

REGIONAL ECONOMIES**ARMENIA
AS A LANDLOCKED STATE:
TRANSIT OPPORTUNITIES****Ashot YEGHIAZARIAN**

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ABSTRACT

Armenia does not have direct access to the sea, and its land transportation opportunities are limited due to the conflict with Azerbaijan and its support by Turkey.

Armenia is extremely transport-dependent on Russia. For example, JSC Russian Railways, which is essentially not interested in revolving the urgent problems of the country's transportation system, is the concession operator of Armenia's railways.

These complicated transportation and communication conditions create geopolitical and geo-economic threats for Armenia; if they are not dealt with, making successful basic changes and raising the country's economic competitiveness will be inconceivable.

This article identifies the problems Armenia's railway system faces and highlights regional transit issues from the perspective of the main development characteristics of landlocked countries.

KEYWORDS: *transportation, railways, shipping operations, transit, convention, concession, Armenia.*

Introduction:
**Development Characteristics of
Landlocked Countries**

Back in their time, the founders of classical economic theory Adam Smith and David Ricardo noted that in addition to how market mechanisms affect the development of the national economy, a country's geographic location and sea coasts are also of great importance, that is, whether it has access to global trade routes.

Much has changed in the world since then. The development of different forms of transport and the extensive use of contemporary information technology have reduced the advantages of littoral states. However, shipping operations by sea continue to play a central role in world trade. This means that a country's geographic location is still important in terms of its national competitiveness.

Isolation and remoteness from the world markets, high transportation and transit costs, complicated border-crossing procedures, expensive banking services, and other factors limit the participation of landlocked countries in international trade and significantly lower their competitiveness. Sometimes port and overland transportation costs amount to 2/3 of the total spending on international shipping operations.¹ In so doing, the average cost of export and import of one container for landlocked developing countries is \$2,600 and \$3,300, respectively (while developing transit countries pay half of these costs).²

No access to the sea also has a negative effect on attracting investments. In most cases, the economic growth rates of such countries are much lower than those with access to the sea. High energy prices, a trade balance deficit, and large state external debt are serious problems for most non-littoral states, significantly hindering their economic development and ability to reduce poverty.

All of the above essentially relates to Armenia. So it is natural to wonder whether the country's geographical location is a curse. Many researchers have shown that the high transportation costs are usually caused by several problems. The main ones are related to the underdeveloped transportation infrastructure, the existence of borders, the low level of regional integration, the significant distance from markets, the low quality of the export structure, and so on.

Resolution of these problems will make it possible to fully neutralize the impact of geographic limitations; some landlocked countries have been able to achieve quite substantial success in this area. For example, Switzerland, the Czech Republic, Slovakia, and Hungary, which border on Western Europe (that is, are located not far from its main markets), do not have access to the sea, but are linked to it by a network of good roads and railways.

Situated in the center of Europe, Switzerland has a developed industry and high level of per capita income. This country exports such high-income goods as medications, appliances, and cars, and also develops tourism and other efficient service sectors.

Switzerland also has a developed transport infrastructure that includes roads, tunnels, air and rail transport, and a well-oiled customs system. Switzerland also has a naval trade fleet consisting of 20 ships with a total deadweight of approximately 800,000 tons. This puts it in 60th place among the world's countries with a commercial fleet.

Switzerland is in no way considered an isolated country; its geographic location is assessed as positive and stimulating creative decisions in transport, economic, and trade policy. It is worth noting that this country is playing an important transit role for the European continent.

¹ See: *Speech by Anwarul K. Chowdhury at the opening of the Regional Meeting of Landlocked Countries and Developing Transit Countries in Latin America regarding Cooperation in Transit Shipping Operations*, Asuncion, 12 March, 2003.

² See: *Doing Business 2012: Doing Business in a More Transparent World*.

Membership in the EU has forced the Czech Republic, Slovakia, and Hungary not only to invest large sums in modernizing their transport infrastructure, but also to make serious changes in their transport policy, institutional basis, and customs structure.³ The example of successful development of these countries shows that Armenia's geographic locations cannot be an insurmountable barrier to its development.

Problems of Armenia's Rail Transportation System

Non-littoral Armenia borders on four states (Georgia, Iran, Turkey, and Azerbaijan); three of them (apart from Azerbaijan) have access to the high seas. Its trade with the outside world is mainly carried out through the Black Sea ports of Georgia (Poti and Batumi), to which it is connected by rail and road transport. The length of the Erevan-Poti railroad branch is 687 km and the length of the road is 650 km. The country is linked to the Iranian port of Bandar Abbas by a road 2,750 km in length. The border with Turkey has been closed since 1993, which is having a negative effect on the development of Armenia's foreign trade relations with the outside world. The 2008 August war showed that due to the closed border with Turkey, maintaining good relations with Georgia and Iran is a vital for Armenia.

