

REGIONAL POLICY AND ECONOMY

TRADE, ECONOMIC, AND
INVESTMENT COOPERATION BETWEEN
KAZAKHSTAN AND ARMENIA:
STATUS AND PROSPECTS

Zhalgas ADILBAYEV

*Ambassador-at-Large,
Ministry of Foreign Affairs of the Republic of Kazakhstan
(Astana, Kazakhstan)*

Svetlana KOZHIROVA

*D.Sc. (Political Science), Professor, Institute of Diplomacy,
Academy of Public Administration (APA)
under the President of the Republic of Kazakhstan
(Astana, Kazakhstan)*

ABSTRACT

This article presents a brief overview of the current status of trade, economic, and investment cooperation between Kazakhstan and Armenia, integration processes between the two countries in the Eurasian space, priority areas of their foreign economic policy, and cooperation prospects.

Since the early 1990s, the Republic of Kazakhstan and the Republic of Armenia

have worked to build bilateral relations by establishing clear political and economic priorities and setting strategic goals in order to promote Kazakhstan's national interests in the South Caucasian region and Armenia's national interests in Central Asia. This in turn has made it possible to fill the agenda of relations between the two countries with concrete practical content.

After gaining independence, the former Soviet republics were faced with a number of difficult foreign policy problems, including that of developing trade, economic, and investment cooperation on a new basis. The need to look for ways to develop further cooperation was dictated by the existence of common problems.

For Armenia, the countries of Central Asia are of particular importance in this respect, and Kazakhstan has a major role to play here as a long-term trade and economic partner, a country with economic potential, rich natural resources, and a promising market. Considering the situation in these two countries, one can say that there are prospects for the development not only of political, but also of trade, economic, and investment cooperation.

The first thing to note is that political cooperation between the two countries provides a good legal basis for expanding cooperation and tapping its full potential in every area, including the trade and economic sphere.

At present, trade and economic relations between Kazakhstan and Armenia are not yet fully developed for a number of geopolitical reasons. On the one hand, virtually all transport and logistics routes in the South Caucasian region are blocked by Turkey, Azerbaijan, and partly by Georgia in view of

strained relations with Russia. The lifting of international sanctions against Iran points to the possibility of new transport corridors of paramount importance to Armenia being initiated in the region. In this context, Armenia will continue its close cooperation with Iran in the medium term to create the necessary prerequisites for gaining access to the markets of the Middle East and Persian Gulf countries. Kazakhstan, for its part, is also taking steps to enter the Iranian market, including through the Caspian Sea. In 2017, it announced the construction of a transport hub port in Western Iran. In addition, freight trains are now running from Kazakhstan through Turkmenistan to the Iranian city of Gorgan. Kazakhstan and Armenia could focus their efforts on combining mutually beneficial economic projects using Tehran's entire potential.

One of the most attractive transport and logistics projects is the Silk Road, which is being actively implemented by the Beijing authorities. For example, Kazakhstan has already launched a number of government programs somehow connected with the implementation of the Chinese Silk Road initiative. Armenia is also negotiating with the Chinese on its possible participation in this project, which can solve many transportation problems that currently exist in the South Caucasian region.

KEYWORDS: *trade and economic cooperation, investment, integration processes, macroeconomic indicators, cooperation prospects, Eurasianism, Kazakhstan, Armenia, Eurasian Economic Union (EAEU).*

Introduction

The current geopolitical realities allow states, including those without a large potential in the military-political, economic or other spheres, to influence, in one way or another, the situation in the regions and the world as a whole.

Today there is a tendency to expand and accelerate integration processes throughout the world, including the post-Soviet space, and this in turn has an effect on the regional and geopolitical situa-

tion, on vector shifts in the foreign policy priorities of developed countries, and on the role of individual states in strengthening regional security and stabilizing the economic situation.

Historically, owing to their energy, transport, and logistics potential, the regions of Central Asia and the Southern Caucasus were a point where the geopolitical and geo-economic interests of developed countries intersected, thus setting the regional agenda. The impact of this trend on the stable development of countries in the region has not always been positive. At present, the necessary prerequisites are in place for building bilateral relations between countries based on a rational and pragmatic approach that would allow them to act, first and foremost, in their own interests (both foreign policy and foreign economic) instead of sacrificing them to the interests and priorities of the “great powers.”

Since gaining independence, Kazakhstan and Armenia have traditionally followed a pragmatic multi-vector foreign policy, maneuvering between the interests of Russia, the United States, the European Union, and China. This foreign policy concept of the two countries is primarily motivated by security concerns. Considering their common history of emergence as independent states, their common historical past, similar paths of institutional development, and Russian influence on their political and economic situation, it is only natural that Kazakhstan and Armenia are involved in Eurasian integration processes.

According to Kazakhstan’s Foreign Policy Concept for 2014-2020, in light of current realities, the foreign policy of the Republic of Kazakhstan requires modernization and promotion of national interests based on the principles of pragmatism and taking into account external factors such as the negative effects of the world financial and economic crisis, intensified conflicts and current regional and global problems, and the emergence of a qualitatively new geopolitical and geo-economic situation on a regional and global scale.¹

One of Kazakhstan’s implemented initiatives is, of course, the Eurasian Economic Union (EAEU). The initiative to establish a Eurasian Economic Union was first put forward by President Nursultan Nazarbayev of Kazakhstan in a speech at the Lomonosov Moscow State University in 1994.² 1 January, 2015, marked the beginning of the Eurasian Economic Union, founded by Belarus, Kazakhstan, and Russia. That same year, the Republic of Armenia and the Kyrgyz Republic became full-fledged members of the Union.

