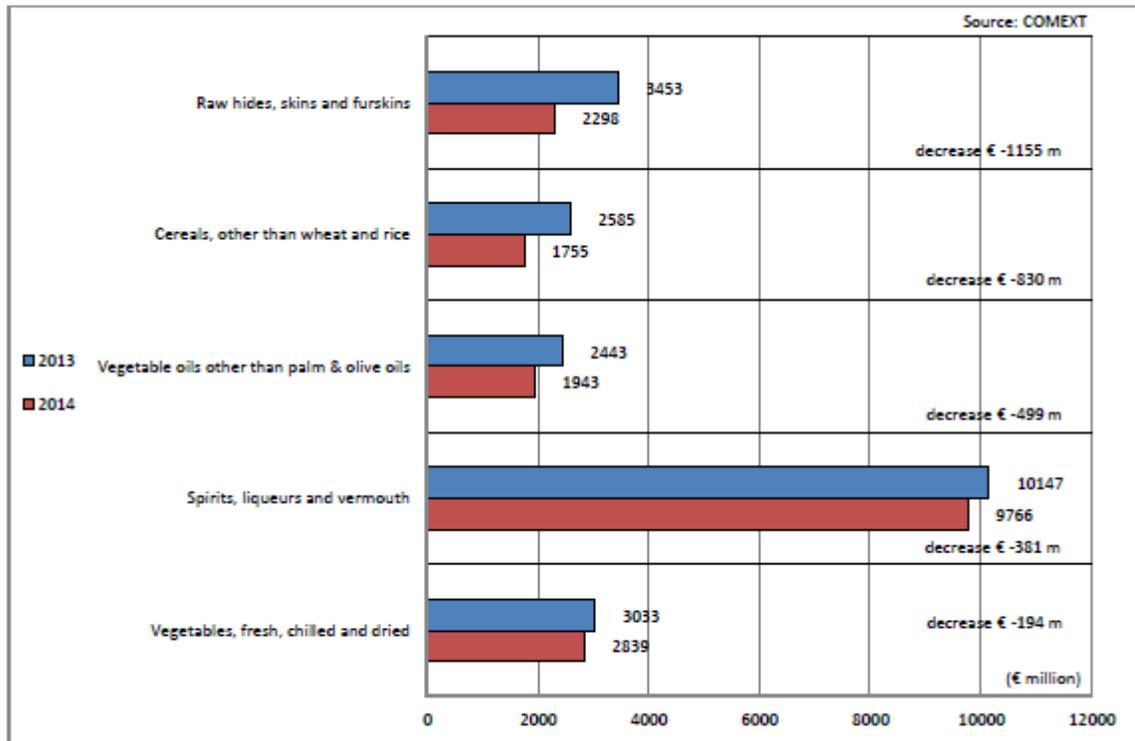


Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The results may include effects of proportional changes between higher and lower valued items within the product category aggregate.

Wheat already created the highest export increases in 2013, and also in 2014 continued to boost the European export performance. Among the top products, however, 'spirits, liqueurs and vermouth' and 'pork meat' experienced losses in export value.

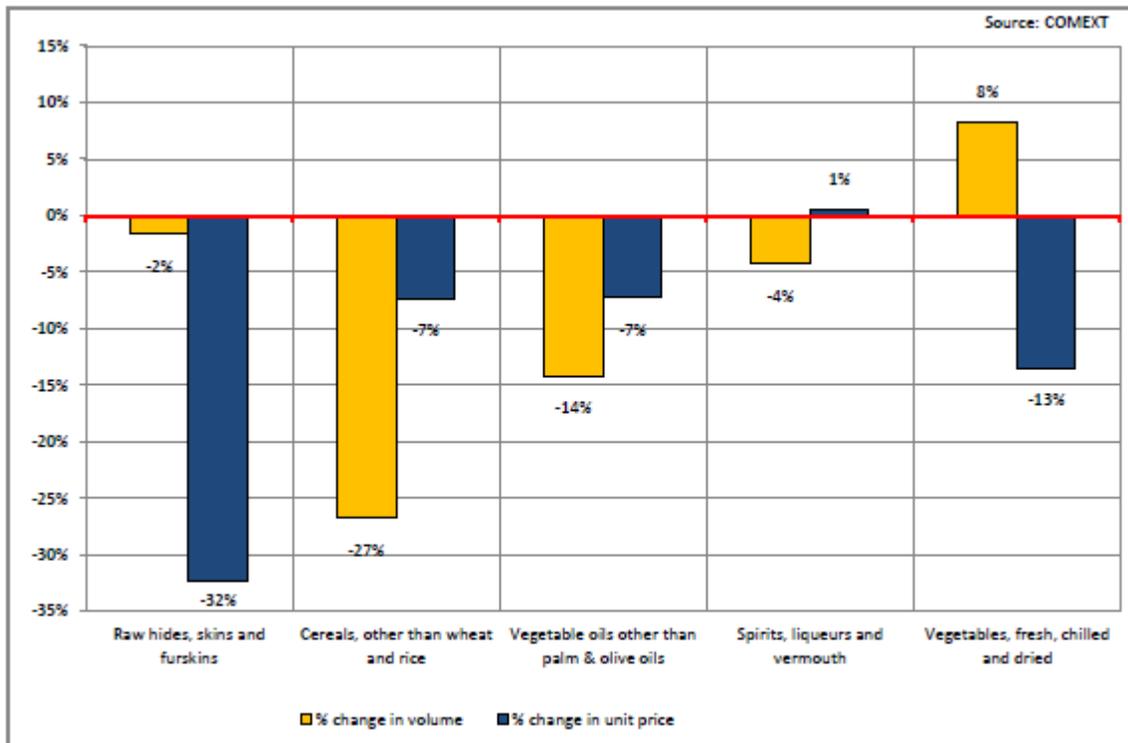
In 2014, all export increases (among the top five) were driven by volume increases, implying that a higher amount of shipments took place. This is especially true for wheat as well as for preparations of fruits and vegetables. In these two cases the export value increased even though prices had dropped.

Graph 10: Product categories with the largest absolute annual export value decrease 2014



On the other hand, export value losses were registered mainly for products in the group 'agricultural food and feed products'.

Graph 11: Annual percentage change in volume and unit price for the product categories with the largest export decreases 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The results may include effects of proportional changes between higher and lower valued items within the product category aggregate.

Still, the highest export value decrease was recorded for 'raw hides, skins and furskins'. Remarkably, 'spirits, liqueurs and vermouth', the EU top exported category, suffered an export value loss of €381 million (-4 %).

In three of the five pictured cases of export value losses, quantities decreased significantly (graph 11). For two other products, (Raw hides, skins and furskins as well as for vegetables), the export decrease was mainly price driven.

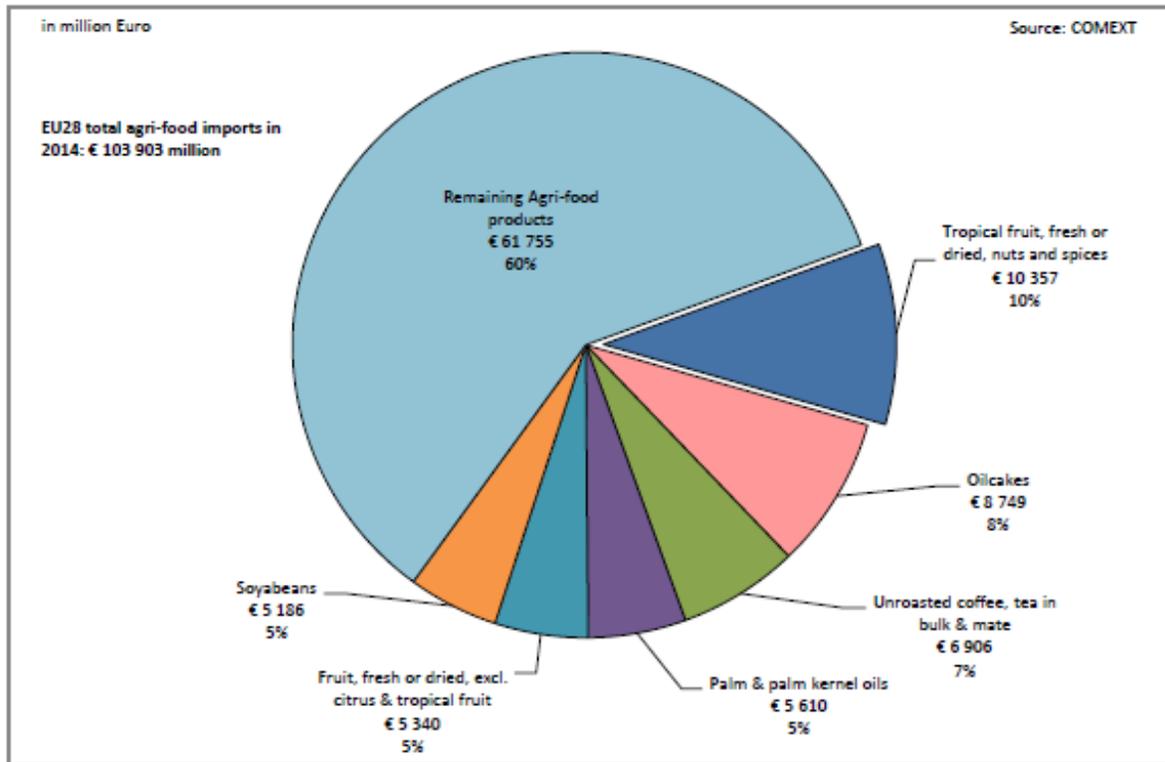
In essence, the EU is sourcing three main types of products from third countries: fruit, nuts, and spices; vegetable proteins and fats; and coffee. Most of the imports are highly standardised products that are traded in bulk.

Imports are more geographically concentrated than the EU exports. In the case of vegetable proteins and fats ('oilcakes' and 'palm & palm kernel oils') the sourcing depends to about 90 % on the top five origins, highly competitive producers for these products.

### 3.2. EU agri-food imports

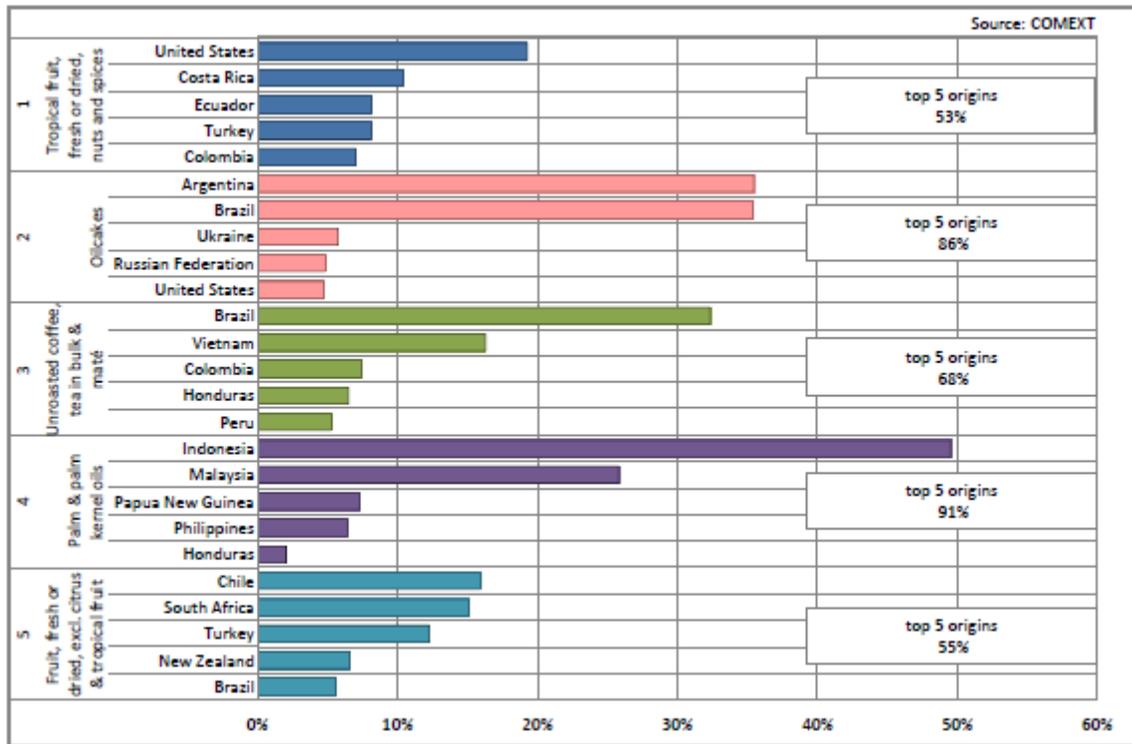
The total of €104 billion agri-food imports entering the EU28 in 2014 was split up into product categories as shown in graph 12.

Graph 12: Composition of EU agri-food imports in 2014

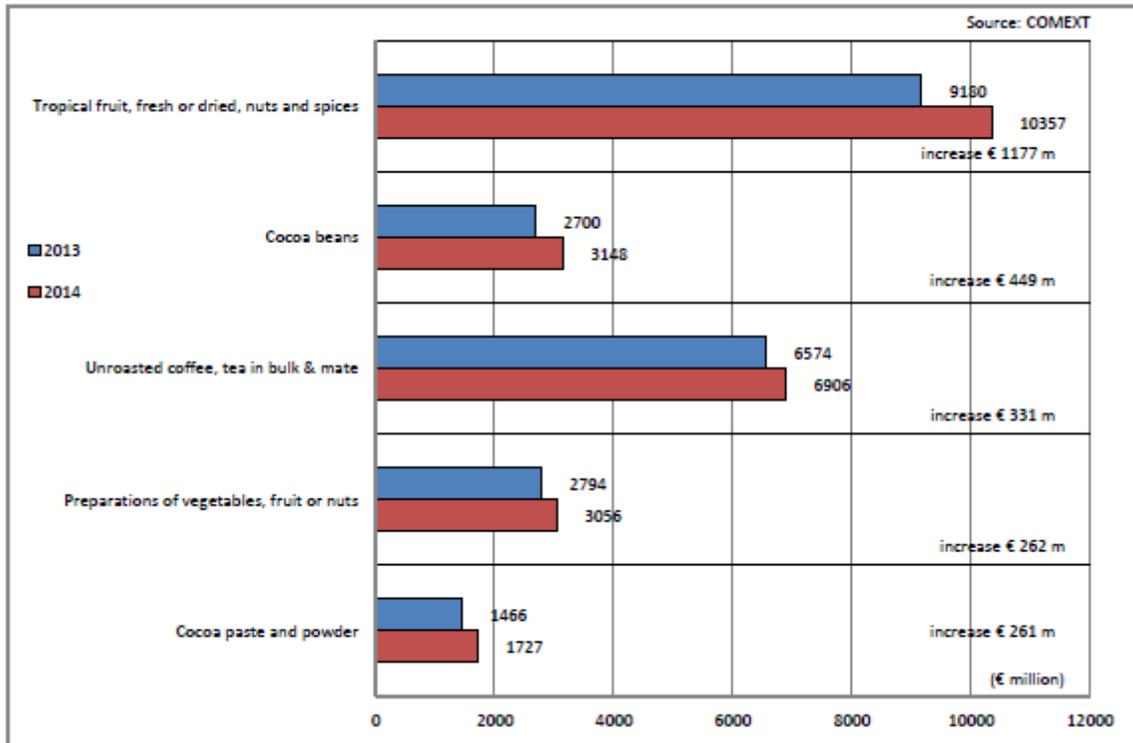


Compared to the previous year, the top six import categories have not changed, except that soya beans and fruits swapped their ranking positions.

Graph 13: Distribution of imports in main product categories by top origins

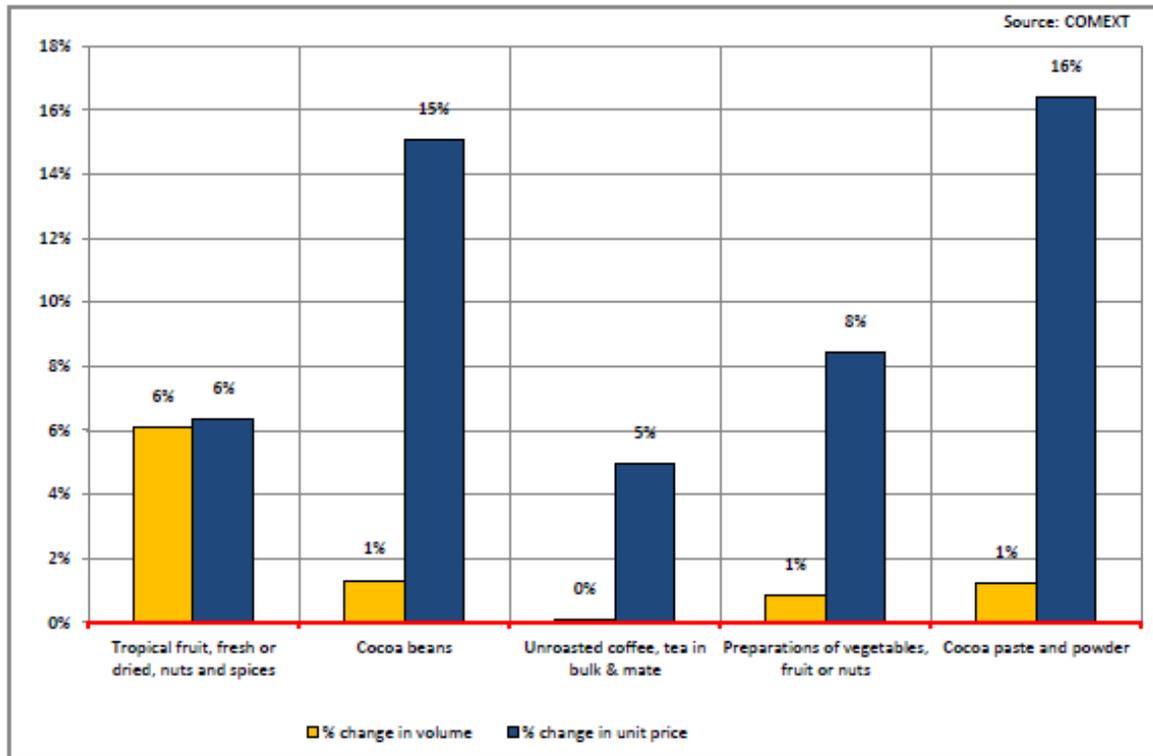


Graph 14: Product categories with the largest absolute annual import value increase 2014



Interestingly, China does not appear among the most important providers for the main product categories imported (graph 13), although it is the fourth strongest agri-food supplier for the EU in general terms.

Graph 15: Annual percentage change in volume and unit price for the product categories with the largest import increases 2014



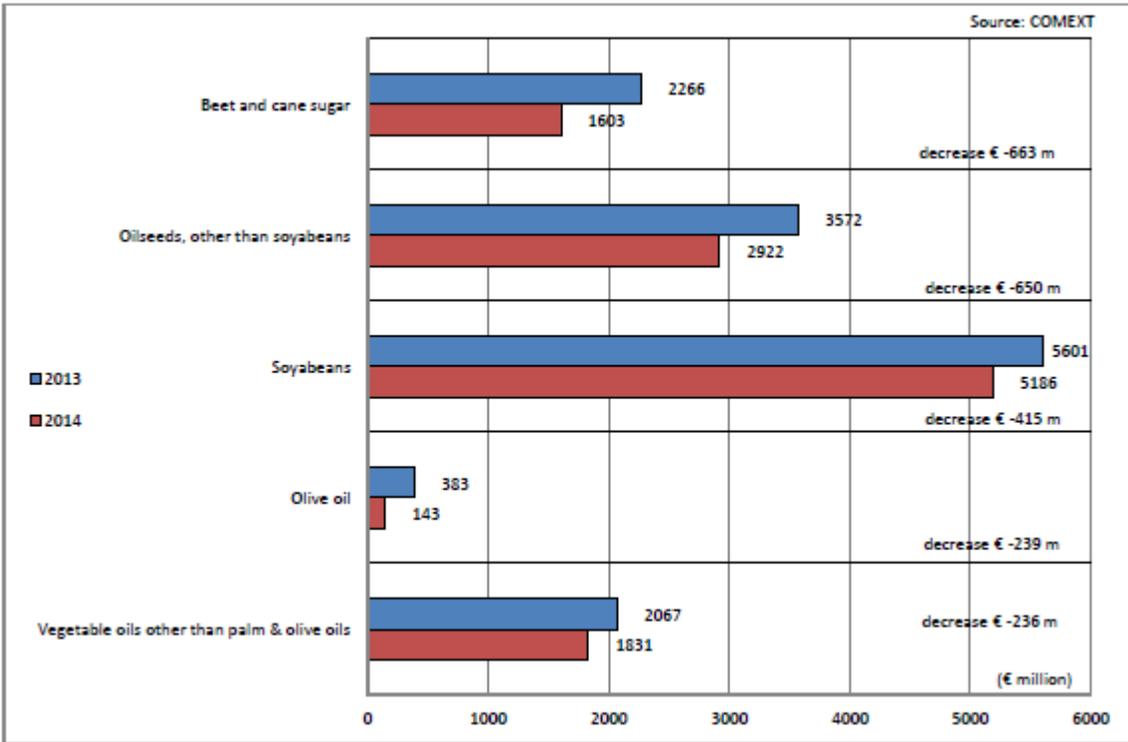
Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

In 2014, the EU28 primarily augmented purchases on world markets of 'tropical fruits, nut and spices', 'coffee and tea', cocoa products (beans and paste and powders) and preparations of vegetables.