During the past two decades, road infrastructure modernization programs have been implemented in Armenia that have significantly improved the functioning of the transport system. Nevertheless, today a large part of the country's local road network that is joined to the international corridors needs repairing or rebuilding (the same can be said of the secondary road network). Whereas before the global crisis of 2008-2009, the Asian Development Bank, the European Bank for Reconstruction and Development, the Lindsay Fund, America's Millennium Challenge Corporation, and the World Bank (WB)⁴ issued around \$350 million to restore the country's transportation infrastructure, after it obtaining financial support became extremely difficult. The situation is aggravated further by the fact that under pressure from Russia, Armenia refused to initial the Association Agreement with the EU, essentially depriving itself of potential sources of investment.

It is presumed that in the next few years, development of the North-South automobile transport corridor that links Iran with Georgia through Armenia will be important. This program is to be mainly carried out using loans issued by the Asian Development Bank (ADB).

From the viewpoint of incorporation into international transport corridors, participation in the European initiative TRACECA is important for Armenia, for the agenda of which it proposed a project to build a railroad branch that goes to Iran. Without any doubt, establishing rail communication with Iran will enhance Armenia's industrial structure and allow the country to reach the markets of the Middle East and Central Asia. The planned deadline for implementing this project, which will cost between \$1.7 and 2.8 billion,⁵ is five years.

However, there are doubts about whether this project will be implemented, which is related not only to financial difficulties, but also to the lack of interest in the Russian concession operator of

³ See: *Landlocked States: Opportunities, Challenges, Recommendations*, The European Economic Commission, Committee for the Development of Trade, Industry, and Business, Sixth Session, 28-31 May, 2002.

⁴ See: *Development Strategy for Armenia's Transport Sphere 2020*, Final Report. PADECO Co. along with VGM Partners, Erevan, 2008, available at [http://www.mtc.am/main.php?lang=1&page_id=527] (in Armenian).

⁵ Estimates are based on studies carried out by Austria's ILF and Armenian companies.

Armenian railways—CJSC South Caucasus Railway,⁶ which is placing higher priority on putting the Transcaucasian railways that link Russia, Georgia, and Armenia through Abkhazia into operation.

At one time, Russian ex-minister of transport Igor Levitin pointed this out; in his opinion, “the question of Armenia-Iran railway communication should be examined at the same time as restoring the Abkhazian section.”⁷

In other words, the project put forward by Armenia is viewed through the prism of Russian-Georgian relations. However, the events of 2008-2009 in the Southern Caucasus helped to strengthen Russian-Turkish relations. In this respect, it can confidently be said that Russia is more interested in restoring rail communication between Armenia and Turkey than in implementing the Iran-Armenia project.

Current state of rail transport in Armenia. During 1988-1999, the volumes of shipping operations carried out by Armenian railways dropped from 30 million tons of freight and 5 million passengers to 1.5 and 1.3 million, respectively.

At present, shipping operation volumes reach only 3 million tons a year (see Table 1), while passenger carriage has dropped to 600,000 people a year.⁸

Table 1

Main General Use Transport Indices

	2008	2009	2010	2011	2012
Transported freight, thous. tons	9,389.3	9,806.7	10,556.2	9,715.7	12,094.1
Including:					
by rail	2,755.1	2,942.6	3,063.3	3,269.4	3,460.2
by road	5,065.3	5,636.4	6,196.0	4,944.2	6,840.1
by air	10.8	8.4	8.8	10.0	12.3
by main pipelines	1,558.1	1,219.3	1,288.1	1,492.1	1,781.5
Percentage of Shipping Operations by Type of Transport					
Total transportation means	100	100	100	100	100
Including:					
by rail	29.3	30.0	29.0	33.6	28.6
by road	54.0	57.5	58.7	50.9	56.6
by air	0.1	0.1	0.1	0.1	0.1
by main pipelines	16.6	12.4	12.2	15.4	14.7
<i>Source: Statistical Yearbook of Armenia 2013, National Statistics Board of the Republic of Armenia, pp. 331, 333.</i>					

⁶ CJSC South Caucasus Railway is a 100% subsidiary company of JSC Russian Railways and carries out concession management of Armenia's railways. CJSC Armenian Railway was transferred under concessionary management of CJSC South Caucasus Railway in compliance with the Concession Agreement signed on 13 February, 2008. Concessionary management will be carried out for 30 years with the right of prolongation for another 10 years.