The EAEU is an international organization of regional economic integration based on agreements reached by the participating states within the framework of the Customs Union and the Common Economic Space.

According to Kazakhstan’s Foreign Policy Concept for 2014-2020, Eurasian economic integration is seen as an effective tool for moving the country to a sustainable position in the system of international economic relations.³

Armenia’s involvement in Eurasian integration processes is primarily associated with the top priorities of its foreign policy, as listed in its foreign policy doctrine, which places the main emphasis on the following: Armenia is consistent in its desire to strengthen and deepen its strategic partnership and allied relationship with Russia, based on the traditional friendly ties between the two nations.⁴

¹ See: *Foreign Policy Concept of the Republic of Kazakhstan for 2014-2020*, Official Website of the Ministry of Foreign Affairs of the Republic of Kazakhstan, 17 September, 2014, available at [<http://mfa.gov.kz/en/content-view/kontseptsiya-vneshnoj-politiki-rk-na-2014-2020-gg>].

² See: M. Baigarin, “EAES: Segodnia rozhdaetsia novaia geoeconomicheskaja realnost XXI veka—N. Nazarbayev,” Kazinform International News Agency, 1 January, 2015, available at [http://www.inform.kz/ru/eaes-segodnya-rozhdaetsyanovaya-geoeconomicheskaya-real-nost-hhi-veka-n-nazarbaev_a2733115].

³ See: *Foreign Policy Concept of the Republic of Kazakhstan for 2014-2020*.

⁴ See: *Foreign Policy of the Republic of Armenia*, Official Website of the Ministry of Foreign Affairs of the Republic of Armenia, available at [<http://www.mfa.am/en/foreign-policy/>].

The Armenian political establishment has traditionally followed a multi-vector foreign policy. For example, while maintaining a certain level of relations with Western and Middle Eastern countries and with Iran, it attaches particular importance to a pro-Eurasian policy, although it should be noted that the recent political changes in Armenia might affect its foreign policy line in the near future.

The main priorities of Armenia's foreign policy include a settlement of the Nagorno-Karabakh conflict;⁵ further recognition of the "Armenian genocide" by the international community; involvement of the Armenian diaspora abroad as soft power in lobbying for Armenia's interests; and the creation of a favorable economic and investment climate in the country.

Since the breakup of the Soviet Union, Armenia and Kazakhstan have joined several newly created integration arrangements. Although cooperation between countries within the Commonwealth of Independent States (CIS) is effected through its coordinating institutions (statutory, executive, and sectoral cooperation bodies),⁶ the role of this organization today is rather declarative, because its members have never actually managed to create the necessary mechanisms for regulating their military-political relations and their trade and economic ties. This leads to the conclusion that the key agenda-setting role in the post-Soviet space has now been assigned to three separate organizations: the Eurasian Economic Union is mainly concerned with economic cooperation; the Collective Security Treaty Organization (CSTO) with military-political cooperation; and the CIS with cultural and humanitarian cooperation. When it comes to the EAEU and the CSTO, the positions of Kazakhstan and Armenia on the further development of these organizations are largely similar.

Naturally, each of the EAEU member states, owing to differences in economic development, has its own list of priorities and urgent tasks within the framework of Eurasian economic integration. For Armenia, the priorities for integration within the EAEU are set by the following factors: the ability of the common energy market emerging in the EAEU to reduce energy prices for Armenia; the Union's ability to help Armenia overcome its transport isolation, realize its transit potential, and create an infrastructure that would allow the republic to integrate into regional trade (through the establishment of a free economic zone in Meghri on the border with Iran); and the Union's ability to help Armenia expand its exports and implement a multi-vector foreign trade policy (primarily towards the EU, Iran and other neighboring countries).⁷

A similar set of priorities within the Union can be identified for Kazakhstan. The most important systemic aspect of EAEU membership for economic growth and diversification in Kazakhstan as a landlocked country is a reduction in transportation costs. The EAEU agreements on access to the infrastructure and domestic freight rates of the partner countries have enabled Kazakhstan companies to reduce transportation costs. The competitiveness of their products in foreign markets has increased accordingly.⁸

The following factors within the Union will help to tap Kazakhstan's entire transport and transit potential: reduction in transportation costs, pooling of the transit capacities of all Union countries, de-bureaucratization of transport procedures; development of a logistics base; and opportunities for equal access to Russian pipelines and ports in the Baltic.⁹

⁵ See: *Foreign Policy of the Republic of Armenia*.

⁶ See: "Strany Sodruzhestva Nezavisimykh Gosudarstv," Official Website of the Interstate Statistical Committee of the Commonwealth of Independent States, available at [<http://www.cisstat.com/rus/ciscountry1.htm>].

⁷ See: Ye. Alekseyenkova, "Armenia in EAEU 2025, Eurasian Studies?" 16 June, 2017, available at [<http://eurasian-studies.org/archives/3993>].