Except for tropical fruits for which imported volumes increased by 6 %, all of the import value increases were substantially price driven. In other words, the EU paid more for the same physical inflow of these products.

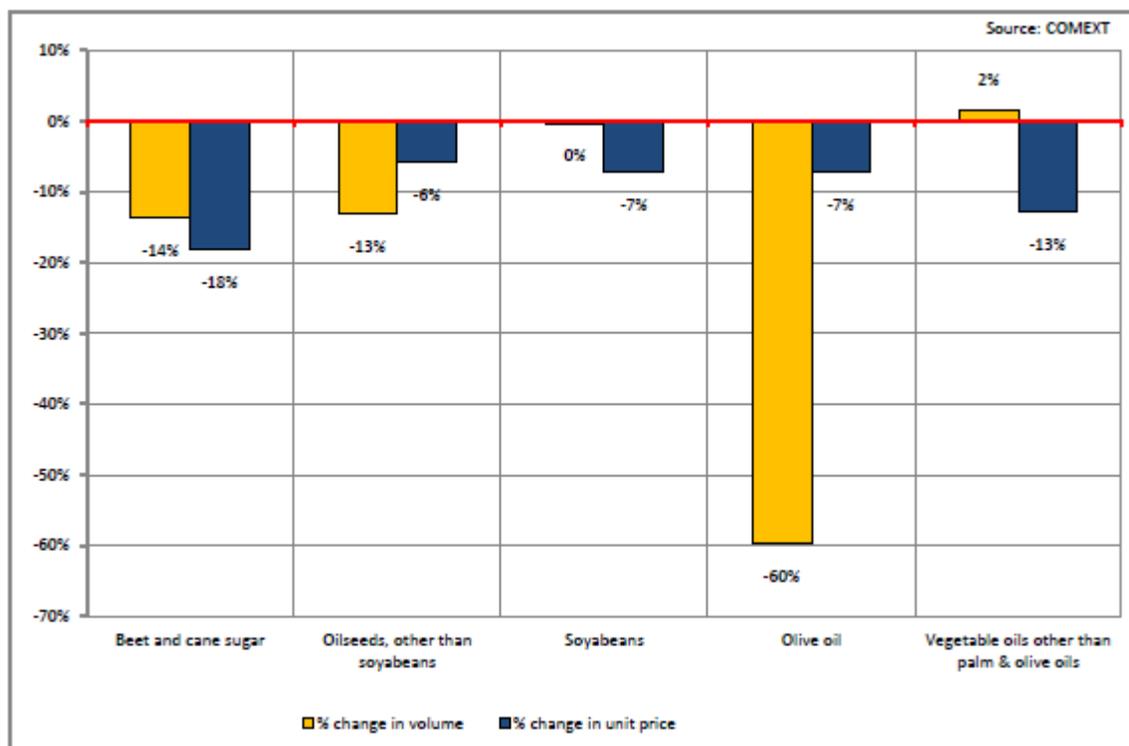
European imports decreased strongest in sugar and several oilseed products.

Graph 16: Product categories with the largest absolute annual import value decrease 2014



The analysis of volume and price changes shows that soy bean imports remained stable in quantitative terms. Solely the unit price reduction of 7 % triggered the extensive downward shift in the import value.

Graph 17: Annual percentage change in volume and unit price for the product categories with the largest import decreases 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

The most notable decrease in import volumes was registered for olive oil (-60 %).

#### 4. Closer look at trade with key partners

This chapter provides a general overview of the trade performance of the EU's key partners and a detailed description of their trade flows with the EU: The United States and China represent the partners with which the EU maintains the strongest reciprocal trade relationship. Trade with Brazil and Japan by contrast is characterised by more one-way flows. Brazil is the most important origin for EU agri-food imports, while Japan is a major export destination for the EU, with a minor share in EU imports. In addition, trade development with Russia is analysed, taking into account the embargo for certain agricultural products applied as from August 2014 (see info-box on the Russian import embargo).

## 4.1. United States

### Higher exports of soya beans and maize, drop in wheat exports

US agri-food exports to all destinations have risen in 2014 to €121 billion (+5 % compared to 2013)<sup>110</sup>. Canada remains the top destination (17 %) closely followed by China (16 %) and Mexico (13 %). The EU is the fourth export destination together with Japan (both 9 %).

The overall increase in US exports is mostly due to increased exports of soya beans (+16 %) and maize (+62 %), which both had production records in 2014.

Exports of soya beans to China, by far the main market, rose by 16 %. For maize, export growth to the main markets Japan (+43 %) and Mexico (+27 %) were substantial, but even stronger was export growth to South Korea and Columbia, the next important destinations (both more than 300 %). Maize exports to the EU also increased by more than 300 %.

Wheat exports, on the other hand, saw a drop of -27 % after the very strong performance of the year before. Exports to Brazil, which had surged in the period 2012-2013, declined by 40 % as Brazil's imports of wheat from Argentina picked up again. However, the level still remains substantially above the 2012 level (+53 % compared to 2012). Exports to China, the top destination of US wheat in 2013, declined even more drastically (-87 %), making China only 12th destination in 2014. The main reasons for this reduced wheat shipments from the US to China is on the one hand high wheat production in China leading to less imports overall and on the other hand import diversification of wheat (e.g. increased imports from Australia).

Meat exports increased by 8 % as the pig meat exports recovered (+10 %) due to better prices and exports of beef (+29 %), in particular frozen beef, rose due to a combination of higher prices and quantities. Exports of frozen beef increased mainly to the top destinations Hong Kong (+44 %) and South Korea (+47 %).

### US - agri-food trade with the EU

Negotiations of a Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US were launched in July 2013, and even before any conclusion, agri-food trade links strengthened remarkably in 2014.

The United States is the top export market and the second most important origin for EU imports when it comes to agri-food products. In value, 13 % of EU exports (€16 billion) are directed towards the US, and 10 % of all EU imports (€10 billion) are sourced from there. After a less

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<sup>110</sup> According to the definition of agricultural products used for this newsletter.

dynamic preceding year for exports, trade flows between the EU and the US again strengthened considerably in 2014. The appreciation of the US Dollar against the Euro (+12 %) might have helped EU exports to increase (+7 %), however, imports from the US as well continued to increase (+5 %).

As a consequence, in 2014, the US was the fastest growing external market among the top five trade partners and at the same time the supplier with the highest growth in agri-food exports to the EU. Considering the fact that the US already was the top reciprocal trade partner before, this growth rate means a significant strengthening of the existing link between the two agricultural markets.

Because of the stronger increase of exports compared to imports, the trade balance increased in favour of the EU by 9.1 % and reached a surplus of €6 billion. Traditionally, the exports to the US are almost evenly divided between products closely linked to farming (49 %) and food industry products (45 %), leaving 7 % to 'non-edible' products.

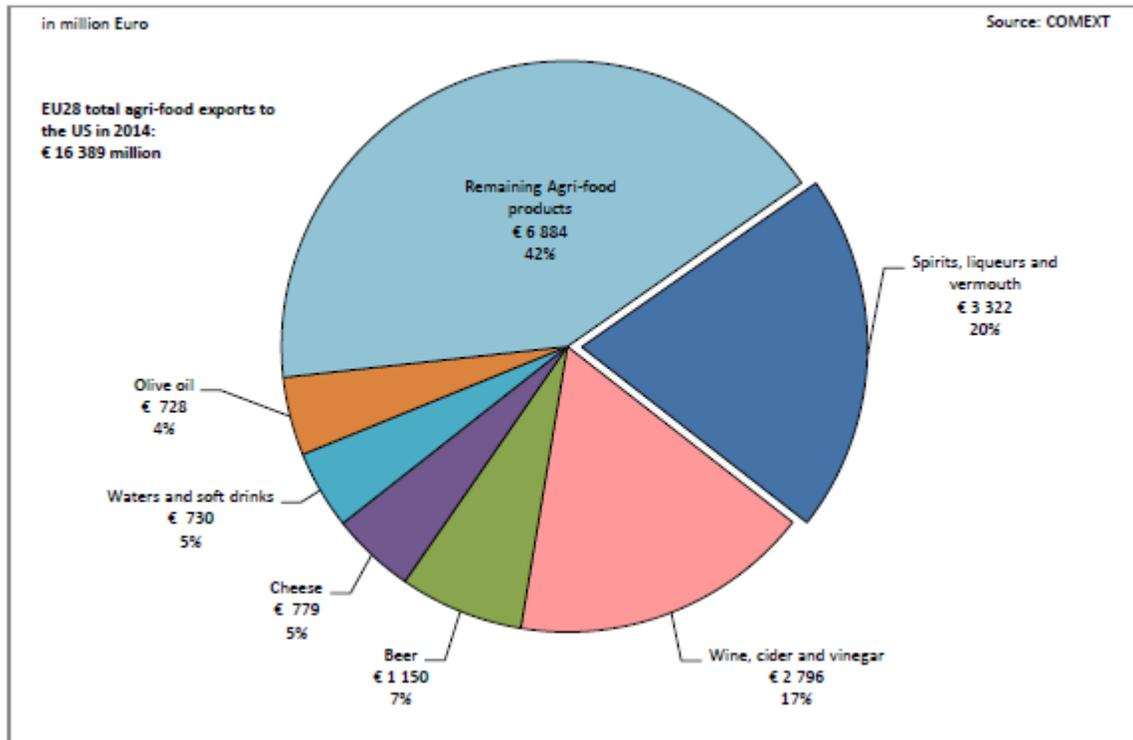
At the level of product classes, most exported products are 'processed products' (incl. wine) and 'beverages'. The imports, by contrast, consist to a large extent (70 %) of products closely linked to farming (mainly commodities and other primary products). Over the past years, the trade flow has increased between the EU and the US, evolving more or less proportionately across the product classes.

Graph 18: Structure of EU28 agri-food trade with the US 2004-2014



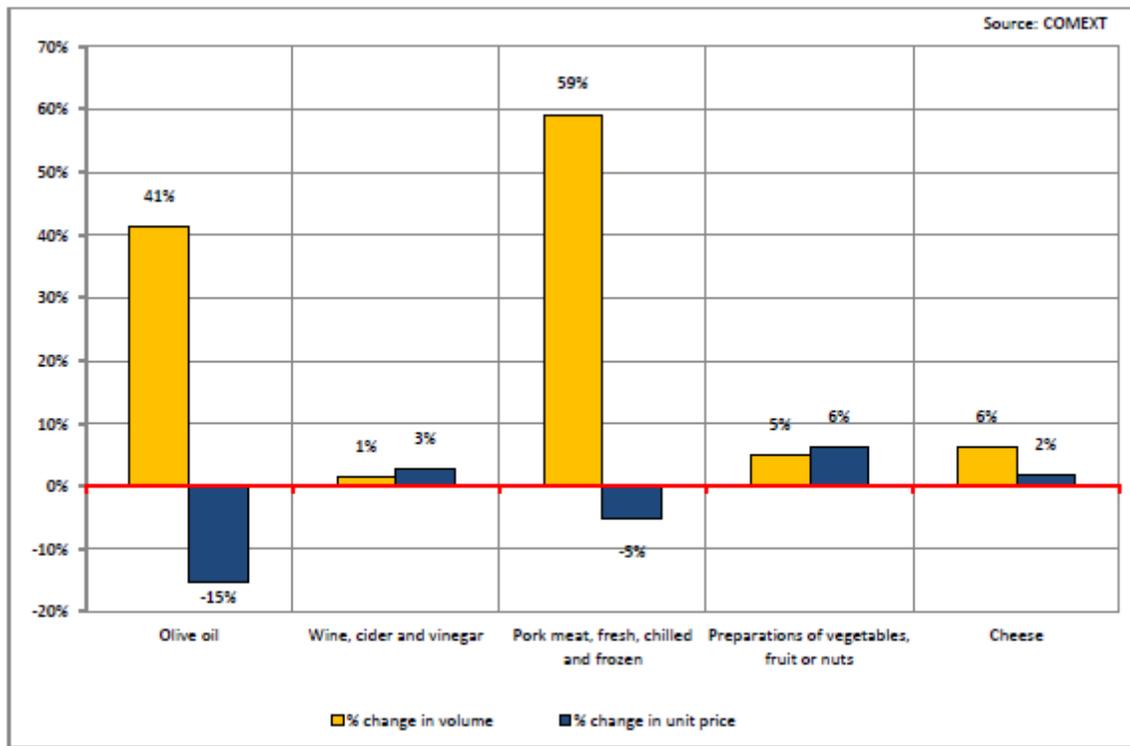
Compared to the export structure of 2013, the situation in 2014 changed only marginally. Beverages ('Spirits, liqueurs and vermouth' and 'Beer') and wine continue to dominate the picture with a share of 44 % of total EU exports to the US.

Graph 19: Composition of EU agri-food exports to the US in 2014



The largest increase in absolute values in EU exports to the US was in 'Olive oil', which now ranks among the top six exported product categories (increase from €608 million in 2013 to €728 million in 2014; +20 %). In descending order, the increases in export values for wine, pork meat, preparations of vegetables, fruits or nuts and cheese followed. All these export value increases were due to volume increases, while for some categories shipments at the same time were devaluated due to price decreases. For example, the quantity of olive oil shipped to the US was 41 % higher than in 2013, while unit prices decreased by -15 %.

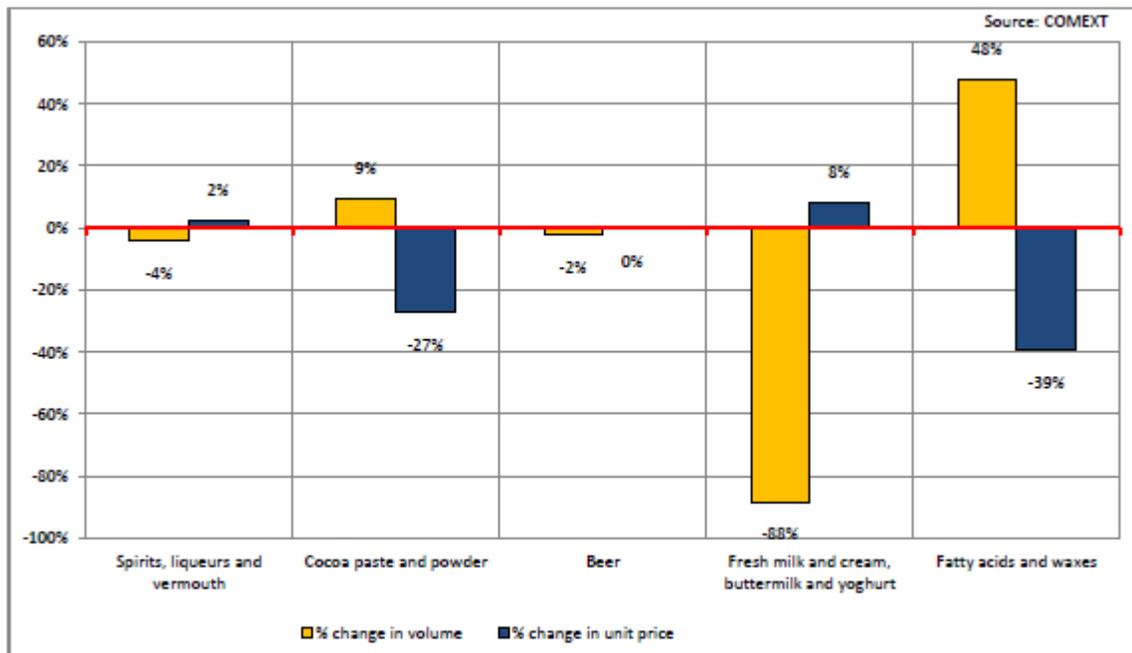
Graph 20: Annual percentage change in volume and unit price for the product categories with the largest export increases to the US 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

Major losses in export values towards the US were encountered – in descending order – for spirits, liqueurs and vermouth, cocoa paste and powder, beer, fresh dairy products and for fatty acids and waxes. As graph 21 indicates, for these product categories both volume and price changes were apparent.

Graph 21: Annual percentage change in volume and unit price for the product categories with the largest export decreases to the US 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

In the cases of 'cocoa paste and powder' and 'fatty acids and waxes', price decreases over-compensated the volume increases, thus the export value altogether shrank by -20 % and -10 %, respectively.

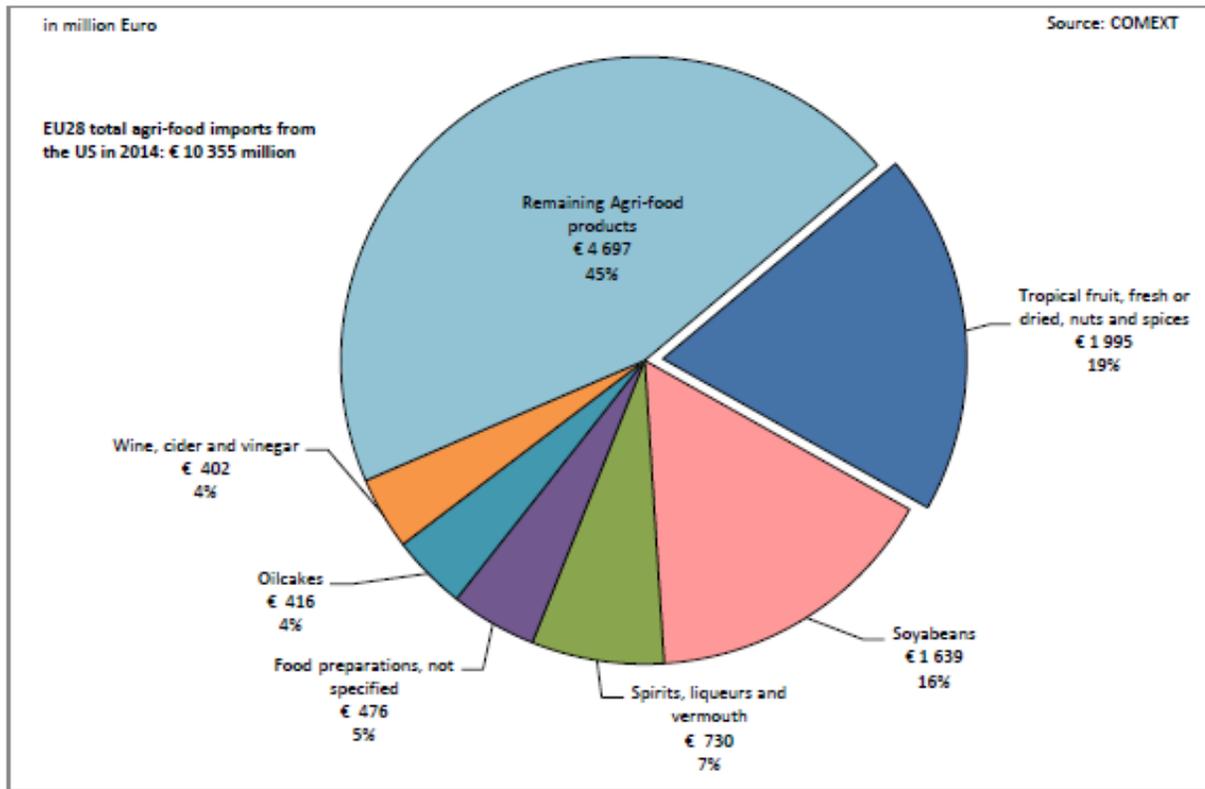
The US is a particularly important market for EU exports in coffee (re-exports), beer, olive oil, essential oils and spirits. As table 1 indicates, the US represents a crucial destination for these product categories, absorbing major shares of total EU exports in these products.