⁷ I. Levitin, “Proekt zheleznoi dorogi Armenia-Iran v pisyvaetsia v koridor ‘Sever-Iug’”, 21 January, 2008, available at [<http://www.regnum.ru/news/polit/945206.html>].

⁸ See: *Statistical Yearbook of Armenia 2013*, National Statistics Board of the Republic of Armenia, p. 331.

This situation is largely caused by the influence of the following factors: loss of transit freight flows, the slump in industries orientated toward the transportation of goods, as well as the drop in competitiveness of rail compared to road transport.

CJSC South Caucasus Railway tariffs are the highest in the world. Since 1 March, 2013, the rate for a 40-foot loaded container in Armenia amounts to \$0.96 for 1 ton/km (instead of the previous \$0.78), and \$0.48 (previously \$0.39) for an empty container. The rate for loaded and empty 20-foot containers amounts to \$0.56 and \$0.28 per ton/km (instead of the previous \$0.54 and \$0.27), respectively.⁹

Nevertheless, rail transport continues to play a leading role in foreign trade shipping operations (see Table 2).

Table 2

**Percentage of Outbound, Inbound,
and Internal Republican Shipping Operations
for Different Types of General Use Transport (%)**

	2008	2009	2010	2011	2012
Rail	100.0	100.0	100.0	100.0	100.0
Including:					
outbound	23.1	11.7	11.1	13.8	14.2
inbound	49.9	45.2	46.6	41.3	39.6
internal republican	27.0	43.1	42.3	44.9	46.2
Road	100.0	100.0	100.0	100.0	100.0
Including:					
outbound	4.0	2.9	3.4	4.9	4.4
inbound	16.2	11.8	12.6	16.6	12.7
internal republican	79.8	85.3	84.0	78.5	82.9
Air	100.0	100.0	100.0	100.0	100.0
Including:					
outbound	37.0	38.1	37.5	47.0	54.5
inbound	63.0	61.9	62.5	53.0	45.5
<i>Source: Statistical Yearbook of Armenia 2013, National Statistics Board of the Republic of Armenia, pp. 335-336.</i>					

It should also be noted that ores, nonferrous metals, and mineral building materials prevail in South Caucasus Railway shipping operations (see Table 3).

The technical state of Armenia's railways does not inspire optimism; their rundown infrastructure and obsolete rolling stock do not meet modern requirements. Most of the engines have been in use for over 40 years and need to be replaced. CJSC South Caucasus Railway is constantly facing

⁹ [<http://www.ekhokavkaza.com/archive/news/20130228/3235/2759.html?id=24915346>].

Table 3

**Loading of Rail Transport by Type of Freight
(thous. tons)**

	2008	2009	2010	2011	2012
Total	1,380.8	1,614.3	1,637.4	1,918.3	2,090.4
Mineral building materials	546.9	212.7	238.8	366.5	313.4
Cement	403.7	140.9	83.3	118.4	126.4
Oil and petroleum products	12.0	1.8	—	—	—
Ferrous metals	2.5	1.4	12.4	6.7	0.9
Ferrous metal scrap	27.3	45.5	51.1	49.6	47.1
Lumber	0.4	0.2	9.6	4.7	0.1
Grains and milled products	26.6	22.8	33.0	29.1	46.4
Chemical and mineral fertilizers	—	0.8	1.1	1.7	0.3
Nonferrous metal ores	85.5	601.6	686.9	1,059.7	1,230.5
Other loads	275.9	586.6	521.2	281.9	325.3
<i>Percentage of Loads by Type of Rail Transport Freight (%)</i>					
Total	100.0	100.0	100.0	100.0	100.0
Mineral building materials	39.6	13.2	14.6	19.1	15.0
Cement	29.2	8.7	5.1	6.2	6.0
Oil and petroleum products	0.9	0.1	—	—	—
Ferrous metals	0.2	0.1	0.8	0.3	0.0
Ferrous metal scrap	2.0	2.8	3.1	2.6	2.3
Lumber	0.0	0.0	0.6	0.3	0.0
Grains and milled products	1.9	1.4	2.0	1.5	2.2
Chemical and mineral fertilizers	—	0.0	0.1	0.1	0.0
Nonferrous metal ores	6.2	37.3	41.9	55.2	58.9
Other loads	20.0	36.4	31.8	14.7	15.6
<i>S o u r c e: Statistical Yearbook of Armenia 2013, National Statistics Board of the Republic of Armenia, pp. 336-337.</i>					

problems related to the technical servicing of rolling stock. There are also many speed restrictions (up to 30 km/h).