⁸ See: *EAEU*, Official Website of the Ministry of Foreign Affairs of the Republic of Kazakhstan, 29 January, 2017, available at [<http://mfa.gov.kz/en/content-view/tamozhennyj-soyuz>].

⁹ See: Ye. Kuzmina, "Kazakhstan's Participation in the EAEC: Pros and Cons, Eurasian Studies," 13 March, 2017, available at [<http://eurasian-studies.org/archives/2664>].

The Southern Caucasus is historically associated with big military-political challenges and threats, mainly in view of its strategic location between the Black and Caspian seas. Its great strategic importance is due to the region's transit and logistics potential, because oil products from the Caspian basin and Central Asia can be transported through its territory to European and other world markets.

In general, Armenia's role in the Southern Caucasus should be seen through the prism of Russian interests, since Erevan in this context remains within the scope of the Kremlin's geopolitical interests and strategic priorities. This is due to the fact that in the last twenty five years Armenia has been living under a transport blockade, which has had a serious effect on its external economic relations. For the same reason, the Erevan authorities cannot take full advantage of integration processes in the post-Soviet space.

Central Asia is located at the junction of Eurasian transport corridors and has a large transport and communications network. Central Asian countries have access to the Persian Gulf through Iran, to the Indian Ocean through Afghanistan and Pakistan, and to the Asia-Pacific region through China.¹⁰

Today, there are three competing geopolitical projects in Central Asia: the EAEU, the Economic Belt of the Silk Road (EBSR), and the New Silk Road. These three projects appeared almost simultaneously and were due to changes in the Central Asia policies of the states that initiated these projects.¹¹ Each of these projects has its own conceptual framework and a number of pros and cons. Taking into account these circumstances allows us to evaluate both the projects themselves and the opportunities and challenges of their interaction. In this situation, Kazakhstan is obliged to use its entire foreign policy potential to maneuver between the interests of Russia, the United States, and China in order to ensure that Astana's foreign policy priorities are taken into account.

Overall, the factors that influence the foreign policy of Kazakhstan and Armenia and, accordingly, many systemic elements of this policy have a number of common characteristic features. Foreign, including foreign economic, policy in the two countries cannot be constructed without taking into account the interests of international actors. For these countries, Russia is undoubtedly the main reference point. At the same time, the influence of the key global players (the U.S., EU, and China), whose interests are also present in the Southern Caucasus and Central Asia, will also increase in the future. In this situation, Kazakhstan and Armenia have more or less similar opportunities for further development in accordance with their own priorities and interests. For this reason, bilateral cooperation between Erevan and Astana is of primary importance for mutually beneficial and complementary partnership, considering the similar regional challenges and existing problems. This cooperation can guarantee that the national interests of the two countries are taken into account in the context of regional integration processes and external threats.

Economic Context and Prospects

In the last 25 years, trade and economic relations between Kazakhstan and Armenia have developed as opportunities have arisen, under the impact of both positive and negative factors. Unfortunately, it has so far proved impossible to tap the entire potential of the two countries in the trade and

¹⁰ See: Ye. Irgaliyev, "Budushcheie Tsentralnoi Azii v partniorstve Astany i Tashkenta," 365info.kz, 10 February, 2017, available at [<https://365info.kz/2017/02/ekspert-pri-trampe-amerikanskij-biznes-budet-maksimalno-zhestko-prokladyvat-sebe-dorogu-v-tsa/>].

¹¹ See: K. Syroezhkin, "Geopolitical Projects in Central Asia and the Role of Kazakhstan," Central Asian Bureau for Analytical Reporting, 6 April, 2016, available at [<http://cabar.asia/en/konstantin-syroezhkin-geopoliticheskie-proekty-v-tsentralnoj-azii-i-rol-kazahstana/>].

economic sphere. This is partly due to adverse trends in the world economy. At the same time, the dynamics of mutual trade show that external factors have a short-term effect on this trade, while the trade turnover has tended to decline under favorable market conditions as well.

Obviously, there are objective reasons of a mutual nature that affect export and import margins in trade between Kazakhstan and Armenia, regardless of global economic processes.¹² The first thing to note is the difficulty of freight transportation between our countries. Owing to well-known regional problems, rational trade routes—through both the Caspian Sea and South Ossetia—have been disrupted, so that it has become difficult to supply traditional export products, such as grain, metals, and liquefied gas, from Kazakhstan to Armenia.

These problems and the prospects of interstate cooperation are periodically discussed at meetings of the Intergovernmental Commission on Trade and Economic Cooperation.¹³

It should be noted that in the area of economic cooperation there was some increase in trade in 2017. According to the Statistics Committee of the Ministry of National Economy of Kazakhstan, trade between Kazakhstan and Armenia totaled \$10 million, increasing by 34% from 2016 (of this, Armenia accounted for \$4.6 million, and Kazakhstan, for \$4.4 million).¹⁴

In the last five years, Armenian exports have accounted for most of the total trade between the two countries, while Kazakhstan goods have been losing their competitiveness for a number of reasons. Russian companies play a key role in Armenia's energy sector (gas, oil products), and Russian exporters have price advantages in grain and metal products. Kazakhstan's exports to Armenia in these areas have fallen by half compared to previous years. Today, these exports consist of small batches of goods: grain products, paper and cardboard products, pharmaceuticals, organic and inorganic chemicals, etc.¹⁵ As for Armenian exports to Kazakhstan, there are steady supplies of alcoholic and non-alcoholic beverages, jewelry, tobacco products, and foodstuffs, minor shipments of stone, gypsum, etc.¹⁶

Low volumes of trade between the two countries are due in large part to high transportation costs because of a lack of direct transport links. What makes the situation worse is that Azerbaijan does not allow Kazakhstan goods destined for Armenia to pass through its territory.