Table 1: US as important destination for EU exports by product category

Rank	product category	EU export to world	EU export to the US	US share in total
in 1000 EUR				
1	Unroasted coffee, tea in bulk & mate	513,836	301,776	59%
2	Beer	2,864,801	1,150,342	40%
3	Olive oil	2,126,088	727,649	34%
4	Essential oils	501,583	171,201	34%
5	Spirits, liqueurs and vermouth	9,766,062	3,322,137	34%

Concerning imports from the US, the ranking of most important product categories in 2014 remained unchanged compared to 2013, while values increased. 'Oilcakes' pose the only exception, in fact being the product category with the largest EU import value decrease from the US (-37 %) and switching the ranking position with 'not specified food preparations'.

Graph 22: Composition of EU agri-food imports from the US in 2014



The US share in EU imports is particular high for 'live animals', 'Spirits, liqueurs and vermouth', 'not specified non-edible', 'odoriferous substances' and 'pet food'. In this view, the US represents a crucial source for these sectors.

Table 2: US as important origin for EU imports by product category

Rank	product category	EU imports from world	EU imports from the US	US share in total
in 1000 EUR				
1	Live animals	220,861	126,350	57 %
2	Spirits, liqueurs and vermouth	1,367,647	729,907	53 %
3	Non-edible, not specified	1,339	662	49 %
4	Odoriferous substances	7,446	2,620	35 %
5	Pet food	867,364	286,736	33 %

## 4.2. China

### Continued demand growth for commodities

In 2014, China's demand for agri-food imports continued to increase, although at a lower rate (+3 %) compared to the impressive growth rates registered in the past. The low rise in import values and a faster growth in exports (+6 %), resulted in a reduction of the agri-food trade deficit by €2 billion in 2014 (now at €48 billion) compared to the previous year.

US was confirmed as the first supplier of agri-food products to China, with a share of 25 % (60 % of which were soya beans), followed by Brazil with 20 % (87 % soya beans). The EU share in Chinese agricultural imports stabilised at 9 % in 2014, mainly driven by increased sales of infant food, the main imported product, which registered a dramatic increase.

In total, over one third of Chinese agri-food imports consist of soya beans, with a rising trend in 2014. Imports of oilseeds (+24 %) and cereals excl. wheat and rice (+89 %) increased. In particular, the latter product category saw an impressive growth, with imported quantities even doubling. After a couple of years of sustained import growth for milk powder, 2014 was characterised by a slow-down.

Conversely, the number two import product, cotton (not carded or combed), saw a drop of 38 % in import value compared to 2013. For several other top products, such as palm oil (-8 %), raw

hides and furskins (-3 %), other vegetable oils (-29 %), and wool and silk (-11 %), import values decreased.

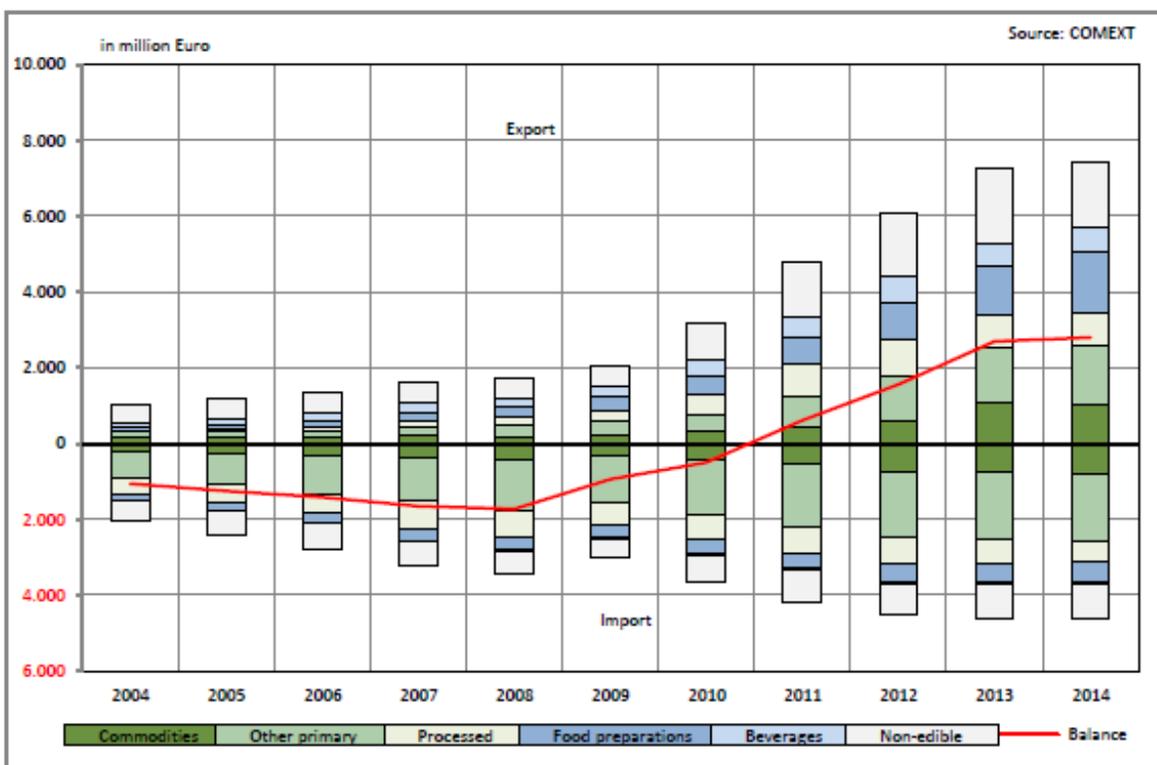
On the export side, fresh and processed fruit and vegetables have largely contributed (with a share of around 40 %) to make China one of the top food exporters in the World. In 2014, the biggest absolute gains in exports were achieved for oilcakes, followed by fresh vegetables. The main market for Chinese agri-food exports is Japan (15 %), followed by Hong-Kong (12 %) and the US (12 %).

### **China – agri-food trade with the EU**

With a total agri-food export value of €7.4 billion and a total agri-food import value of €4.7 billion, China remains the third most important destination (6.1 % of all EU agri-exports) and the fourth most important origin (4.5 % of all EU agri-imports) for EU agricultural trade. The trade balance amounts to almost €3 billion in favour of the EU. The Chinese Renminbi appreciated against the Euro by about 10 % during the year 2014. However, the stable and high-paced strengthening of EU agri-food exports to China did not continue in 2014.

In 2011, the EU switched from a net importer to a net exporter vis-à-vis China. EU imports remained rather stable during the period 2011 to 2014, thus the EU net position improved in recent years.

Graph 23: Structure of EU28 agri-food trade with China 2004-2014



EU agri-food exports to China increased by €157 million in 2014, corresponding to 2.2 %. This depicts a considerable slowdown in export growth as the annual expansion during the preceding four years had been around €1.3 billion (+20 % between 2012 and 2013).

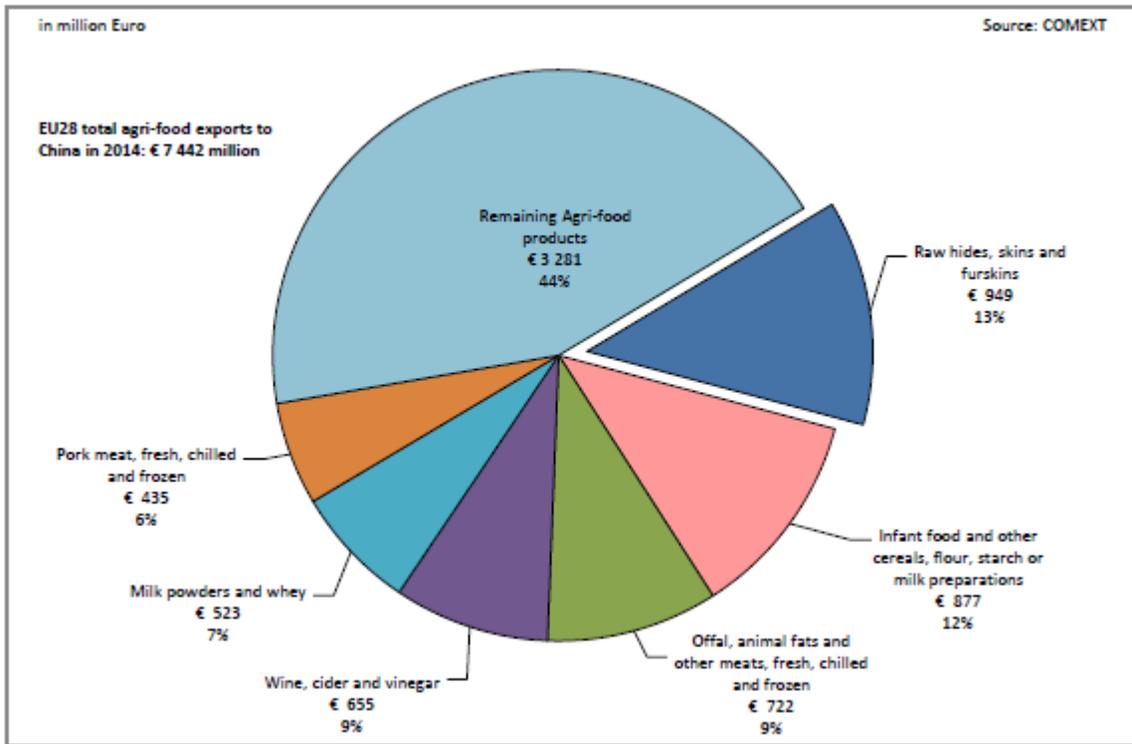
EU imports from China, on the contrary, remained somewhat stable since 2011 and showed in 2014 an annual increase of 1.1 %.

The trade pattern between the EU and China is characterized by a diversity of products on the export side and by the dominance of 'agricultural food and feed products' on the import side. The particularly high share of the product group 'Non-edible' (24 %) in total exports is noteworthy, since it ranges between 7 % and 15 % for most other major export destinations. At product group level, the export growth in 2014 was mainly effectuated in the domain of 'food preparations and beverages'.

Looking at product class level, it becomes clearer that the export growth was mainly achieved with value-added products, as exports in commodities and non-edible even declined. For imports the situation is the opposite, with stronger expansions in the classes 'commodities' and 'non-edible' than in 'food preparations' and 'beverages' and a decline in 'processed' primary products.

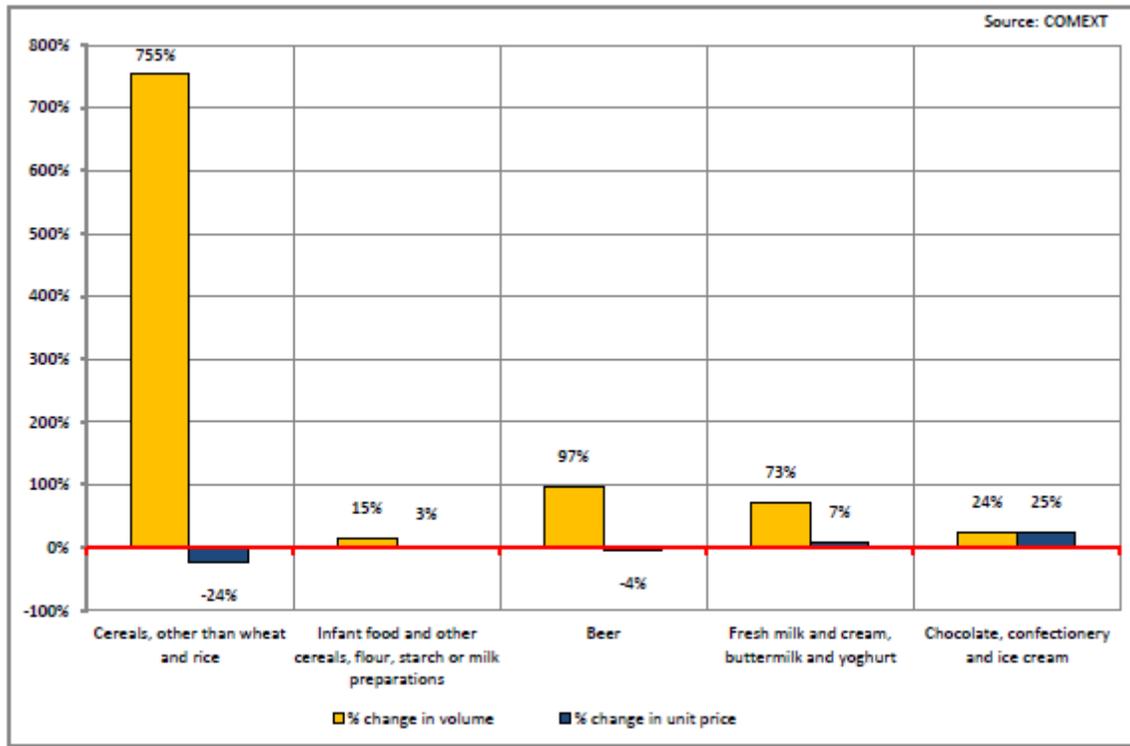
The top six product categories represent 56 % of all EU agri-food exports to China. They perfectly reflect the diverse range of exports to China, as each of them originates from a different product class.

Graph 24: Composition of EU agri-food exports to China in 2014



The most pronounced export growth to China was observed in cereals (other than wheat and rice), infant food etc., beer, fresh dairy products and chocolate (incl. confectionary and ice cream). In this order, these are the products with the highest absolute export value increases in 2014 EU exports to China. For each of the mentioned product categories increase in volume was the main driver. Only for chocolate (incl. confectionary and ice cream) the increase in unit price complemented the change in volumes.

Graph 25: Annual percentage change in volume and unit price for the product categories with the largest export increases to China 2014

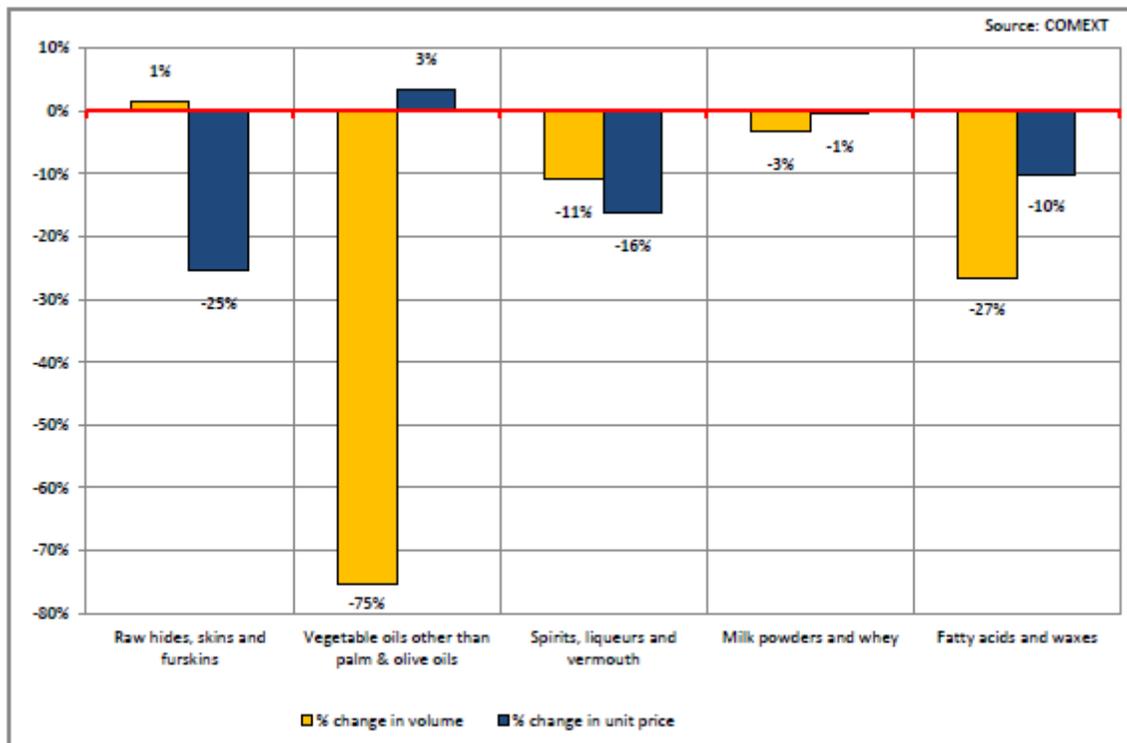


Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

The exports in cereals (other than wheat and rice) skyrocketed, values increased from €33 million to €217 million (+555 %), although at lower unit prices.

'Infant food and other cereals [...]' is the product category with the second highest export value, hence a 15 % volume increase from this high starting position translates into a substantial absolute increase (export value increased from €740 million in 2013 to €877 million in 2014; +19 %).

Graph 26: Annual percentage change in volume and unit price for the product categories with the largest export decreases to China 2014



Note:

Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

### Trade in agri-food products with Least Developed Countries (LDCs)

The EU is committed to support the poorest countries in the world to develop their economies and reach higher levels of socio-economic well-being. LDCs benefit from duty-free, quota-free access to the EU market under the "Everything but Arms" scheme. Several of them are also involved in European Partnership Agreements which try to encourage regional cooperation and trade. Concerning agriculture, the LDCs produce an array of products that are in demand on the world market. Provided that the products comply with the EU sanitary and phyto-sanitary requirements, the EU trade preferences for LDCs incentivise European businesses to buying products from these countries against other suppliers which have to pay regular (Most Favoured Nations) duties.

As a direct result of this policy, the EU remains by far the top importer of agri-food products from least developed countries. In 2014, the EU imported agri-food products from LDCs in the value of almost €3 billion, up 9.2 % from the previous year. Compared to the purchases of the other top world importers US, China, Japan, Russia and Canada (Big5), the EU imports by far outnumber their individual and cumulated imports both in absolute and relative terms. While the EU sources

2.9 % of its total world imports in agri-food products from LDCs, the Big5 on average do so with 0.9 % of their total imports. Altogether, the Big5 import products worth €2.5 billion, €0.5 billion less than the EU alone. Canada for instance sources 0.2 % of agri-food imports from the LDCs, while China does so with 1.7 % of its imports.

The EU imported mostly (two thirds) basic agricultural products i.e. commodities and other primary agricultural products. The remainder consisted almost exclusively of non-edible products, raw tobacco and cut flowers and plants for the main part. About half of EU agri-food imports were composed of coffee, raw tobacco and sugar (53 % of the imports).