Another factor holding back trade is the similar nature of the two economies as regards exports, in which raw materials prevail. Armenia's small consumer market and the low purchasing power of its population also affect the interest of Kazakhstan producers in the Armenian market.

At present, the activity of companies with Kazakhstan capital in Armenia, except SCAT Airlines, is low. At the same time, the number of small and medium-sized enterprises established by Armenian citizens in Kazakhstan has more than doubled (to 145) in the last three years. It should be noted that remittances from Armenian citizens working in Kazakhstan are almost double the total amount of trade between the two countries (\$18.9 million in 2016).¹⁷ These data show that the citizens

¹² See: A. Tavadyan, Zh. Adilbayev, "Perspektivy razvitiya ekonomicheskikh svyazei Armenii i Kazakhstana," Information and Analytical Journal *21-i VEK* (Erevan), No. 2 (43), 2017, pp. 81-91.

¹³ See: "Bakytzhan Sagintayev obsudil s Premierom Armenii novye formy sotrudnichestva," Kazinform International News Agency, 14 August, 2017, available at [http://www.inform.kz/ru/bakytzhan-sagintaev-obsudil-s-prem-erom-armenii-novye-formy-sotrudnichestva_a3054568].

¹⁴ See: *External Trade Database: Kazakhstan*, Official Website of the Statistical Committee of the Republic of Armenia, available at [<http://www.armstat.am/en/?nid=159&thid%5B%5D=398&years%5B%5D=2016&submit=%D0%9F%D0%BE%D0%B8%D1%81%D0%BA>].

¹⁵ See: "Ob'omy eksportnykh postavok Respubliki Kazakhstan v gosudarstva-cheny EAES za 2016 god," Eurasian Economic Commission, available at [http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/intra/Documents/2016/12/201612_8_3.pdf].

¹⁶ See: "Ob'omy eksportnykh postavok Respubliki Armenia v gosudarstva-chleny IeAES za 2016 god," Eurasian Economic Commission, available at [http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/intra/Documents/2016/12/201612_8_1.pdf].

¹⁷ See: A. Tavadyan, Zh. Adilbayev, op. cit., p. 80.

of Armenia and Kazakhstan already enjoy the advantages of the EAEU associated with the common labor market and the free movement of persons within the Union.

Armenian citizens in Kazakhstan, as a rule, work in construction, services, and trade. Most individual enterprises have been set up with the help of compatriots living in Kazakhstan. Among large companies, the Erevan Brandy Company (Ararat) has established a dealer network in the country. Armenian jewelry companies have also shown an interest in Kazakhstan.

So far, the current situation does not pave the way for a significant increase in Kazakhstan's share in the Armenian market. The volume of trade between the two countries continues to be affected by the following factors: (1) high transportation costs (lack of rail communications and complex road transport logistics caused by the Azerbaijan blockade); (2) Armenia's small domestic market (population of 3 million) and limited purchasing power; (3) Armenia's highly monopolized market; and (4) competitive prices of Russian goods similar to those of Kazakhstan (metal and grain products). Let us note that, even excluding the impact of transportation costs, a number of Kazakhstan goods with export potential are either noncompetitive in the Armenian market or have low profit margins.

At the same time, an excess of imports over exports in the structure of Armenian foreign trade provides some opportunities for Kazakhstan exporters.

The recent start of direct flights between Astana and Erevan will help to develop trade cooperation and build contacts between the two business communities.¹⁸

In joining the EAEU, Armenia was guided, in particular, by military-political considerations, while macroeconomic calculations were mainly based on its existing trade and economic relations with Russia. The economic arguments for Armenia's accession were based not only on the advantages of membership in the Eurasian project, but also on the negative effects of a refusal to join the Union.¹⁹

- First, EAEU membership has enabled Armenia to buy Russian gas at a discount.
- Second, a refusal to join the Union would have significantly complicated access to the Russian labor market for migrant workers from Armenia.
- Third, Russia is the key market for Armenian agricultural products.
- Fourth, Russia remains the key investor and creditor of the Armenian economy.

At the same time, the economic slump in Russia and the decline in world commodity prices have partially offset the impact of Armenia's accession to the EAEU. For example, the amount of migrant remittances has continued to decline.

Armenia has also tended to step up cooperation with the EU countries, the United States, China, and especially with Western financial institutions. This creates an opportunity for turning Armenia into a bridge connecting the EAEU, the EU, and Iran. The lifting of sanctions against Iran could also open serious prospects for cooperation between Armenia and Iran in the energy and transit-transport sphere. It will also provide opportunities and increase incentives for EAEU countries to take part in such projects.

Armenia's negative balance of trade, in which the share of imports is almost twice as large as that of exports, has an adverse effect on the stability of the national currency. In 2017, its tight mon-

¹⁸ See: "Priamoi reis v pervye svyazhet Astanu i Erevan," International News Agency Novosti-Armenia, 31 May, 2017, available at [<http://newsarmenia.am/news/society/pryamoy-reys-vpervye-svyazhet-astanu-i-erevan/>].

¹⁹ See: A. Tavadyan, "Ushcherb ot nevstupleniya Armenii v EAES sostavil by primerno milliard dollarov," ARKA News Agency, 26 December, 2015, available at [http://arka.am/ru/news/economy/ushcherb_ot_nevstupleniya_armenii_v_eaes_sostavil_by_primerno_milliard_dollarov_ekspert/].

etary policy helped to reduce inflation and to strengthen the Armenian dram (AMD), while the exchange rate of the Kazakhstan tenge (KZT) varied from 330 to 340 tenge per dollar.²⁰

As a result of a significant reduction in the value of exports to Russia, in migrant remittances, and in consumer and investment demand, Armenia's economic growth slowed by 0.6% in recent years. The negative effects of the economic slowdown in most countries of the region and lower prices for the main export items have been mitigated by an increase in the physical volume of exports to non-CIS countries owing to larger supplies of copper ores and concentrates.

A temporary easing of fiscal policy in 2017 coupled with additional external financing under the IMF Extended Fund Facility (EFF) and sovereign bonds issued by the government have enabled Armenia to cushion the initial impact of the worsening external environment and to avoid excessive macroeconomic adjustment. The main contribution to GDP growth is made by an increase in net exports and by government spending, whereas domestic demand remains relatively low as a result of reduced household spending.

Overall, the Armenian economy continues to depend on external financing and private remittances. According to the International Labor Organization, Armenia is a world leader (after Tajikistan) in terms of dependence on remittances from abroad (21% of GDP). Economists are seriously concerned about the annual increase in the republic's external debt. As of 31 March, 2017, Armenia's total public debt stood at \$5.9 billion (its GDP in 2016 was \$10.5 billion). Of this, external debt amounted to \$4.8 billion (78.7% of the total), and internal debt, to \$1.1 billion (21.3%). According to the Armenian Finance Ministry, the country's public debt tripled from \$1.9 billion in 2008 to \$5.9 in 2016.²¹

In 2017, Armenia's GDP increased by 6.7%, and economic activity by 7.7%.²² The main factors behind faster economic growth in 2017 were as follows: an expansion of credit in drams (by 28.8% YoY in December 2017, compared to 25.1% YoY in September 2017) and some increase in remittances from migrant workers, which led to a further rise in consumer demand. Retail sales in October and November 2017 were up 7.1% and 7.6% YoY, compared to 5.8% in January-September 2017. The fact that the annual import growth rate rose from 25.4% in September 2017 to 40% in December 2017 also points to continued high levels of consumer spending.

Rising world prices for Armenian export goods along with high external demand and a decline in the real effective exchange rate of the dram continued to support exports, whose volume in December 2017 was up 44.4% YoY.

According to Armenian experts, the construction sector (up 10.4% YoY in December 2017) had a positive effect on economic activity. In addition, strong consumer demand led to significant growth in the trade and service sectors (up 12.7% and 15.6% YoY in December 2017, respectively).

In general, all sectors of the Armenian economy included in the index of economic activity (except agriculture, where production fell by 3%, largely because of bad weather conditions) showed positive growth rates in 2017.

As a result of monetary policy and a decline in external inflationary pressure, deflation in December was 1.1% YoY. Thus, actual annual inflation in 2017 (1%) remained below the Central Bank's target of 4±1.5%.

²⁰ See: "Arkhiv kursa dollara SShA v Kazakhstane za ianvar 2017," Kurs tenge, available at [<http://kurstenge.kz/archive/usd/2017/01>].

²¹ See: "Vneshnii dolg Armenii po itogam 2017 goda," Financial-Banking Portal of the ARKA News Agency, available at [www.armbanks.am/2017/09/25/110022/].

²² See: S. Martirosian, "Ekonomika Armenii s robkimi nadezhdami na pozitiv v novom godu," *Ritm Evrasii*, 25 January, 2018, available at [<https://www.ritm Eurasia.org/news--2018-01-25--ekonomika-armenii-s-robkimi-nadezhdami-na-pozitiv-v-novom-godu-34626>].

In order to encourage economic activity and reduce deflationary pressure, the Central Bank lowered its refinancing rate by another 0.25 percentage points to 6.00%. These monetary policy measures contributed to a rapid recovery in economic activity and an increase in inflation in 2017 (from deflation of 1.4% in 2016).

In October-December 2017, the trade deficit in goods widened (reaching \$225.4 million in December) as imports of goods continued to grow rapidly fueled by rising domestic demand. International reserves increased by \$80 million in October-November 2017 to a total of \$2,174.4 million, which was partly due to an increase in the country's debt obligations.

According to preliminary estimates by the Ministry of Finance, Armenia's state budget showed a deficit of AMD 180.1 billion, with a reduction from 5.5% of GDP in 2016 to 3.6% in 2017. Owing to increased economic activity in the country, budget revenues for the year rose by 5.6%. Budget expenditures decreased by 2.2%.²³

Commenting on the country's economic development, the then prime minister of Armenia, Karen Karapetyan, said that the main macroeconomic indicators for the first quarter of 2017 were satisfactory but insufficient to achieve the desired results.²⁴

In addition, it should be noted that one of the advantages enjoyed by the Armenian economy is the Generalized System of Preferences (GSP), which is a system of preferential tariffs applied by developed countries to goods exported by developing countries to promote their economic growth and enhance their export capabilities. It provides for reduced MFN (Most Favored Nation) tariffs or duty-free entry of eligible products exported by beneficiary countries to the markets of preference-giving countries.