Figure A: EU28 and Big5 imports from LDCs in 2014

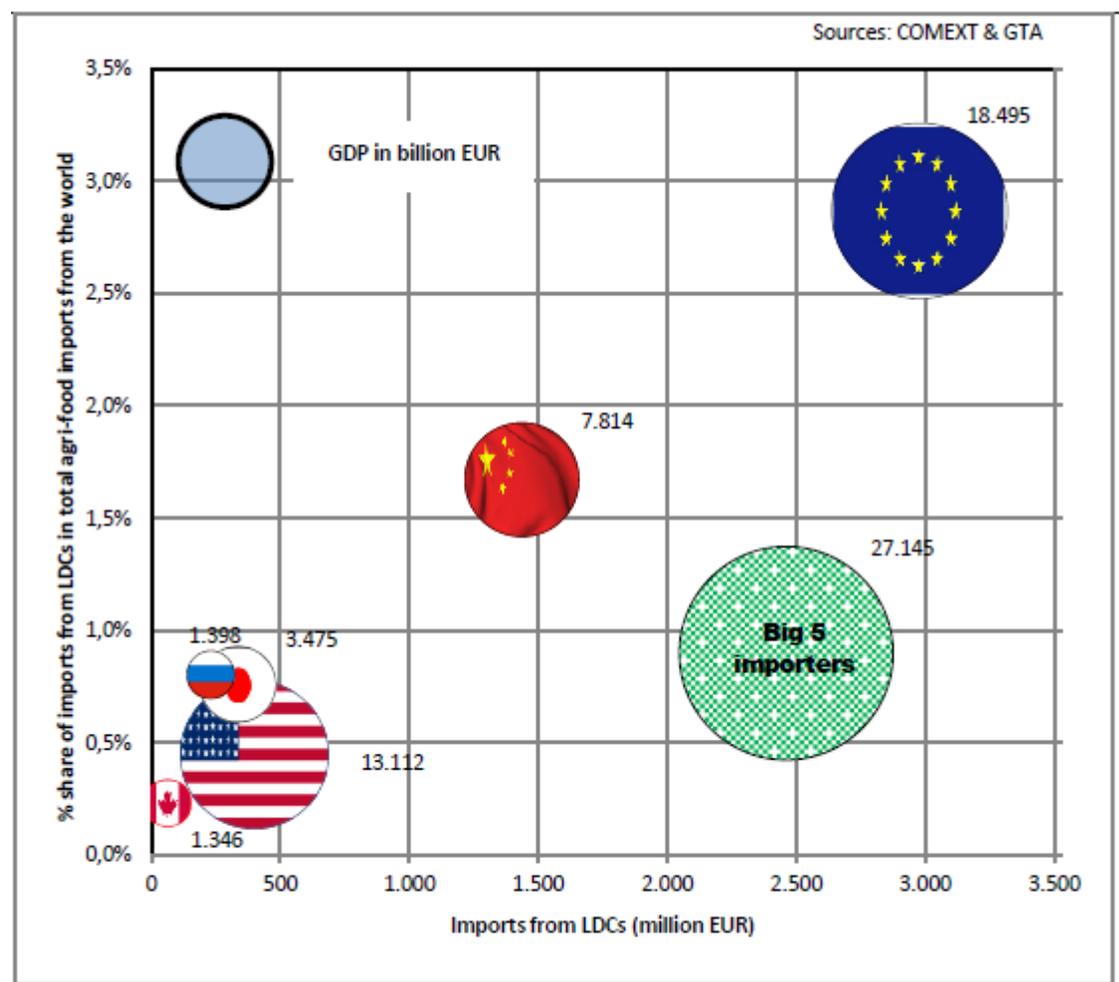
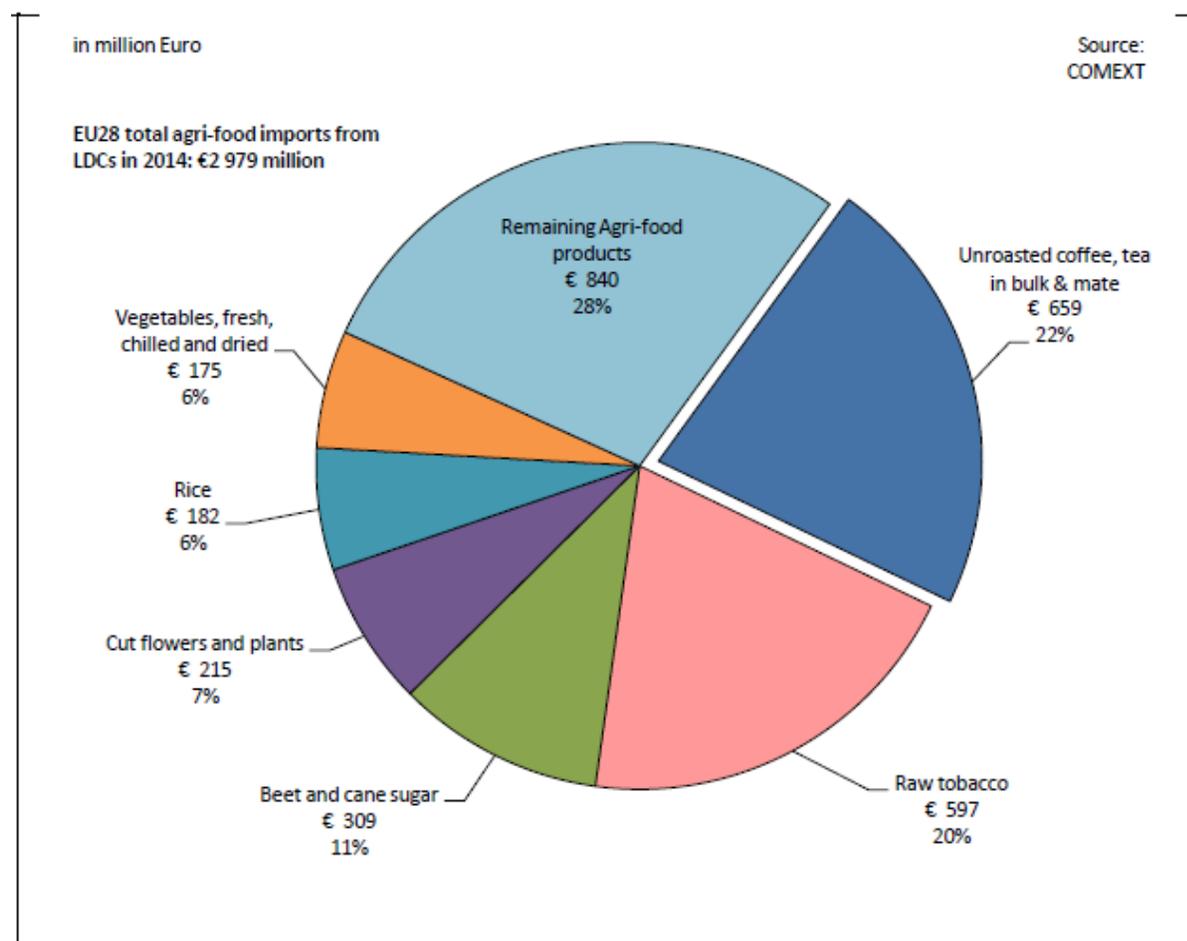


Figure B: EU agri-food imports from LDCs in 2014

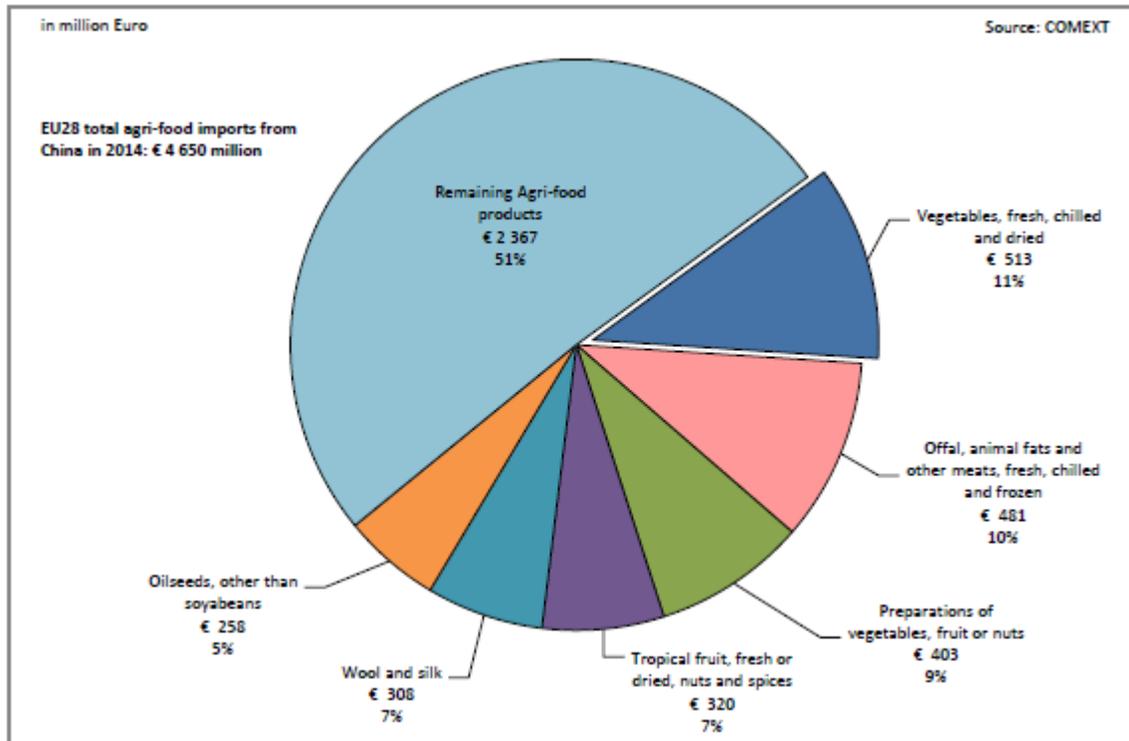


For LDCs' sourcing purposes, the EU also continues to be the main supplier of agri-food products. 4 % of EU exports, valued at almost €5 billion, are directed towards LDCs. Compared to the other big world exporters individually, this again is higher than their exports in absolute and relative terms. The agri-food trade flows into LDCs however are less connected to development policy but a demonstration on the one hand of stronger business ties, and on the other hand of the competitiveness of European produce vis-à-vis other major agricultural exporters. The top EU agri-food export categories to the LDCs are wheat, infant food, milk powders and whey, poultry meat, beer and some food preparations, four of which are also among the global top six export categories. Bringing imports and exports together, the EU runs a positive trade balance with the LDCs in agri-food products, valued at about €2 billion.

Turning to the products with losses in exports to China in 2014, EU shipments in terms of value decreased most for 'Raw hides, skins and furskins', 'vegetable oils other than palm & olive oils', 'spirits, liqueurs and vermouth', 'milk powders and whey' and with 'fatty acids and waxes'.

Concerning imports, the top six product categories represent about half of the total agri-food products from China. All these products originate from the group 'agricultural food and feed products', except 'wool and silk' representing the 'non-edible'. This composition indicates that EU imports from China are mainly made up of unprocessed food.

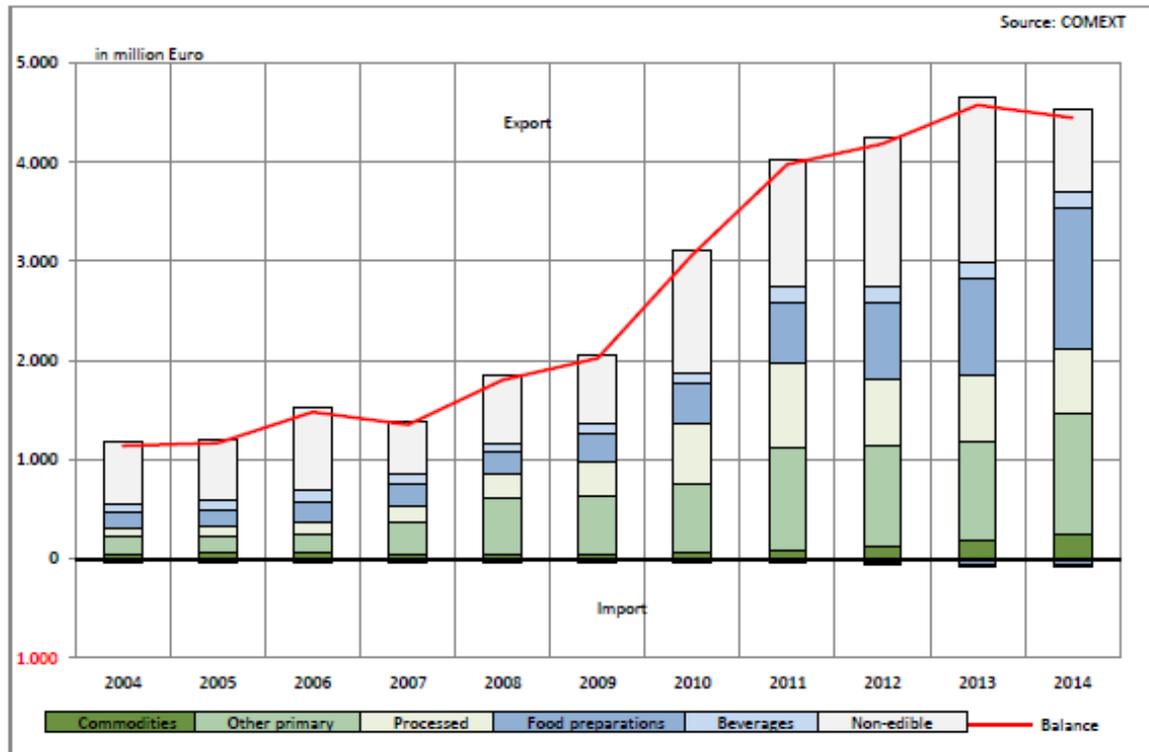
Graph 27: Composition of EU agri-food imports from China in 2014



### Hong Kong – agri-food trade with the EU

When analysing trade flows into China, it should be taken into account that Hong Kong to a large extent functions as a transit hub for the Chinese market.

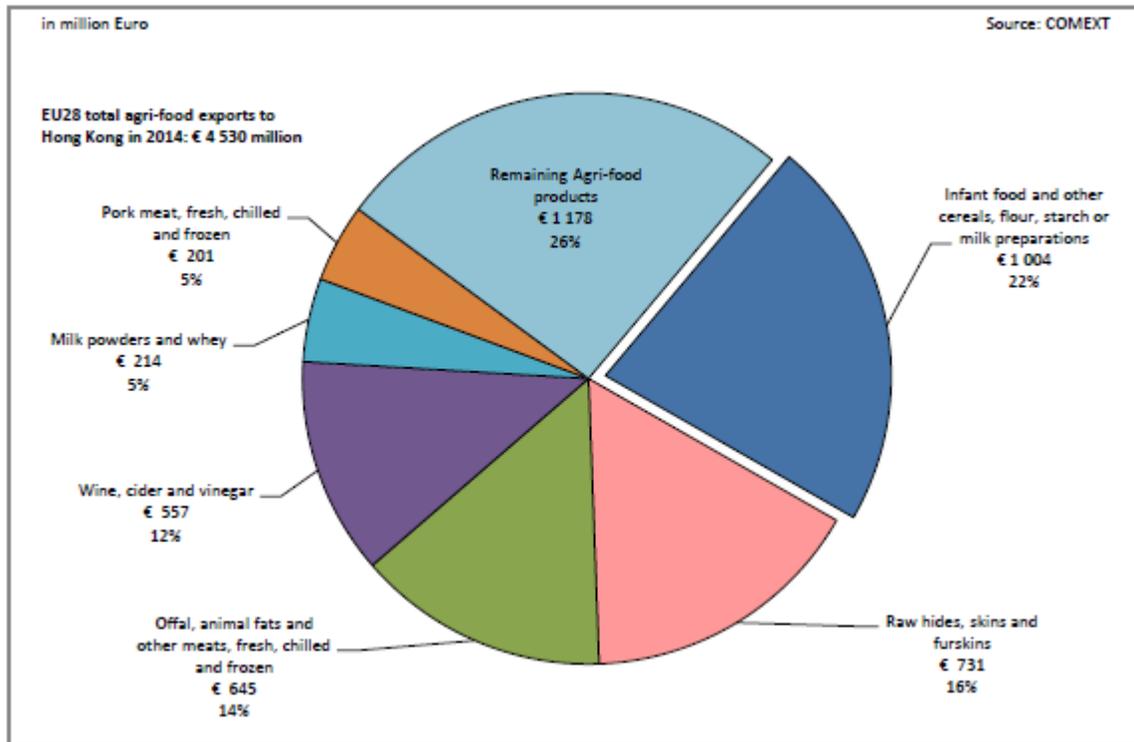
Graph 28: Structure of EU28 agri-food trade with Hong Kong 2004-2014



Populated with around 7 million citizens, Hong Kong ranks sixth among the top destinations for EU agri-food exports, importing products for a value of €4.5 billion.

While EU imports from Hong Kong are negligible (€83 million in 2014), EU exports to Hong Kong grew tremendously, particularly between 2009 and 2011. Only 2014 saw a reduction by -2.9 %.

Graph 29: Composition of EU agri-food exports to Hong Kong in 2014



Overall the basket of exported agri-food products to Hong Kong is as diverse as the one going to China. Also the start of extensive export growth around 2007/08 coincides with the export developments towards China.

Table 3: China and Hong Kong as important destination for EU exports by product category

Rank	product category	EU export to world	EU export to China & Hong Kong	Chinese (+Hong Kong) share in total
in 1000 EUR				
1	Raw hides, skins and furskins	2,297,766	1,680,384	73.13 %
2	Wool and silk	169,317	100,746	59.50 %
3	Offal, animal fats and other meats, fresh, chilled and frozen	2,296,596	1,366,380	59.50 %
4	Cotton, flax and hemp, and plaiting materials	768,284	322,057	41.92 %
5	Infant food and other cereals, flour, starch or milk preparations	6,005,922	1,881,038	31.32 %

For several EU products China and Hong Kong taken together are the dominant export markets. Especially for non-edible products such as 'raw hides, skins and furskins', 'wool and silk' EU exports depend on China and Hong Kong, as well as for 'offal, animal fats and other meats'. For these categories China and Hong Kong absorb more than half of the EU's exports.

Despite being providers of agri-food products to the EU, China and Hong Kong do not have such a key role for any product. The highest share in category-specific imports China and Hong Kong hold is 42.45 % for 'Offal, animal fats and other meats'. Interestingly, there is a strong reciprocal trade between the EU and China in 'wool and silk' and 'Offal, animal fats and other meats'.

Table 4: China and Hong Kong as important origin for EU imports by product category

Rank	product category	EU imports from world	EU imports from China & Hong Kong	Chinese (+Hong Kong) share in total
in 1000 EUR				
1	Offal, animal fats and other meats, fresh, chilled and frozen	1,136,281	482,343	42.45 %
2	Wool and silk	808,158	322,618	39.92 %
3	Non-edible animal products	370,840	126,390	34.08 %
4	Eggs and honey	421,857	122,546	29.05 %
5	Miscellaneous seeds and hop cones	514,916	119,437	23.20 %

### 4.3. Brazil

#### Drop in soya and sugar prices led to decreased agricultural export values

After already experiencing a cool down in the growth of agri-food exports in previous years, Brazil's exports have further decreased by 5 % in values in 2014. With very small import activities, however, Brazil maintains a large agricultural trade surplus of €54 billion.

China remains the top destination for Brazilian agricultural products (23 %) while the EU is the second most important export partner (21 %). The US (5 %) and Russia (4 %) follow.

The overall decrease in export values is due mostly to the unfavourable price developments for the two main Brazilian exports, soya beans (making up 27 % of all agricultural exports) and sugar (12 %). Brazil's main export destination for soya remains China, which absorbs 71 % of all exports. For sugar, likewise, China is the main destination together with the United Arab Emirates (both 9 %). Sugar exports to China fell by 38 % as prices declined and Thailand took over market shares.

Maize exports, which were on the rise until 2013, fell by 36 % due to lower prices and quantities. Coffee exports, on the other hand, increased by 32 % as prices picked up and export quantities increased.

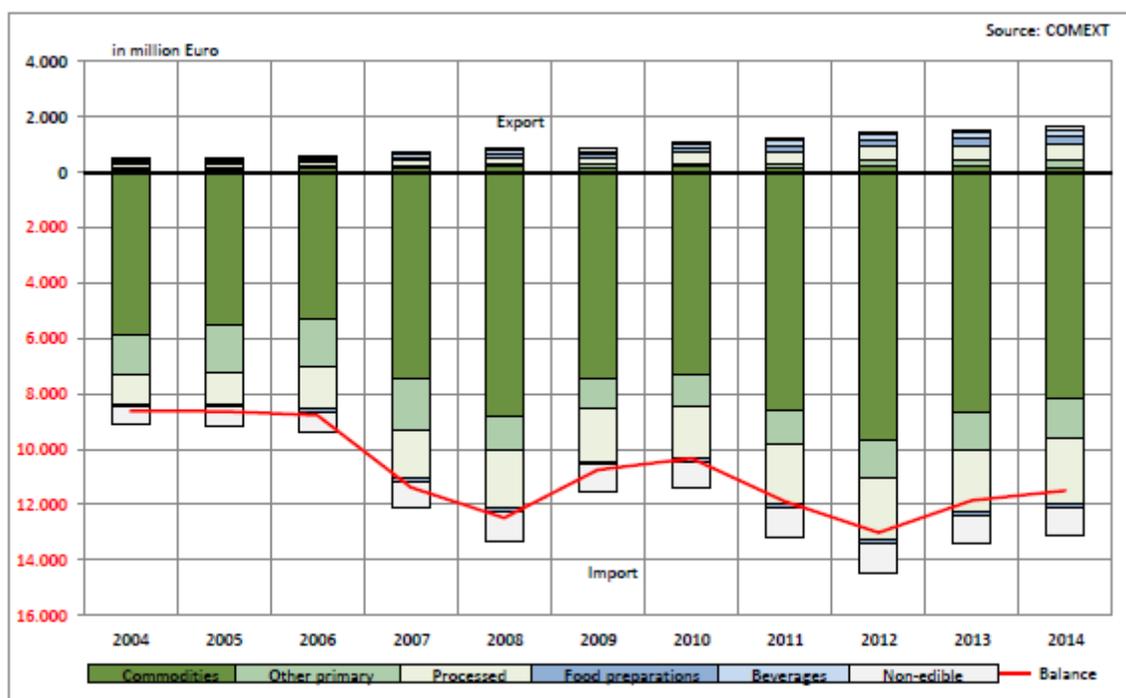
Meat exports increased by 5 % with substantial export growth to the main partners China/Hong Kong (absorbing 18 % of meat exports) and Russia (16 %). The increases in exports stem from the sectors of beef and pork while poultry, the most important meat export, showed a small decrease.

The cross trade of ethanol between Brazil and the US, i.e. export of cane-based ethanol to the US and import of maize-based ethanol from the US, continued in 2014.

### Brazil – agri-food trade with the EU

As in previous years, Brazil acts as the most important source to meet the European import demand for agri-food products (13 % of total), and the EU runs a negative trade balance with Brazil, amounting to € 11.5 billion. 91 % of the products imported from Brazil are 'commodities', including in particular oil cakes and soya beans that provide protein and fat for animal feed. The exports to Brazil, in contrast, embody 1 % of total EU agri-food exports. Brazil essentially buys European olive oil, preparations of vegetables (or fruit or nuts), wine and food preparations.

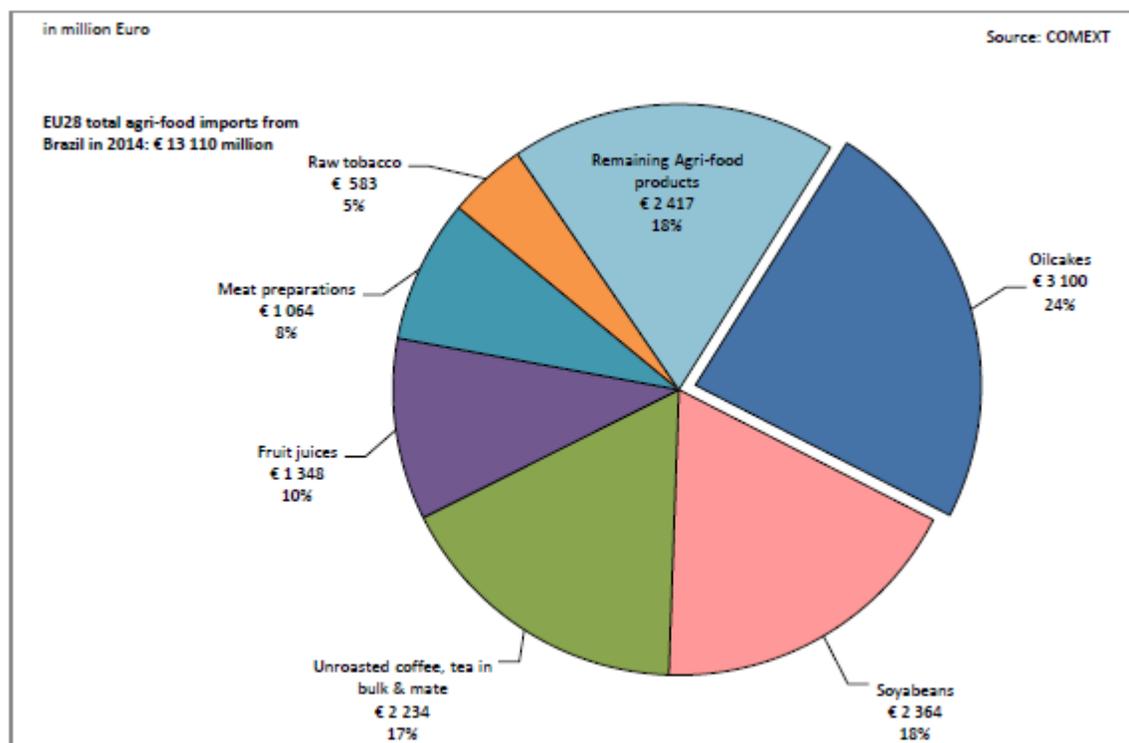
Graph 30: Structure of EU28 agri-food trade with Brazil 2004-2014



Against the global trend of trade expansion, EU imports from Brazil continued to decrease in 2014. They shrank by 2.0 %, while total EU imports increased by 2.1 %. As already in 2013, the lion's share of reductions in EU imports from Brazil took place in the domain of 'commodities'.

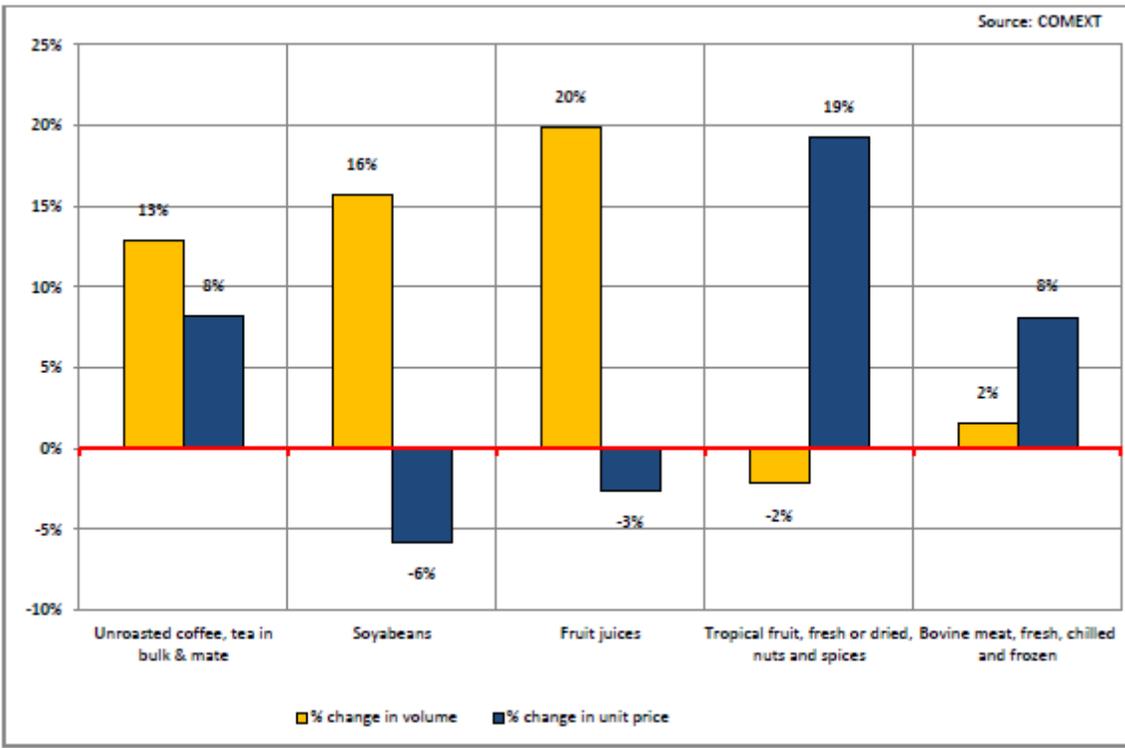
From the top five product categories which accumulate 77 % of all imports, around half the import value is associated with feed products (oilcakes and soya beans), and the other half with food products (coffee, fruit juice and meat preparations).

Graph 31: Composition of EU agri-food imports from Brazil in 2014



The highest increases in import value were observed for coffee, soya beans and fruit juice, for which import quantity increases of 13 %, 16 % and 20 % respectively were the driver.

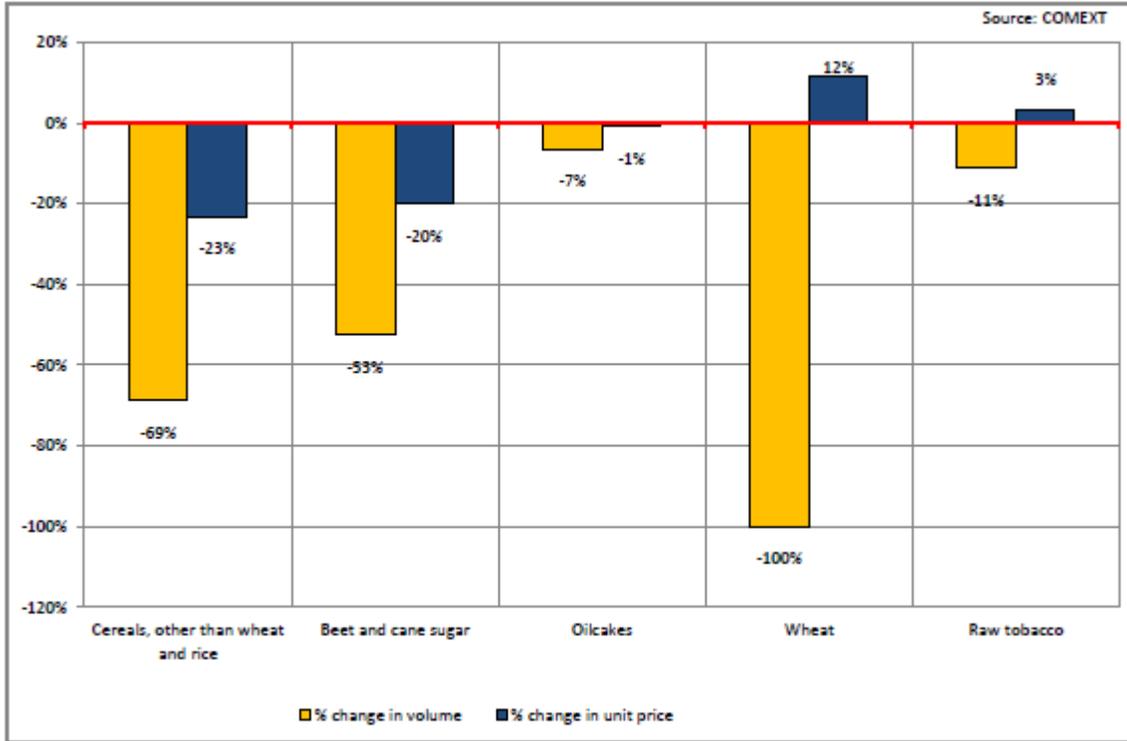
Graph 32: Annual percentage change in volume and unit price for the product categories with the largest import increases from Brazil 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

The four product categories with the largest recorded losses all are 'commodities'. The reductions in volume are considerable, with more than halving the imports in 'cereals other than wheat and rice' and those in 'beet and cane sugar', and a factual cessation of imports in wheat.

Graph 33: Annual percentage change in volume and unit price for the product categories with the largest import decreases from Brazil 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

Table five lists the product categories for which Brazil is a particularly important origin for EU sourcing. Apart from the products that already range among the top six imported products from the main EU supplier, Brazil also provides the EU with 57 % of its poultry meat imports.

Table 5: Brazil as important origin for EU imports by product category

Rank	product category	EU imports from world	EU imports from Brazil	Brazilian share in total
in 1000 EUR				
1	Fruit juices	2,243,190	1,348,220	60 %
2	Poultry meat, fresh, chilled and frozen	309,879	177,597	57 %
3	Meat preparations	2,113,254	1,063,424	50 %
4	Soy beans	5,186,140	2,364,083	46 %
5	Oilcakes	8,748,845	3,100,099	35 %

#### 4.4. Japan

##### Second consecutive year of lower import

Japan It is one of the most densely populated countries in the world with very limited means to cover its own demand for agricultural products with domestic production. However, after a steady surge registered in the past, in 2014 Japanese imports of agri-food products decreased for the second year in a row. Exports remain quite modest and the agri-food trade balance has a significant deficit (almost €42 billion).

The US is the first supplier of agri-food products to Japan, representing more than one quarter of Japanese imports. The EU comes in as the second import origin for agri-food, with a share of around 16 %.

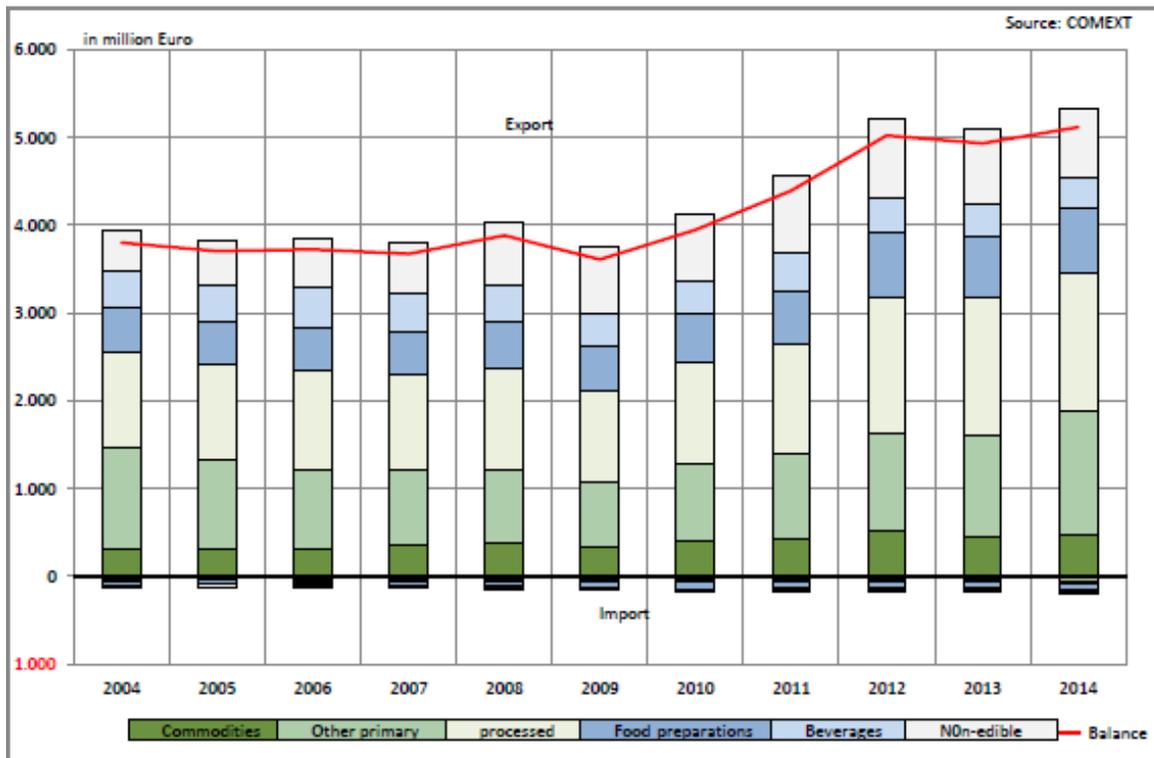
In total, fresh and preserved fruit and vegetables (including preparations) represent 11 % of the total Japanese imports, followed by cereals (excluding wheat and rice) with 8 %, pork (7 %) and cigarettes (6 %). All these products register a decreasing trend in imports, with the exception of pig meat.

On the export side, pasta and bakery products, soups, and other food preparations represent each 10 % of Japanese agri-food exports. The main destinations are Taiwan (20 %), Hong Kong (17 %) and the US 15 %.

### Japan – agri-food trade with the EU

Japan is a major export destination for the EU, with a minor share in EU imports, resulting in a trade balance of more than €5 billion. Accordingly, the trade pattern consists effectively of one-way trade flows (EU exports to Japan), which is observed across all product classes.

Graph 34: Structure of EU28 agri-food trade with Japan 2004-2014



However, dynamics are more apparent among the product groups that incorporate higher degrees of processing.

During the last three years imports plateaued – with a slight decrease in 2013 and a moderate rebound in 2014. Still, export values reached an all-time high in 2014 with €5.3 billion, maintaining Japan to be the fifth most important destination for EU agri-food exports.

From the wide range of European products that are sold on the world market, the Japanese purchase preferences, expressed in the top six categories exported to Japan, include only three of the EU

export flag ships: Pork meat, wine and preparations of vegetables. 'Cigars and cigarettes', 'cheese' and 'casein [...]' exhibit lower weights in terms of total EU export values but are appreciated by the Japanese consumer. From the European perspective, Japan serves as an important sales market especially for pork meat.

Graph 35: Composition of EU agri-food exports to Japan in 2014

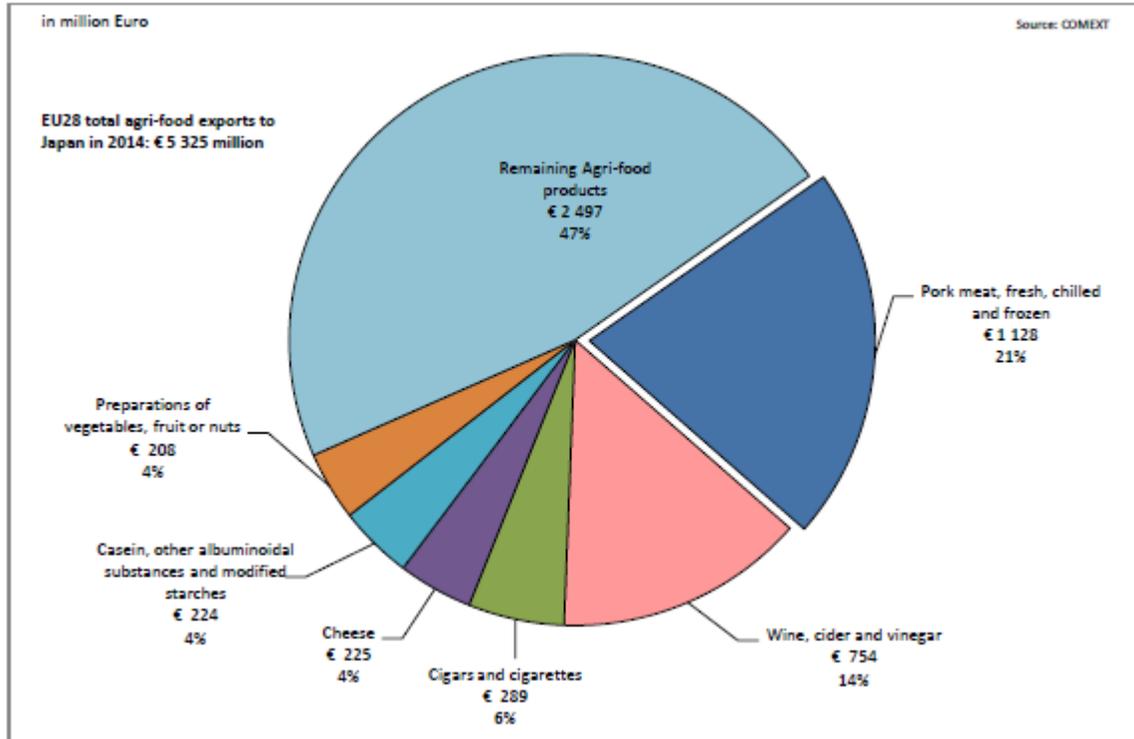
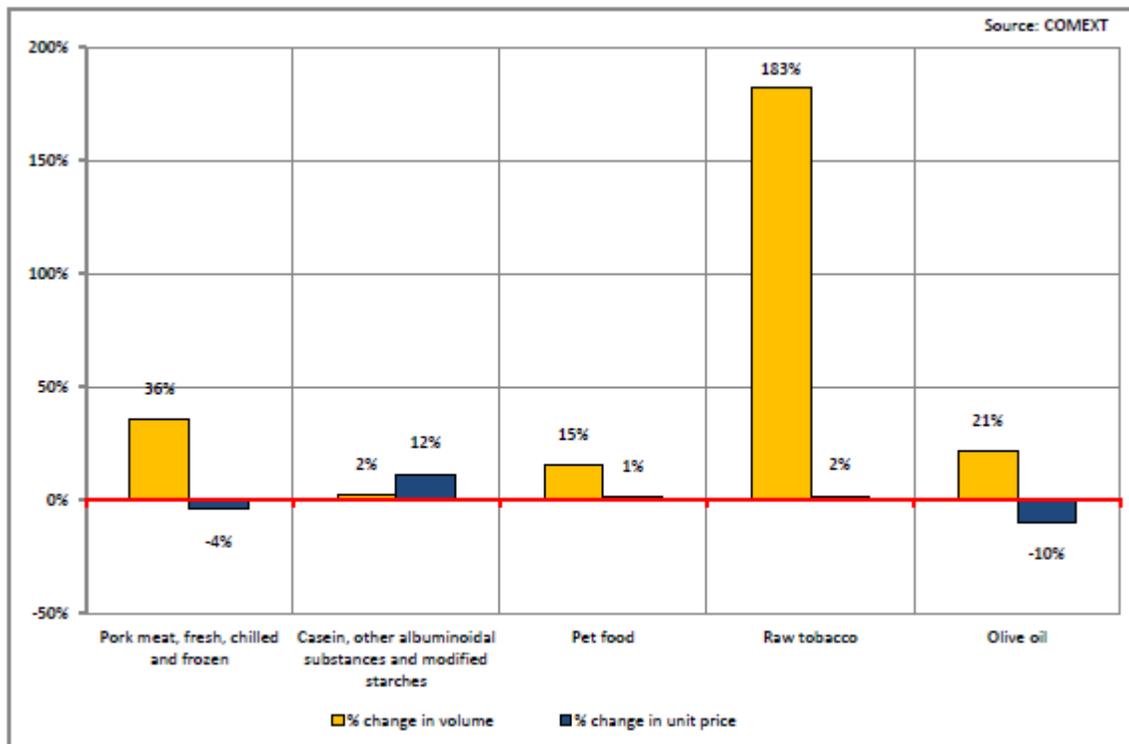


Table 6: Japan as important destination for EU exports by product category

Rank	product category	EU export to world	EU export to Japan	Japanese share in total
in 1000 EUR				
1	Pork meat, fresh, chilled and frozen	3,691,106	1,128,182	31 %
2	Cocoa beans	14,779	3,408	23 %
3	Malt	1,050,865	125,476	12 %
4	Casein, other albuminoidal substances and modified starches	1,929,941	224,322	12 %
5	Fatty acids and waxes	483,113	55,054	11 %

In 2014, the greatest increases in exports to Japan were achieved in pork meat, casein, pet food, raw tobacco and olive oil. Across the board, export volumes increased alongside with the values, implying real trade creation. For instance, volumes of raw tobacco almost tripled between 2013 and 2014.