As we know, Armenia enjoys GSP beneficiary status with Canada, Japan, Norway, Switzerland, and the United States. Since 1 January, 2009, Armenia has also been included in the list of countries granted GSP+ status by the European Union.

Products that are not eligible for GSP duty-free treatment mainly include textiles, apparel, watches, footwear, bags and suitcases.²⁵

Let us note that there are favorable conditions for the development of Armenia's foreign trade not only within integration groupings, but also with leading world markets, which in turn provides additional opportunities for its Eurasian integration partners. For landlocked Kazakhstan, this circumstance could play a significant role in developing trade and economic cooperation with Armenia.

An improvement in the global economic environment has been a catalyst for recovery growth in the economy of Kazakhstan. This unexpectedly rapid recovery was a delayed effect of timely anti-crisis measures, which had prevented the economy from sliding into a recession. With an increase in world prices for metals and oil, stronger demand in trading partner countries led to a rapid recovery in economic growth. According to preliminary estimates by the Ministry of National Economy of the Republic of Kazakhstan, GDP growth in 2017 accelerated to 4% (from 1.1% in 2016).

Overall economic activity in Kazakhstan was influenced by the following main factors: in the context of an increase in the potential for growth in industry and the service sector, the state's role in stimulating growth declined in the second half of 2017. For 2017 as a whole, the volume of construction largely funded by the state increased by only 1.9% (compared to 7.9% in 2016). Industrial growth accelerated to 7.1% (compared to a decline of 1.1% in 2016). The sector's improved performance was due to gains in both mining and manufacturing. Whereas the former resulted from a favorable pricing

²³ See: "Defitsit gosbiudzheta Armenii po itogam 2017 goda snizitsia do 3.6% ot VVP—EABR," 8 December, 2017, available at [<http://www.armbanks.am/2017/12/08/111501/>].

²⁴ See: N. Badalian, "Armenian Prime Minister considers recorded macroeconomic indicators satisfactory, but insufficient," Financial Portal ArmInfo, 21 April, 2017, available at [http://finport.am/full_news.php?id=29414&lang=3].

²⁵ See: "GSP and GSP+," Global SPC Invest in Armenia, available at [<http://www.investinarmenia.am/en/gsp-and-gsp-ru>].

environment in the world oil market and the high productivity of the Kashagan Field,²⁶ the latter was due to the implementation of the National Industrialization Map and its multiplier effect throughout the value-added chain from mining to manufacturing.

During 2017, inflation was within the target range of 6-8%. Despite short-term supply shocks (decreased supply of vegetable products, fuels and lubricants) and increased tenge/dollar exchange rate volatility, inflation was on a steady downward trend throughout 2017.

Domestic debt increased by 32.1% in 2017 year-on-year, compared to a 2.1% reduction in 2016. Given nominal GDP growth and a reduction in external debt, the ratio of public debt to GDP remained at about the same level as in 2016.

If we analyze the above data taking into account the international and regional circumstances of the two Union countries linked together by economic and political commitments, we will find that in the foreseeable future the full potential of economic relations between them can only be tapped through Eurasian integration. It should also be taken into account that the current situation in the sphere of logistics, the lack of a common border and access to the sea, and the blockade by neighboring countries make it impossible to take full advantage of economic opportunities in a bilateral format. It would make sense to coordinate monetary and industrial policies and to agree a common position on the Economic Belt of the Silk Road. In our view, it is also necessary to adjust and agree the priorities for the economic policy of the EAEU countries. A primary task is to implement an agreed economic policy in accordance with the Treaty on the Eurasian Economic Union and to develop logistics in every possible area.

It is known that economic globalization creates an imperative need for deep structural changes in the economy, and the dynamics of these changes depend in large part on economic growth rates and can only be ensured with large-scale investments in the economy. A study of the scale, dynamics, and geography of international capital flows suggests that more rapid growth of foreign investments (compared to GDP and foreign trade growth) increases their importance for most countries in the world. A country's development level is an important indicator of its attractiveness to foreign investors.

A study of the current state of the Armenian economy shows that there is a set of problems whose solution is necessary for the country's successful socioeconomic development. This includes an insufficiently favorable investment climate, an imperfect legal and regulatory framework for attracting foreign investors, undeveloped financial markets, etc. The importance of these under-explored problems has determined the choice of this topic related to the development and implementation of an optimal strategy for Armenia's investment cooperation with foreign countries.²⁷

Borrowings and investments have enabled many countries, including Armenia, to reach a new level of development. That is why a sound, rational policy for attracting foreign investment is a prerequisite for the successful development of national economies.

Armenia has declared an "open door" investment policy as defined in the Law on Foreign Investment and the Investment Policy Concept of the Republic of Armenia. Today, it has one of the most open investment regimes among developing countries.

According to Armenia's current legislation, there are no restrictions on the conversion and transfer of money or the repatriation of capital, earnings, dividends, interest, royalties or management and technical service fees. Foreign investors and employees are guaranteed the right to freely repatriate their property, income or other assets resulting from their investments after all taxes are paid.