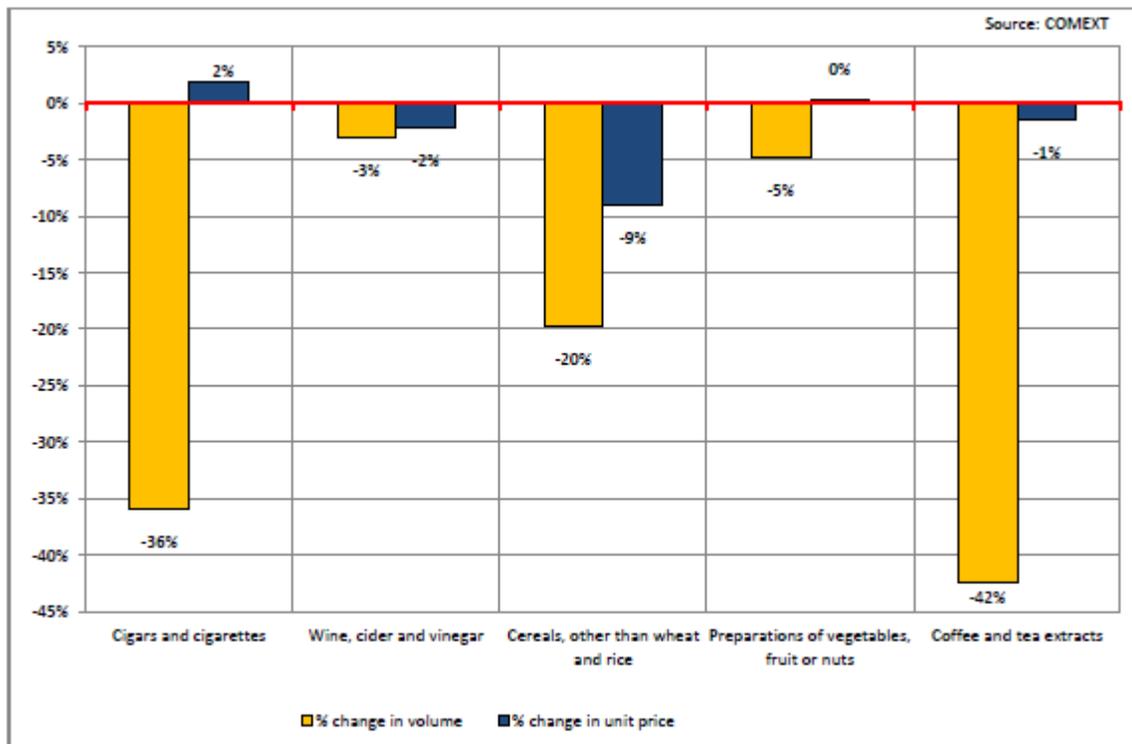
Graph 36: Annual percentage change in volume and unit price for the product categories with the largest export increases to Japan 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

The strongest decreases in exports to Japan were also mostly due to changes in volume. It seems that the increase in raw tobacco exports counteracted a considerable decrease in cigars and cigarettes exports.

Graph 37: Annual percentage change in volume and unit



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

#### 4.5. Russia

The development of agri-food trade between the EU and Russia is dominated by the import embargo Russia imposed for certain agricultural products in August 2014<sup>111</sup>. The 2014 annual trade data therefore represent unconstrained trade flows for the first half of the year (January to July) and embargo affected trade flows for the second half of the year (August to December).

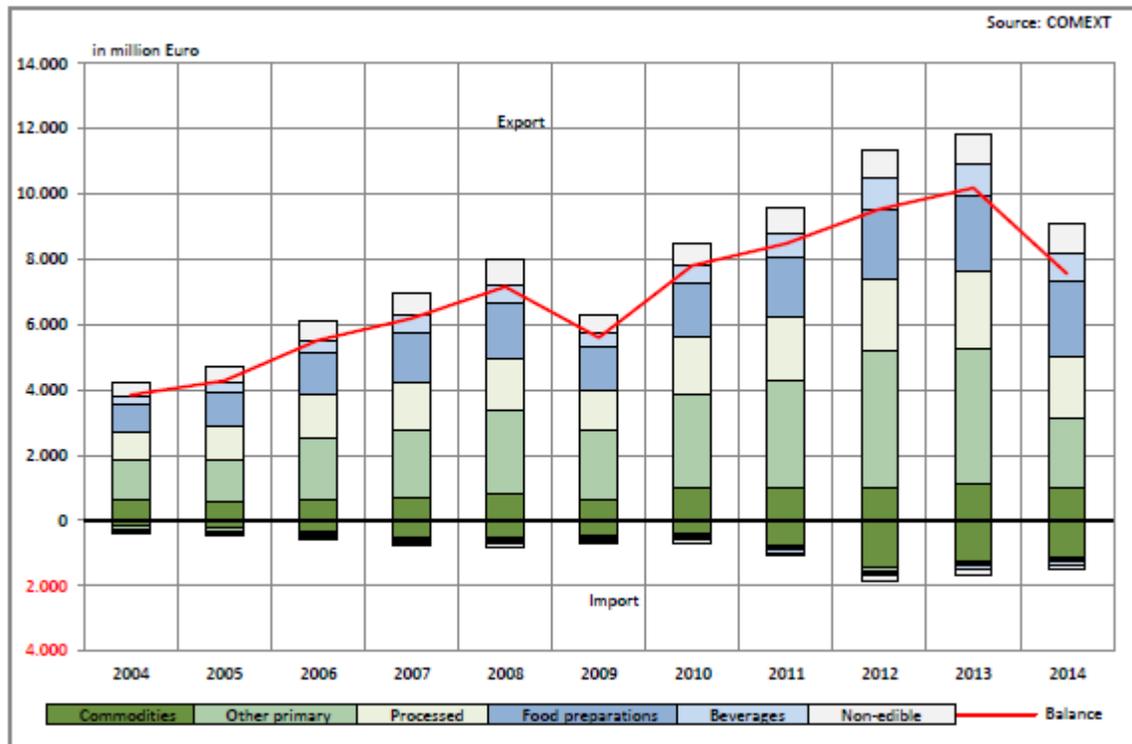
The exchange rate between the Euro and the Russian Rouble had the same two-faced appearance in 2014. During the first half of the year it developed fairly sideways, but then the value of the Rouble dropped by 40 %. As a consequence, European products became much more expensive for the Russian buyers.

As a result, agri-food exports to Russia in 2014 decreased by -23 % compared to the previous year, amounting to about €9 billion only. Due to the reduced spending power in Russia, exports

<sup>111</sup> See info-box on the the Russian embargo.

decreased in all product classes, however those embracing the banned products of course plummeted the most ('other primary' -48 % and 'processed' -20 %). The embargo disrupted the continued export growth path with almost tripled export values in 2013 compared to 2004 levels.

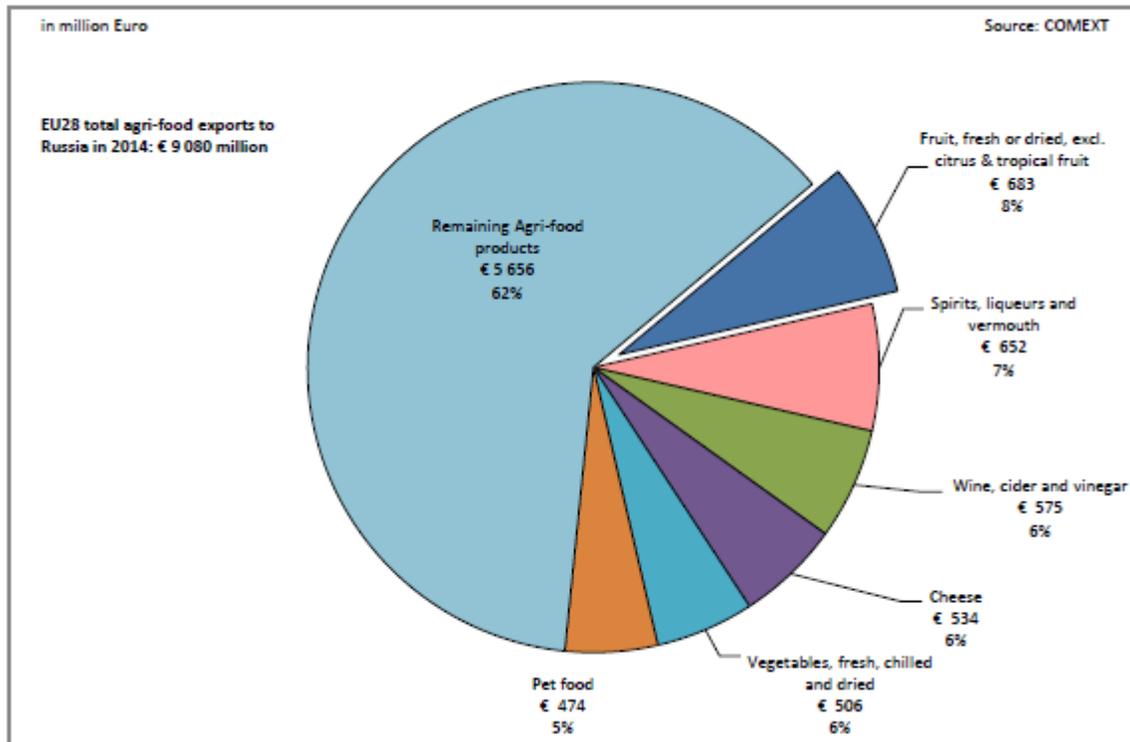
Graph 38: Structure of EU28 agri-food trade with Russia 2004-2014



Irrespective of these trade distortions, Russia remained the second most important destination for EU agri-food exports, staying ahead of China.

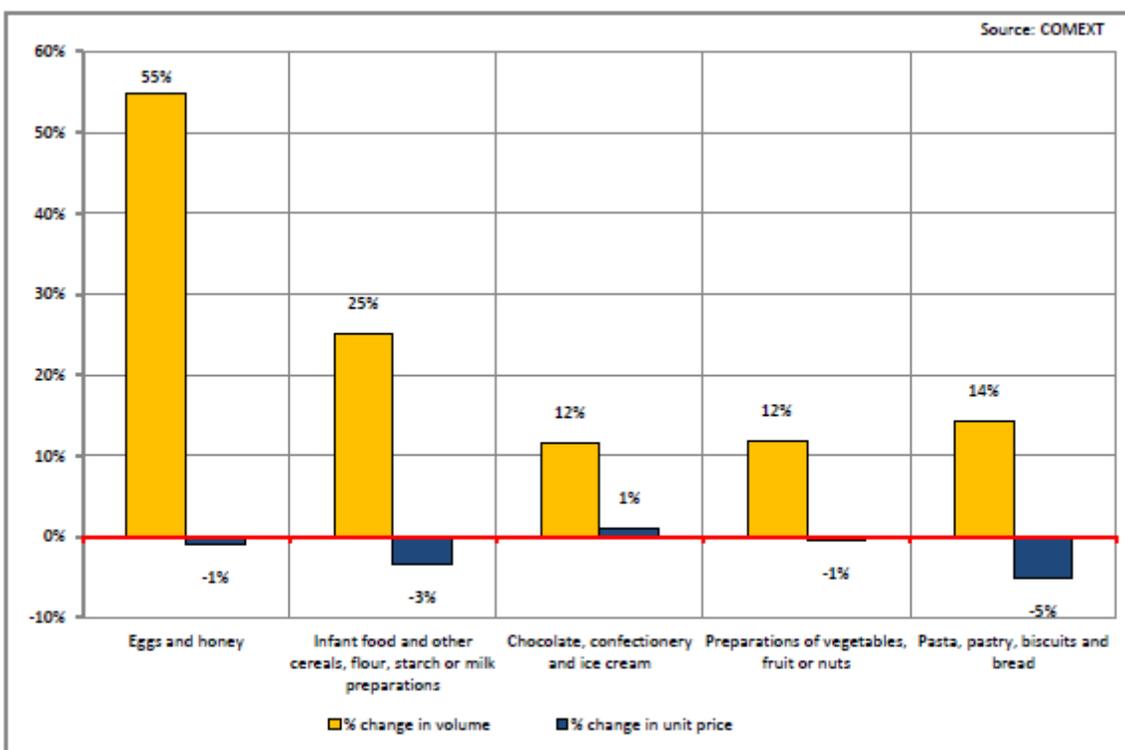
Imports from Russia into the EU – marginal compared to exports – decreased by -8.5 %, with main losses in 'non-edible', 'commodities' and 'other products', and increases in imports of 'beverages'. Imports remain to be dominated by 'commodities' with a share of 73 %.

Graph 39: Composition of EU agri-food exports to Russia in 2014



The list of top six export product categories still reflects the traditional demand in Russia for European products, except for pork meat which was subject to sanitary import restrictions already before the embargo. Despite the ban, fruit, cheese and vegetables retained their position in the top six annual statistics.

Graph 40: Annual percentage change in volume and unit price for the product categories with the largest export increases to Russia 2014

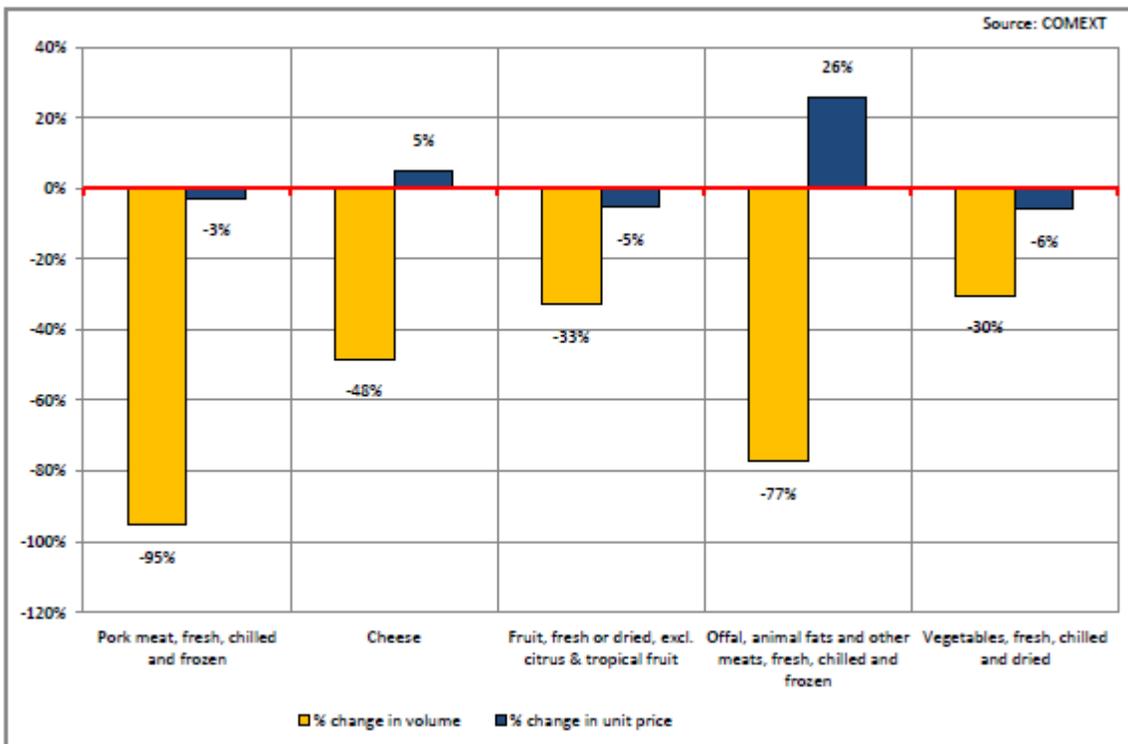


Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

The biggest absolute export gains were recorded for 'eggs and honey', 'infant food', 'chocolate and confectionery', 'preparations of vegetables and fruit' and for 'pasta, pastry, biscuits and bread' (in descending order). Prices varied at low range but volume increases fuelled these export value increases.

Export value losses obviously were dominated by volume changes in the categories that were affected by the embargo. The total ban of exports in these product categories as of August 2014 translated into an annual decrease in value ranging between -34 % and -71 %. In January 2014 Russia closed its market to the EU for pig products based on doubts about the sanitary status of these products after African Swine Fever (ASF) had been detected in wild boars in Lithuania and Poland.

Graph 41: Annual percentage change in volume and unit price for the product categories with the largest export decreases to Russia 2014



Note: Unit prices are calculated by division of traded value with traded volume of the product categories. The result may include effects of proportional changes between higher and lower valued items within the product category aggregate.

Russia is the most important customer for EU exporters particularly of 'cut flowers and plants' and for 'eggs and honey'. 'Palm & palm kernel oils' rank first in table 7, but total EU exports are negligible and in fact is an example of re-exports, similar as for cocoa beans.

Table 7: Russia as important destination for EU exports by product category

Rank	product category	EU export to world	EU export to Russia	Russian share in total
in 1000 EUR				
1	Palm & palm kernel oils	150,138	83,602	56 %
2	Cut flowers and plants	662,586	264,385	40 %
3	Eggs and honey	595,492	176,730	30 %
4	Cocoa beans	14,779	3,828	26 %
5	Sugar alcohols	160,068	40,379	25 %

#### Russian import embargo: EU export development until April 2015

In reaction to the economic sanctions imposed by a group of countries on Russia over the Ukrainian crisis (valid from Aug 2014 to Aug 2015), Russia itself enacted in August 2014 a one-year import embargo for certain agricultural products originating from the United States, the EU, Canada, Australia and Norway. Meat, dairy products, fruits and vegetables were the targeted categories (HS chapters 02, 04, 07 and 08). After no progress had been made in Ukraine towards a peaceful resolution up to June 2015, the Russia-critical countries decided to extend the economic sanctions against Russia for another six months. In direct response, Russia prolonged the import embargo to be enforced until August 2016.

Compared to the equivalent period one year before, overall EU agri-food exports to Russia between August 2014 and April 2015 decreased from € 8.6 billion to € 5 billion (-42 %). This was the result of a complete disappearance of exports within the banned product categories and an approximate -10 % decrease for products not subject to the ban, the latter partly driven by the devaluation of the Russian Rouble. At the same time, however, total EU agri-food exports to third countries increased by 4.8 %. In spite of the Russian ban, monthly extra-EU28 exports (all agri-food products) reached an all-time high in March 2015 with almost €12 billion. April 2015 exports also were higher than twelve months before (+10 %). Most of the export growth in April was attained in the US and China.

Indeed, over the entire period of the embargo elapsed, the EU managed to compensate the losses in export sales to Russia by increasing agri-food exports to other main destinations and alternative

markets. Major gains in export values were achieved in the US, China, Switzerland and in a number of key Asian markets such as Hong Kong and the Republic of Korea. This is especially true for meat and live animals in which EU exports between August 2014 and April 2015 increased by 4.6 % compared to the equivalent period twelve months before. For dairy products and fruit & vegetables overall export losses could be limited to -9.7 % and -11.5 % respectively. Up to April 2015, the most significant losses in export values at more disaggregated level were registered for fruit and vegetables, fresh dairy products and milk powders. Sales in butter at first had dropped considerably after the introduction of the embargo, but fully recovered during the consecutive nine months, due to an expansion on markets of Middle East countries.

EU28 Agri-Food Exports in Values (million Euro)	Extra-EU28			Russian Federation		
	Aug13- Apr14	Aug14- Apr15	%	Aug13- Apr14	Aug14- Apr15	%
All agri-food products	90 866	95 248	4.8%	8 611	4 981	-42.2%
Meat and live animals (pig, poultry and bovine)	6 818	7 130	4.6%	1 037	142	-86.3%
Dairy Products	7 708	6 960	-9.7%	1 071	26	-97.6%
Fruit & Vegetables	5 406	4 785	-11.5%	1 385	188	-86.4%

Note: Subjects of analysis are the affected agricultural sectors.

Not concerned products for the meat and live animals sector: processed meat and live animals within the HS sub-chapters 0102, 0103, 0105, 0201, 0202, 0203, 0207, 0210, 1601, 1602.

For the dairy sector all related HS sub-chapters are affected, including HS 0401, 0402, 0403, 0404, 0405 and 0406. For the fruit and vegetable sectors all products in the HS chapters 07 and 08 are affected.

Within the EU, some Member States were more affected by the trade embargo than others. Those in direct proximity to Russia experienced the highest losses in agricultural exports in relative terms, since they are economically strongly linked to the Russian market. Looking at the product groups for which the EU as a whole registered export losses, Finland, the Baltic States and Poland suffered substantial losses in their cheese and butter exports. For milk powder Sweden and the Netherlands had the highest relative burden, while for fruit (apples, pears) Poland, Belgium and the Netherlands experienced the highest losses. In the case of tomatoes the Baltic States, Spain, Poland and Belgium suffered the most. The in relative terms lower decrease of exports of Member States with a larger absolute export value, i.e. France, Germany, the Netherlands and for certain products Denmark (pig meat), in some cases also translated into considerable export losses in absolute terms. After nine months since the entry into force of the Russian import embargo, the overall and the product-specific trends in EU exports seem to have quite stabilised.

As a strategic response,, the EU strives to diversify its export destinations, in order to be more resilient to other potential geopolitical market distortions.

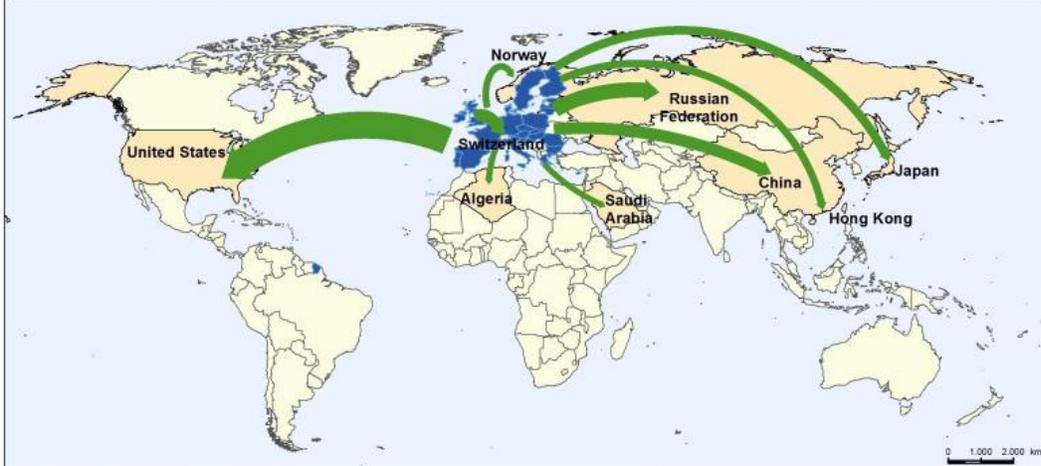
Annex

Product classification

Product groups	Product classes	Product categories
Agricultural food and feed products	Commodities	Wheat
		Cereals, other than wheat and rice
		Rice
		Flours and other products of the milling industry
		Malt
		Starches, inulin & gluten
		Soy beans
		Oilseeds, other than soy beans
		Palm & palm kernel oils
		Vegetable oils other than palm & olive oils
		Oilcakes
		Other feed and feed ingredients
		Beet and cane sugar
		Sugar, other than beet & cane
		Milk powders and whey
		Butter
		Gums, resins and plant extracts
	Unroasted coffee, tea in bulk & mate	
	Cocoa beans	
	Cocoa paste and powder	
	Agricultural commodities, not specified	
	other primary	Live animals
		Bovine meat, fresh, chilled and frozen
		Pork meat, fresh, chilled and frozen
		Poultry meat, fresh, chilled and frozen
		Sheep and goat meat, fresh, chilled and frozen
		Offal, animal fats and other meats, fresh, chilled and frozen
		Fresh milk and cream, buttermilk and yoghurt
		Eggs and honey
		Vegetables, fresh, chilled and dried
		Fruit, fresh or dried, excl. citrus & tropical fruit
		Citrus fruit
		Tropical fruit, fresh or dried, nuts and spices
		Miscellaneous seeds and hop cones
	Agricultural primary food products, not specified	
	Processed (incl. wine)	Meat preparations
		Cheese
Olive oil		
Preparations of vegetables, fruit or nuts		
Fruit juices		
Wine, cider and vinegar		
Roasted coffee and tea		

Food preparations and beverages	Food preparations	Chocolate, confectionery and ice cream Infant food and other cereals, flour, starch or milk preparations Pasta, pastry, biscuits and bread
		Soups and sauces Coffee and tea extracts Food preparations, not specified Pet food
	Beverages	Waters and soft drinks Beer
		Spirits, liqueurs and vermouth Odoriferous substances
Non-edible	Non-edible	Raw hides, skins and furskins Non-edible animal products Wool and silk Cotton, flax and hemp, and plaiting materials Cut flowers and plants Bulbs, roots and live plants Raw tobacco Cigars and cigarettes Fatty acids and waxes Sugar alcohols Essential oils Ethanol Casein, other albuminoidal substances and modified starches Non-edible, not specified Products non-attributable

## EU-28 EXPORTS OF AGRICULTURAL PRODUCTS 2014



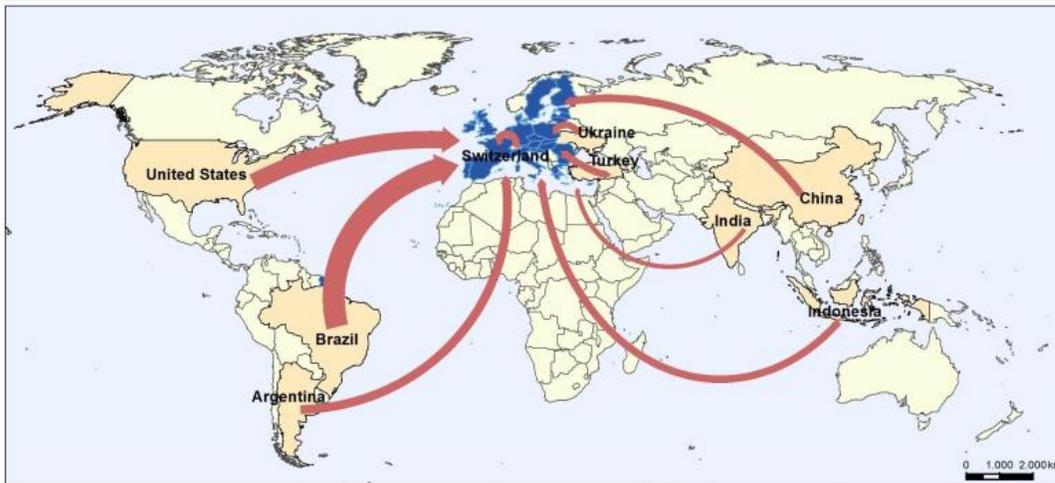
Value of EU-28 exports to the main export partners



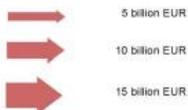
Source: Comext  
Cartography: DG AGRI GIS-Team 03/2015  
Map Projection World: Eckert III - Map Scale 1:160.000.000  
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Note: The borders of the map does not necessarily represent the official position of the EU. The map has only a statistical value.

EU28: Top Destinations 2014	Value (1 000 Euro)	Percentage
United States	16 397 845	13%
Russian Federation	9 093 428	7%
China	7 447 969	6%
Switzerland	7 233 173	6%
Japan	5 329 089	4%
Hong Kong	4 531 581	4%
Norway	4 030 059	3%
Algeria	3 615 094	3%
Saudi Arabia	3 578 550	3%
Extra-EU28	121 988 323	
Rest of the World	60 731 535	

## EU-28 IMPORTS OF AGRICULTURAL PRODUCTS 2014



Value of EU-28 imports from the main import partners

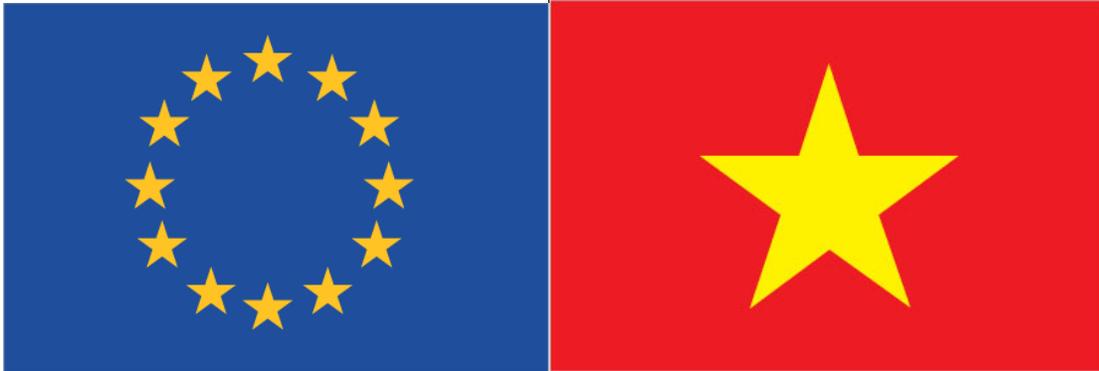


Source: Comext  
Cartography: DG AGRI GIS-Team 03/2015  
Map Projection World: Eckert III - Map Scale 1:160.000.000  
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Note: The borders of the map does not necessarily represent the official position of the EU. The map has only a statistical value.

EU28: Top Origins 2014	Value (1 000 Euro)	Percentage
Brazil	13 112 595	13%
United States	10 333 186	10%
Argentina	5 280 670	5%
China	4 644 542	4%
Indonesia	4 457 643	4%
Switzerland	4 426 093	4%
Turkey	4 329 188	4%
Ukraine	3 949 448	4%
India	2 766 747	3%
Extra-EU28	103 780 838	
Rest of the World	50 680 127	

## *New Free Trade Agreement between EU and Vietnam*

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In the first days of August 2015 EU Trade Commissioner Cecilia Malmström and Vietnamese Minister of Industry and Trade Vu Huy Hoang agreed in principle on "a comprehensive and ambitious trade and investment agreement". The final legal texts will have to be ironed out by negotiators after the summer break, but the substance of the deal has been agreed. This Free Trade Agreement (FTA), for which negotiations started in October 2012, is the most ambitious and comprehensive FTA that the EU has ever concluded with a developing country, the second in the ASEAN region after Singapore, and a further building block towards the EU's ultimate objective of an ambitious and comprehensive region-to-region EU-ASEAN FTA. This agreement will allow EU exporters and investors to access a fast-growing market of 90 million people and to consolidate their presence in one of the most dynamic regions in the world. On the other hand, the agreement guarantees also an open accessible EU market.

In theory, the FTA can be signed at the end of 2015 and then enter into power end of 2017. From the EU, the trade ministers would have to agree, as well as the European Parliament

Vietnam is at present EU trade partner no. 29, while the other way the EU is after China the second trade partner of Vietnam. For instance Germany exported in 2014 goods worth two billion Euro to Vietnam, while it was with imports of about six billion Euro the most important EU export target for Vietnam. The EU exports mainly cars, machines and pharmaceutical products to Vietnam, the other way round the list goes from mobile phones, textile goods and apparel, crude oil and shoes.

Vietnam takes part in the Transpacific FTA talks (TPP) with the United States, but not China. This might lead to a more intensive orientation to Vietnam by European companies who are right now in China. Until now, two automotive companies and one supplier of electronic products have opted for this diversifying alternative, as it was mentioned by the Delegate of the German Economy in Hanoi (Spiegel Online, 4.8.2015).

Vietnam seems to be another target within the so-called third wave of industrial migration: During the 1970s personnel intensive production processes moved from Japan to Singapur, South Korea, or Taiwan. Since the 1990s, the same applies to China. And now the move goes into the direction of South Asia and South East Asia: above all Vietnam, but also Thailand and Cambodia, as well as India and Bangla Desh.

## **What the EU-Vietnam FTA is about**

### **1 – Eliminating customs duties**

**The EU-Vietnam FTA** will eliminate nearly all tariffs (over 99%), except for a small number of tariff lines for which the EU and Vietnam agreed on partial liberalisation through zero-duty Tariff Rate Quotas (TRQs):

- Vietnam will liberalise 65% of import duties on EU exports to Vietnam at entry into force, with the remainder of duties being gradually eliminated over a 10-year period.
- EU duties will be eliminated over a 7-year period.

This is a far-reaching, fully symmetrical tariff elimination that has never before been achieved with a developing country, but with adequate transition periods to allow Vietnam to adapt.

A few concrete examples:

- Almost all EU exports of machinery and appliances will be fully liberalised at entry into force and the rest after 5 years.
- Motorcycles with engines larger than 150 cc will be liberalised after 7 years and cars after 10 years, except those with large engines (>3000cc for petrol, > 2500cc for diesel) which will be liberalised one year earlier.
- Car parts will be duty free after 7 years.
- Roughly half of EU pharmaceuticals exports will be duty free at entry into force and the rest after 7 years.
- The totality of EU textile fabric exports will be liberalised at entry into force.
- Close to 70% of EU chemicals export will be duty free at entry into force and the rest after 3, 5 and 7 years.

Vietnam will also open its market for most EU food products, both primary and processed, allowing EU high quality exports to reach its growing middle class consumers:

- Wines and spirits will be liberalised after 7 years.

- Frozen pork meat will be duty free after 7 years, beef after 3 years, dairy products after a maximum of 5 years and food preparations after a maximum of 7 years.
- Chicken will be fully liberalised after 10 years.

The EU will also eliminate duties with longer staging periods (up to 7 years) for some sensitive products, especially in the textile apparel and footwear sectors. The elimination of duties, however, will not be an open door for Chinese products to flood the EU market: to benefit from the preferential access, the strict rules of origin for garments will require the use of fabrics produced in Vietnam, with the only exception being of fabrics produced in South Korea, another FTA partner of the EU.

Only some sensitive agricultural products will not be fully liberalised, but the EU has offered access to Vietnamese exports via tariff rate quotas (TRQs): rice, sweet corn, garlic, mushrooms, sugar and high-sugar-containing products, manioc starch, surimi and canned tuna.

Besides eliminating tariffs, Vietnam will also remove almost all its export duties in its bilateral trade with the EU, and has agreed not to increase a few that will exceptionally remain in force.

## **2 – Reducing non-tariff barriers to European exports**

The EU and Vietnam have agreed to strengthen the disciplines of the WTO Technical Barriers to Trade (TBT) agreement. In particular, Vietnam has committed to increasing the use of international standards in drafting its regulations. The agreement also contains a chapter addressing Sanitary and Phytosanitary measures (SPS), specifically aimed at facilitating trade in plant and animal products, where the parties agreed on some important principles such as regionalization and the recognition of the EU as a single entity. These provisions will facilitate access for EU companies producing a large variety of products, including electrical appliances, IT, and food and drinks to the Vietnamese market.

The agreement will also contain a specific annex with far-reaching provisions to address non-tariff barriers in the automotive sector, including, five years after its entry into force, the recognition of the EU vehicle whole certificate of conformity.

Also for the first time in an FTA, Vietnam accepted the marking of origin "**Made in EU**" for non-agricultural goods, with the exception of pharmaceuticals (which are still to a great extent subject to national approvals in the EU). Member State-specific markings of origin will continue to be accepted as well. This provision will allow manufacturers to reflect the increasing EU market integration.

All these provisions, together with others addressing, for example, import and export licensing, customs procedures, trade in plant and animal products, will facilitate access of European goods to the Vietnamese market and boost their competitiveness vis-à-vis other suppliers.

### 3 - Protecting European Geographical Indications

Farmers and small businesses producing food with traditional methods will benefit from the recognition and protection on the Vietnamese market – at a comparable level to that of EU legislation – of **169 European food and drink products** from a specific geographical origin. This means that the use of Geographical indications (GIs) such as Champagne, Parmigiano Reggiano cheese, Rioja wine, Roquefort cheese or Scotch Whisky will be reserved in Vietnam for products imported from the European regions where they traditionally come from.

Vietnamese GIs too will be recognised as such in the EU, providing the adequate framework for further promoting imports of quality products such as Mộc Châu tea or Buôn Ma Thuột coffee.



Mộc Châu Tea Plantation

The agreement will allow new GIs to be added in the future.

### 4 – Allowing EU companies to bid for Vietnamese public contracts

With this agreement EU companies will be able to bid for public contracts with:

- Vietnamese ministries, including for infrastructure such as roads and ports
- important state-owned enterprises such as the power distribution company and the nationwide railway operator
- 34 public hospitals
- the two biggest Vietnamese cities, Hanoi and Ho Chi Min City

The EU and Vietnam have also agreed on disciplines fully in line with Government Procurement Agreement (GPA) rules, achieving a degree of transparency and procedural fairness comparable to other EU FTAs with developed countries and more advanced developing countries. EU businesses will be the first foreign companies to get such a level of access to Vietnamese procurement markets.

## **5 – Creating a level playing field for EU companies and innovative products**

With the disciplines agreed on **State Owned Enterprises** (SOEs) and subsidies, the EU-Vietnam FTA will level the playing field between SOEs and private enterprises when SOEs are engaged in commercial activities. There will also be rules on transparency and consultations on domestic subsidies. These are the most ambitious disciplines that Vietnam has ever agreed to.

On **Intellectual Property Rights**, Vietnam has committed to a high level of protection, going beyond the standards of WTO TRIPs agreement. With this agreement, EU innovations, artworks and brands will be better protected against being unlawfully copied, including through stronger enforcement provisions.

Among others, the EU pharmaceutical sector will benefit from improved data protection and of the possibility to get an extension of the patent up to two years if there are delays in the marketing authorization. In a specific annex on pharmaceutical products, the Parties have agreed to a set of other provisions facilitating trade in these products, which are of great importance in the EU-Vietnam trade (second export item, amounting to about 9% of total EU exports to Vietnam). Vietnam has also taken commitments concerning procurement of pharmaceutical products and has allowed foreign-invested companies to import and sell medicines to distributors and wholesalers within the country.

## **6 – Opening the Vietnamese market for EU services operators**

Vietnam has committed to substantially improve access for EU companies to a broad range of services sectors, including:

- business services
- environmental services
- postal and courier services
- banking
- insurance
- maritime transport

It has also accepted a set of regulatory disciplines in key sectors such as financial services, telecommunications, maritime transport and postal services. The result of this chapter goes largely beyond both WTO commitments and any other FTA that Vietnam has concluded, thereby giving EU companies the best possible access to the Vietnamese market. Moreover, the agreement will contain a clause allowing the best results of FTAs being negotiated at the moment to be incorporated in the EU-Vietnam FTA.

## **7 – Promoting and protecting investment**

Vietnam has committed to open up to investments in manufacturing in a number of key sectors:

- food products and beverages
- fertilisers and nitrogen composites
- tyres and tubes
- gloves and plastic products
- ceramics
- construction materials

On machinery, Vietnam removed restrictions on the assembly of marine engines and agricultural machinery, domestic appliances and on bicycles. It also improved the commitments for recycling.

On investment protection, both sides have already achieved a lot, including an agreement on key provisions on protection such as National Treatment and understandings on the main substantive investment protection rules.