Armenia has a liberal foreign exchange system and does not limit the conversion of money associated with investment to hard currency at the official exchange rate. Foreign currency is widely

²⁶ See: "Ekonomicheskie obzory. Evraziiskaia Ekonomicheskaiia Komissia," available at [http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_makroec_pol/economyViews/Pages/default.aspx].

²⁷ [<https://regnum.ru/news/2384356.html>].

available, and the Armenian dram (AMD) is maintained as a freely convertible currency. Bank accounts in Armenia can also be opened in foreign currency.

The Armenian business diaspora can and must play a major role in attracting foreign investment to Armenia, because, as experience shows, it has already done much to attract direct investment and private remittances from abroad. This is rational, especially since, at a time of increasing globalization, unprecedented development of communication technology, and the exceptional importance of business networks, the Armenian diaspora can be a unique competitive advantage for the Armenian economy.²⁸

Considering current trends in foreign direct investment (FDI), such as a progressive increase in the share of FDI going into high-tech industries, steps should be taken to significantly change the structure of the country's competitive advantages, with a gradual reduction in the role of natural resources and cheap labor and shift of focus to "created assets," such as a skilled workforce, scientific and technological capabilities, and developed infrastructure. Particular attention should be paid to information and communication technologies and their wide use.

In the system of relations between actors in today's world economy, a special place belongs to the group of countries with transition economies, which in recent decades have faced the need to transform their national economies and economic development models. The CIS countries, including Kazakhstan and Armenia, are no exception in this group of countries. Moreover, transformation processes in the least competitive economies (like that of Kazakhstan) were particularly painful and were associated with numerous internal and external shocks and risks, which made it more difficult to optimize the economic ties of these countries. That is why Kazakhstan, like other similar countries, became increasingly involved in international capital flows, and not only through large-scale sovereign external borrowing, but also through joint ventures with foreign companies as vehicles for foreign direct investment. Hence the country's course towards a gradual removal of barriers to foreign investment and to the use of foreign advanced technologies and management practices.²⁹

At present, Kazakhstan has developed, in collaboration with the World Bank, a National Investment Strategy for 2018-2022. In the next five years, given successful implementation, the strategy will lead to a gradual increase in FDI inflows by 26% compared to 2016, including efficiency-enhancing (i.e. export-oriented) FDI by 50%.³⁰ Under this strategy, a special effort is to be made not only to attract new investors, but also to keep the old ones and to stimulate reinvestment.

Today, trade and economic relations between Kazakhstan and Armenia are not yet fully developed for a number of geopolitical reasons. On the one hand, virtually all transport and logistics routes in the South Caucasian region are blocked by Turkey, Azerbaijan, and partly by Georgia in view of strained relations with Russia. The lifting of international sanctions against Iran points to the possibility of new transport corridors of paramount importance to Armenia being initiated in the region. In this context, Armenia will continue its close cooperation with Iran in the medium term to create the necessary prerequisites for gaining access to the markets of the Middle East and Persian Gulf countries. Kazakhstan, for its part, is also taking steps to enter the Iranian market, including through the Caspian Sea. In 2017, it announced the construction of a transport hub port in Western Iran. In addition, freight trains are now running from Kazakhstan through Turkmenistan to the Iranian city of Gorgan. Kazakhstan and Armenia could focus their efforts on combining mutually beneficial economic projects using Tehran's entire potential.

As noted above, the development of trade relations between Kazakhstan and Armenia is prevented by the transport blockade imposed by some of the latter's neighbors. In this context, one of

²⁸ See: "Investitsionnye voprosy Respubliki Armenia," Invest in Armenia, available at [<http://investmentprojects.am/>].

²⁹ See: "Main Macroeconomic Indicators of Republic of Kazakhstan," Interstate Statistical Committee of the Commonwealth of Independent States, available at [<http://www.cisstat.com/en/macro/kaz.htm>].

³⁰ See: Zh. Mamyshv, "Kazakhstan stanet privlekatelnym dlia investorov," Atameken Business Channel, 15 August, 2017, available at [<http://abctv.kz/ru/news/kazakhstan-stanet-privlekatelnym-dlya-investorov>].

the most attractive transport and logistics projects is the Silk Road, which is being actively implemented by the Beijing authorities. For example, Kazakhstan has already launched a number of government programs somehow connected with the implementation of the Chinese Silk Road initiative. Armenia is also negotiating with the Chinese on its possible participation in this project, which can solve many transportation problems that currently exist in the South Caucasian region.

It should also be noted that the government of Armenia pays much attention to renewable energy sources, primarily because of the energy shortage in the country. This topic is a focus of attention for Kazakhstan as well. For example, an international specialized exhibition, Astana EXPO 2017, devoted to “green energy” was held in Astana from June to September 2017, and the then president of Armenia, Serzh Sargsyan, took part in the opening ceremony.³¹

In view of the growing role of the EAEU and other integration arrangements in the post-Soviet space, economic cooperation between the two countries should be developed through the establishment of joint ventures, as well as full use of the existing trade and economic preferences provided to Kazakhstan and Armenia to encourage exports of their goods and services to the markets of third countries.

It would make sense, in particular, to use the preferential tariff system GSP+ extended to Armenia by the European Union, under which Armenian producers have an opportunity to export certain goods to the EU duty-free or at reduced rates of duty (about 30% of total exports).³² This system could be of interest for establishing enterprises in Armenia with subsequent access to the EU market. At the same time, Armenia’s participation in this system makes it more profitable to set up enterprises in its territory, considering its developed transport infrastructure.

In addition, it is necessary to tap the entire potential of free economic zones (FEZs) in Armenia and Kazakhstan for mutually beneficial promotion of exports of goods and services to Iranian and Chinese markets, respectively.

For example, on 3 August, 2017, the government of Armenia approved a draft resolution to establish a closed joint stock company called Meghri Free Economic Zone.³³ The FEZ will be located in Armenia’s Syunik Province on the border with Iran. Its construction is among the priority investment programs of the Armenian government. The operation of this FEZ has been written into the Customs Code of the EAEU. The total cost of the Meghri project is estimated at \$32 million, including \$28 million of capital expenditures. The FEZ will cover an area of 10-15 hectares, with the possibility of further expansion to 45-50 hectares. According to the Armenian government, its exploitation will make it possible to create 2,500 jobs and to increase Armenian exports by 30%. The zone is expected to host about 100-120 companies, whose earnings will amount to \$52 million over 10 years. Their products will be exported to Iran, EAEU and Middle Eastern countries, Turkmenistan, and other countries. In ten years, total investments by all companies are expected to reach \$350-400 million.³⁴ Kazakhstan in turn is also taking steps to enter the Iranian market, including through the Caspian Sea. Kazakhstan and Armenia could focus their efforts on combining mutually beneficial economic projects using Iran’s entire potential.

Kazakhstan also has a free economic zone on the border with China, the Khorgos International Center of Boundary Cooperation JSC, which handled 5 million tons of cargo in the first six months of 2017.³⁵

³¹ See: Astana EXPO 2017, Official Website of the International Specialized Exhibition Astana EXPO 2017, available at [<https://expo2017astana.com/en/>].

³² See: What is GSP+? European Commission Trade Helpdesk, available at [<http://trade.ec.europa.eu/tradehelp/gsp/>].

³³ See: S. Martirosian, “SEZ v Megri: zainteresovannye aktory i nedobrozhelateli, Ritm Ievrazii,” 25 April, 2017, available at [<https://www.ritimeurasia.org/news--2017-04-25--sez-v-megri-zainteresovannye-aktory-i-nedobrozhelateli-29791>].

³⁴ See: “ZAO ‘SEZ Megri’ budet sozdana v Armenii,” ARKA News Agency, 3 August, 2017, available at [http://arka.am/ru/news/economy/zao_sez_megri_budet_sozdana_v_armenii_/?sphrase_id=16918817].

³⁵ See: “Khorgos International Center of Boundary Cooperation,” available at [<http://www.mcps-khorgos.kz/>].

Conclusion

Armenia and Kazakhstan have a large transport and logistics potential, and, with a correct policy in this area, both countries can become regional hubs in the transport and logistics infrastructure of Eurasia.

If the above-listed prospects, principles, and vectors are realized, this will help eliminate the geopolitical and geo-economic imbalance in bilateral relations between the two states. The constantly changing global situation urges countries to join forces in addressing both regional and international challenges and threats.

Work is underway to intensify trade and economic cooperation. The parties are interested in increasing bilateral trade. Let us note that in 2016 trade between Kazakhstan and Armenia rose by 46%, mainly owing to their participation in the EAEU.³⁶ The two countries should seek new logistics opportunities for mutual trade and implement new leading-edge technologies to make their goods and services more competitive in the Eurasian market.

Overall, relations between Kazakhstan and Armenia are currently developing in the spirit of partnership on a pragmatic and mutually beneficial basis. There are no disagreements between them over matters of bilateral cooperation, and they have similar positions on many regional and global policy issues as allies in the EAEU, CSTO, and CIS.

One of the most attractive transport and logistics projects is the Silk Road, which is being actively implemented by the Beijing authorities. For example, Kazakhstan has already launched a number of government programs somehow connected with the implementation of the Chinese Silk Road initiative. Armenia is also negotiating with the Chinese on its possible participation in this project, which can solve many transportation problems that currently exist in the South Caucasian region.

In view of the growing role of the EAEU and other integration arrangements in the post-Soviet space, economic cooperation between the two countries should be developed through the establishment of joint ventures, as well as through full use of the existing trade and economic preferences provided to Kazakhstan and Armenia to encourage exports of their goods and services to the markets of third countries.

It would make sense, in particular, to use the preferential tariff system GSP+ extended to Armenia by the European Union, under which Armenian producers have an opportunity to export certain goods to the EU duty-free or at reduced rates of duty (about 30% of total exports). GSP+ status has been granted to only 14 countries, including Armenia from among the members of the CIS. This system could be of interest for establishing enterprises in Armenia with subsequent access to the EU market.

Considering that Kazakhstan and Armenia play a certain role in Central Asia and the Southern Caucasus and taking into account their participation in common integration arrangements, the two countries should develop joint roadmaps to fill their interstate relations with deeper and more meaningful content.

Let us also note that this topic is under-researched and requires further joint study by Armenian and Kazakhstani researchers.

³⁶ See: "Eurasian Economic Union," available at [<http://www.eaeunion.org/?lang=en>].