Provisions on investment protection and dispute settlement are still being negotiated in light of the new EU approach on investment dispute settlement.

## **8 – Establishing an efficient mechanism to resolve future disagreements**

The FTA creates a framework to resolve any future disagreements that may occur between EU and Vietnam about the interpretation and implementation of the agreement. It applies to most areas of the agreement and it is faster and more efficient in many aspects than the dispute settlement mechanism in the WTO. The system is intended as a last resort should the Parties fail to find a solution by other means. It proceeds along a fixed set of procedures and time-frames. Should Parties fail to reach an agreement through formal consultations, they can request the establishment of a panel, made up of independent legal experts.

As an alternative to a formal dispute settlement mechanism, the EU and Vietnam also set rules that will allow for mediation to tackle measures that adversely affect bilateral trade and investment. This can be used on a voluntary basis, and reflect the preference of the EU and Vietnam for the fast, amicable solution of potential disputes whenever possible.

## **9 – Safeguarding social and environmental protection standards**

The EU and Vietnam have agreed on a robust and comprehensive chapter on trade and sustainable development, with an extensive list of commitments including:

- Commitment to the effective implementation by each Party of the ILO core labour standards, ratified ILO Conventions (not only the fundamental ones) and ratified Multilateral Environmental Agreements and to ratification of not yet ratified fundamental ILO Conventions.
- Obligations not to derogate from and to effectively enforce domestic labour and environmental laws to attract trade and investment – in other words prohibition of social and environmental dumping.

- Promotion of Corporate Social Responsibility, including references to international instruments in this regard.
- A dedicated article on climate change and commitments to the conservation and sustainable management of biodiversity (including wildlife), forestry (including illegal logging), and fisheries.
- Mechanisms for the involvement of civil society in the implementation of the chapter, both by each side domestically (consultation of "domestic advisory groups") and by the EU and Vietnam jointly (meetings of a "joint forum"), and several provisions enhancing transparency and accountability

## **10 – Promoting democracy and respect for human rights**

In the preamble of the FTA the Parties reaffirm their commitment to the Charter of the United Nations signed in San Francisco on 26 June 1945 and have regard to the principles articulated in The Universal Declaration of Human Rights adopted by the General Assembly of the United Nations on 10 December 1948.

The FTA will also contain a legally binding link with the [EU-Vietnam Partnership and Cooperation Agreement](#) (PCA), signed in June 2012, which includes a human rights clause and provisions on cooperation on human rights. The PCA provides that human rights, democracy, and the rule of law are 'essential elements' in the overall relationship between the EU and Vietnam. Therefore, the link between the FTA and the PCA is important to ensure that human rights are also part of the trade relationship between the Parties. This would include the right to take appropriate measures, also in relation to the FTA (including its suspension), in case of major violations of these essential elements.

The agreement also includes a chapter on cooperation, as a means to contribute to the efficient implementation of the FTA. Boosting sustainable development in all its dimensions is a key objective for such cooperation, for which areas of particular importance include labour and environmental matters, trade facilitation, and SMEs. This chapter is placed under the existing [EU-Vietnam Framework Cooperation Agreement](#) (FCA).

Future cooperation will build on the successful experience of the EU flagship cooperation programme with Vietnam (MUTRAP), which aims at supporting Vietnam in facilitating sustainable international trade and investment through improved capacity for policy making, policy consultation, and the negotiation and implementation of related commitments, particularly as regards the EU.

**Further information** on EU trade relations with Vietnam:

<http://ec.europa.eu/trade/policy/countries-and-regions/countries/vietnam>

## *Information Technology Agreement (ITA): WTO agreed to trillion-euro global high-tech trade deal*

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The European Union, the United States, China and the vast majority of the World Trade Organization (WTO) members that were participating in the negotiations agreed end of July 2015 to eliminate custom duties on 201 high-tech products. The extension of the 1996 Information Technology Agreement (ITA) is the biggest tariff-cutting deal in the WTO in almost two decades. The agreement initiated and brokered by the EU, will benefit both consumers and firms alike by removing customs duties on a wide range of goods, including medical equipment, video games and consoles, home hi-fi systems, headphones, blue-ray/DVR players, semi-conductors, and GPS devices. All in all, the deal will cover €1 trillion in global trade, covering close to 90% of world trade in the products concerned. A total of 54 WTO members negotiated the expansion of the ITA. A limited group of countries is expected to confirm its participation in the next time.

The 54 WTO member states are the following: The European Union and its 28 Member States; Albania; Australia; Canada; China; Colombia; Costa Rica; Guatemala; Hong Kong, China; Iceland; Israel; Japan; Korea; Malaysia; Mauritius; Montenegro; New Zealand; Norway; the Philippines; Chinese Taipei; Singapore; Switzerland; Thailand; Turkey; and the United States.

"This is a great deal for consumers, and for companies big and small" said EU Trade Commissioner Cecilia Malmström. "We've worked hard to broker this compromise between different countries and to find the best solutions for Europe. This deal will cut costs for consumers and business – in particular for smaller firms, which have been hit especially hard by excessive tariffs in the past. Just as important, this deal shows how we can use the EU's trade policy to encourage innovation in the IT sector – a part of our economy that is crucial for Europe's growth and for creating jobs."

The Commissioner added: "This major achievement adds much-needed momentum to the World Trade Organization. It clearly shows that countries around the world can work together to achieve solutions that benefit everyone. I count on other countries joining soon. And looking ahead, this agreement is an inspiration to step up our efforts in the run-up to the WTO ministerial in Nairobi in December 2015. That will be the 'make or break' meeting for the Doha development round – it will be the last chance to conclude it."

The new, expanded ITA agreement concluded end of July 2015 will reduce the costs for consumers and for manufacturing IT products in Europe. It will offer new market access for many of Europe's high tech companies – some of which are leaders in their fields – and encourage innovation by simplifying access to state-of-the-art technology. As such, it will contribute to the further development of the digital economy in the EU.

## **The role of the EU**

The EU made the original proposal back in 2008 to review and expand the ITA. Other WTO members finally took up the proposal in 2012, when negotiations started. From the outset, the EU proposed liberalising a wide range of goods, including consumer goods with relatively high tariffs in the EU (up to 14%), such as set top boxes, video cameras and cathode ray tube monitors. The EU then played a key role in brokering compromises throughout the negotiations, and chaired the last three negotiating rounds.

## **Background on ITA expansion**

Tariffs will be eliminated within 3 years from the date of application of the agreement, which is foreseen for 1st July 2016. For sensitive products longer phase-out periods will be negotiated to give industry time to adapt to a zero-tariff environment. The EU has a trade surplus in the products covered of around € 15 billion. The deal will not cover certain electronic products subject to duties in the EU, such as certain monitors, projectors, non-digital car radios as well as TVs.

The extension of the ITA aimed at broadening the original Information Technology Agreement between Members of the World Trade Organisation (WTO), which came into force in 1997. A total of 54 WTO members negotiated the expansion of the ITA.

Under the original ITA, participants eliminated all customs duties on IT products such as computers, telephones, digital cameras and their parts. Since the ITA was completed and entered into force in 1997, trade in the sector has quadrupled. In May 2012 a number of participants started negotiations to expand ITA to new products. The new agreement will substantially expand the range of products covered, that include consumer and other finished products, parts and components, and machinery used in the manufacturing of IT products

## **ITA-expansion product list**

The expansion list covers both consumer and other finished products as well as components and manufacturing equipment.

Examples of finished products

Multimedia products (GPS, DVD players, smart cards, optical media)

Multifunctional printing and copying machines, ink cartridges

Electronics (TV-cameras, video recording, digital car radios, set top boxes)

Medical equipment: sophisticated medical equipment such as scanners, machines for magnetic resonance imaging, tomography or dental care and ophthalmology

Video games and consoles

Routers and switches, microscopes and telescopes

Weighing and money-changing machines

Loudspeakers, microphones and headphones

Telecommunication satellites

Examples of parts and components

Parts and components for production of IT goods and semiconductors, including TV parts and parts and other machinery incorporated in IT products, from smartphones to optical or medical equipment. This includes e.g. lasers, LED modules, touch screens, measuring and weighing instruments, switches, electromagnets, amplification apparatuses, etc.

Multicomponent integrated circuits (MCOs), which are the latest and future generation chips included in many electronic and other products: over 30 tariff lines included

Instruments for aeronautical and space navigation

Machinery for production of IT goods and semiconductors

Machine tools for the manufacture of printed circuits or semiconductors and other IT products, filtering machines, and their parts.

## *For Species Protection in the Balkan: Three New Insect Species Discovered in Macedonia*

### *Unknown Flies from Mavrovo National Park Threatened by Hydropower Extension*

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To discover new species, one has not to travel to Amazonas or to dive into the depth of the sea. Going to the Balkan is enough. A research team under cooperation of Wolfram Graf, Assistant Professor at Vienna University of Natural Resources and Life Sciences (Universität für Bodenkultur) has discovered three unknown aquatic insect species: the caddis fly species *Drusus krpachi*, *Potamophylax lemezes* as well as the stonefly species *Siphonoperla korab*.

There are not yet any exact information about the life cycle of these species. But in principle, these caddis fly and stonefly species spend their life during three years in larval stage in creeks, rivers or wells. Afterwards they change themselves into flying insects who within some few weeks lay eggs into the water.

But just discovered, these species are threatened already. For the Macedonian government plans the construction of 22 hydropower plants within the Mavrovo National Park, including at those rivers where these species live. "Hydropower plants with their water run-offs and damming are an existential threat to these sensible species living in extremely small areas", says Wolfram Graf.

The three new species of the Mavrovo Park are not the only case: In the last five years there were found 15-20 new species of aquatic insects in the Balkan, Wolfram Graf continues. "We assume that there are many more species yet undetected. The waters of the Balkan belong ecologically to the most valuable and interesting biotopes of the world."



*Until now there exist not yet any pictures of the three newly discovered insect species. A close relative is the caddis fly species *Drusus discolor*. Photo: (C) Wolfram Graf.*

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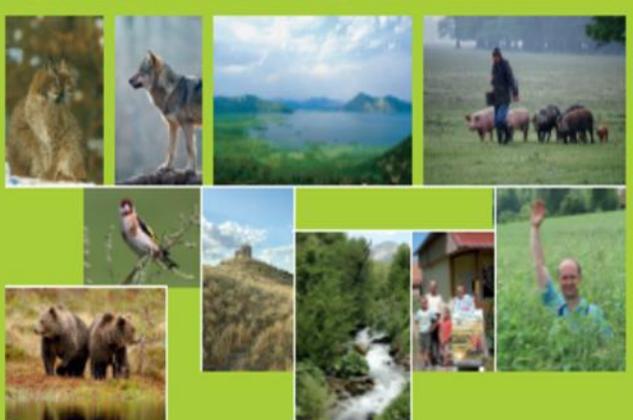
**LIBERTAS**

But there is the danger of destruction for this center of biodiversity. Many of the species might die out before they are discovered. Between Slovenia and Albania there are more than 2.000 hydropower plant projects, of which more than 800 in protected areas.

In the West Balkan there is a real perspective for a true new flood of damming. To act against destruction, EuroNatur and Riverwatch have launched, together with partners from the Balkan countries, the international campaign "Save the Blue Heart of Europe". More information under: [www.balkanrivers.net/en](http://www.balkanrivers.net/en)



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### My Way

**Hans-Gert Pöttering: Wir sind zu unserem Glück vereint. Mein europäischer Weg** (*Happily United. My European Way*).

*Boehlau Verlag, Köln 2014 (2nd edition), 570 pages, ISBN 978-3-412-50196-9; 29,90 EUR. In German language*



Not very often a written self-portrait is edited in more than one edition, but this one meets the requirements. Hans-Gert Pöttering has been Member of European Parliament since the first direct elections in 1979, until 1st July 2014. After having been President of the European Parliament, and this in a rough time, he is at present the president of the Konrad Adenauer Foundation. With this proud volume of almost 600 pages, he wrote a book on European history, which he for a long period had formed and accompanied. Robert Schuman's and Jean Monnet's activities at the beginning of the EU, in 1950, are a logical starting point for Pöttering, who reminded of them 30 years later as chairman of the European Movement of Lower Saxony in Germany. This leads - "my European way" - step by step through many stations of his life. Hans-Gert Pöttering knows how to convince, and he is

convinced himself - not only of Europe, but also when he had to suffer a setback, like at school. But this led him to an excellent grading at the end of his secondary school. His first visit to Berlin, right after the construction of the Wall, is also described as an event which must have formed him for a lifetime, as well as his first visit abroad, in UK, and he describes with credibility that he sees Europe, his country and the municipality where he lived as a logical and inseparable unity. This also is typical for the first post-WWII generations who were formed by similar key experience, and later challenged by their security orientation in an interesting contrast to experiments and striving for progress at the same time. .

It is a very open book, and so the author could afford to write about his wish to become an M.E.P. at an early stage. Of course, this is one of the characteristics of the CDU youth organisation, but in this case it also highlights the dedication of Pöttering. Writing this book must have been painful for the author: He quotes and names so many names, in an accurate way, that a lot of material must have been devoured. In the book, the step by step extension of European democracy is described, and that this is done from the subjective view of the EPP group chairman and later the President

of the European Parliament, adds to the value of this book. Many very personal views about statesmen and politicians, but also religious leaders are included - and this always in the admirable diplomatic way of Hans-Gert Pöttering, for which many of his former colleague M.E.P's have envied him. The book ends with a very personal remark: Pöttering's father whom he never saw as he was missed in military action during the last weeks of WWII, has been the motivation for his whole later political life.

A splendid, sometimes packing introduction into Europe, into German and European newest history - and with a persons' index and many annotations even useful as a scientific reference book.

*Hans-Jürgen Zahorka*

### *Challenges in the Post-Soviet Space*

The disintegration of the Soviet Union brought radical state-level and international transformations, among them being the emergence of 15 independent states, yet with a package of to a larger extent common loopholes and difficulties to be addressed. Furthermore, the post-Soviet space has become a platform of international power rivalry, unresolved ethno-territorial conflicts as well as political and economic instability. To grasp the overall picture of the situation, EUFAJ reviews the following two books “The Politics of the Black Sea Region: EU Neighbourhood, Conflict Zone or Future Security Community?” and “Regional Cooperation in the South Caucasus” which will on the one hand provide a comprehensive analysis and on the other hand seek reconciliation edges, its benefits as well as impediments.

#### **Carol Weaver: The Politics of the Black Sea Region: EU Neighbourhood, Conflict Zone or Future Security Community?**

*Ashgate, Surrey, England, 2013, 178 pages, £54.00, ISBN: 978-1-4094-6366-5*

The book “The Politics of the Black Sea Region: EU Neighbourhood, Conflict Zone or Future Security Community?” sheds a broad overview of the countries of the Black Sea region as well as of the external key actors to the region. It observes various political, security and socio-economic aspects related to the region, identifies the engaged stakeholders, analyzes the tensions and looks for way-outs.

It consists of eight chapters, including an introduction and a conclusion, through which multipolar approach is highlighted as a key basis for establishing and sustaining security and peace in the region. As such, the author demonstrates that the increased and strengthened role of the regional organizations can by no means be undermined. To prove the claim, Weaver provides an introduction whereby she presents the political set-up and foreign policy orientation and priorities of each the countries of the Black Sea region – Armenia, Azerbaijan and Nagorno-Karabakh, Bulgaria, Georgia, Abkhazia and South Ossetia, Moldova and Transnistria, Romania, Russia, Turkey and Ukraine.

In the next chapter the EU and its policies towards the region are deployed. Its bilateral and multilateral policy instruments, including the Eastern Partnership and the Black Sea Synergy, are evaluated, stating that through these policy frameworks the targeted countries could get closer to the Union, once the countries fulfill certain conditions, such as better democratization, intensive fight against corruption and higher level of respect for human rights. Afterwards, the study goes on to analyze the US policies and strategies in the region, focusing on the US-Russia tensions, concerning NATO and EU enlargement, democratization, sphere of influence, a missile shield and various maritime issues.

The next part of the book examines the conflicts of the region upon Abkhazia, South Ossetia, Nagorno-Karabakh and Transnistria. And while the international community as increased its efforts to resolve the disputes, so far the conflicts remain, denoting the challenges connected with them. Another aspect discussed in the book is energy and energy security which has a determining significance on the economy and strategic value of the region since many states of it are located close to gas and oil in the Caspian Sea as well as its existing and potential pipelines.

The following chapter provides a theoretical insight to regionalism and security communities, projecting it on the Black Sea Region, aimed at developing a framework which would contribute the establishment of a pluralistic security community based on balanced multipolarity. As a possible platform Weaver points the BSEC (Organization of Black Sea Economic Co-operation). The last chapter of the book provides overall conclusions and policy implications, underlining the importance of interconnections between the EU and the Black Sea Region.

The book's key main achievement is that it suggests a comprehensive design and aims for constructive solutions. However, it can be also taken as a disadvantage of the book, take into account the general approach of the analyses. Hence, more specific policy-based research would be needed for in-depth knowledge and evaluation of the case. However, also that noted, this book is well-adapted to anyone who is interested in the targeted sphere. It constitutes an excellent starting point and a reference for further research.

*Ofelya Sargsyan*

## **Tracey German: Regional Cooperation in the South Caucasus: Good Neighbours or Distant Relatives?**

*Ashgate, Surrey, England, 2012, 206 pages, £56.70, ISBN-978-1-4094-0721-8*

In her book “Regional Cooperation in the South Caucasus: Good Neighbours or Distant Relatives?” Dr. Tracey German briefs what the South Caucasus region constitutes, presents the cooperation frameworks within the region, examines both the internal and external reasons behind the low-level of joint ventures as well as evaluates the potential of the cooperation.

The book consists of eight chapters. The first one provides introductory comments to the book, stating the problem and the objectives of the research. Chapter 2, entitled “Regions, Regional Systems and the South Caucasus”, provides a theoretical and conceptual background of the relevant terms, also highlighting the objectives for cooperation within a certain geographical area. Afterwards the chapter projects the phenomena on the South Caucasus case, determining that neither through the history nor through the theoretical conceptualization of the “region” can the South Caucasus be taken as one unit.

Chapter 3 presents the policy priorities of the three countries, comprising the South Caucasus, i.e. Armenia, Azerbaijan and Georgia. The countries’ approaches towards such regional and international players as Russia, Turkey and Iran as well as NATO and the EU are summarized. To the point, the author presents the complementary foreign policy framework of Armenia, i.e. on the one hand, strategic partnership with Russia, on the other hand, close cooperation with the West. With regard to Georgia, the country’s West-oriented ambitions are stated. As for Azerbaijan, the country considers itself an independent player due to its oil and gas resources which enable the country to establish partnership with Russia as well as enter the Western markets.

In chapter 4, German analyses the transnational security challenges that the South Caucasus faces, i.e. unresolved conflicts on Nagorno-Karabakh, Abkhazia and South Ossetia, trafficking energy and environment-related issues. He also examines the security concepts and strategies of each of the states, acknowledging the conflicts as the key impediment for regional initiatives

Chapter 5 is devoted to the Russian role, its policies and interests with regard to the South Caucasus. In its endeavors to ensure a key position in the area which the country considered to be within its sphere of influence. The country has close partnership and cooperation frameworks with Russia but is also pursuing economic interests with regard to Azerbaijan. The chapter also reaffirms Russia’s tense relations with Georgia, and that especially after the 2008 was on South Ossetia.

Chapter 6 discusses the role of Turkey and Iran in the South Caucasus which is to a large extent marginal because of the Russian hegemony and the unresolved conflicts.

Chapter 7 explores the role of the Western organizations, such as the EU, NATO and OSCE towards the South Caucasus, their efforts in the process of the reconciliation of the targeted conflicts and cooperation development.

The last chapter of the book provides the overall findings and conclusions of the book, pointing to the conditions and measures that undermine the regional cooperation in the South Caucasus.

The book is well-researched and, as such, it can be recommended both to academics and students as well as to those who are interested in the field. Yet, a gap can still be noted. While the research talks about the policy and strategy frameworks of the three countries of the South Caucasus – Armenia, Azerbaijan and Georgia, it does not cover the conflicting zones per se, i.e. Nagorno-Karabakh, Abkhazia and South Ossetia, their objectives and/or their inclusion in the process. Regardless of this drawback, the book is a valuable contribution to the fields of regionalism, EU studies, post-communist studies as well as comparative politics

*Ofelya Sargsyan*

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