Only 370 of the 732 km of railways are fully used (Erevan- the Georgian border, the Erevan-Eraskh passenger line, and a few sections of the Erevan-Vardenis line. Most of the Erevan-Gumri-Airum (the border with Georgia) line is in a pitiful state; 72 km have been restored using funds issued

by the World Bank, but 107 km are in the previous state. Approximately 40 bridges are also in need of repair.

We will note that South Caucasus Railway's investment obligations under the concessionary agreement amount to a total of \$572 million (until 2035). In so doing, 82% of these investments are intended for improving infrastructure, electrification, alarm, and communication systems, and 18% for renewing the engine and rolling stock fleet.

South Caucasus Railway is unable to render high quality transport services for moving passengers and freight short distances, lower the cost of shipments, or create opportunities for widespread use of containers and refrigerator cars.¹⁰

From a purely economic viewpoint, CJSC South Caucasus Railway is not interested in the Armenian-Turkish border being opened. On the one hand, if the border is opened, it will be possible to carry out freight shipments to Turkey, Europe, and in other directions, using not Black Sea, but Mediterranean ports (we know there is great competition at the Mediterranean ports that generates low rates), and also put two-tier container trains into operation, which will reduce rail costs by 40%. On the other hand, the change in track gauge width on the Turkish section of the route and South Caucasus Railway's inability to ensure regular dispatch of two-tier container trains must also be kept in mind. Many of the containers will most likely be sent to the Turkish border, which will lead to a reduction of shipping operations for South Caucasus Railway.¹¹

We will add that if the border is opened, most mass shipments (for example, oil and grain) can be imported through Turkey. This will reduce South Caucasus Railway's shipment indicator even more.

South Caucasus Railway is not interested in non-concessionary projects that could greatly reduce transport distances and operational costs, as well as improve the competitiveness of the railway. In order to reduce the distance of the Erevan-Poti section, there are plans to build two new railroads—Fioletovo-Vanadzor (47 km in length and costing \$90 million) and Gumri-Bogdanovka (80 km in length and costing \$140 million; 21 km will pass through Georgia).

The directors of CJSC South Caucasus Railway think that implementing these programs cannot provide the income necessary for compensating investments in the mid-term (that is, the feasibility of these programs is made difficult by the low potential of shipping operations).

On the other hand, if the abovementioned projects are implemented, Armenia, two out of four of the borders of which are closed, could gain significant economic security advantages. Without placing any particular hope on South Caucasus Railway, the country's government plans to acquire the necessary funds from international financial institutions. This will create additional problems both with respect to the overall loan debt and in planning the development of rail transport.

The prospects for South Caucasus Railway's competitiveness are also discouraging in the context of development of the regional rail network. In recent years, rail operation has become more streamlined in the region's countries. The launching of the new lines being built in Iran, Georgia, and Turkey will have a negative effect on how efficiently South Caucasus Railway functions.

Prospects for the Armenia-Iran railway project. All we know today is that a decision was made in February 2009 to create a working group for coordinating its construction under the control of the deputy ministers of transport of Russia, Armenia, and Iran. In August of the same year, the government of Armenia established the Railroad Construction Management Company. It was supposed to take full responsibility for building the mentioned railroad. The German-Austrian ILF Company drew up the blueprints of the railroad, while the Asian Development Bank granted \$1 million for holding

¹⁰ See: *Armenia's Transport Sphere Development Strategy 2020*.

¹¹ See: *Ibidem*.

a contest and drawing up the feasibility report. Representatives of the World Bank and European Bank for Reconstruction and Development took part in discussing the project.

International financial institutions are largely positive in their assessment of the Armenia-Iran railway construction project and are even willing to participate in it. However, its implementation is not only being hindered for certain financial and political reasons, but is also being blocked by South Caucasus Railway.

The Budget Message on the socioeconomic development and main vectors of fiscal policy notes that in 2011 there are plans to begin drawing up a feasibility report for the construction of 313 kilometers of the Megri-Sisian-Martuni-Gagarin railroad based on the technical assignment drawn up by Russian Railways. However, this document has still not been developed. According to General director of CJSC South Caucasus Railway V. Rebets, the economic expediency of implementing the Armenia-Iran railway project has not been calculated.¹² The company's executives note that no investments have been envisaged in building under concessionary obligations.

Despite this, reports sometimes appear in the press about the discussion of the Armenia-Iran railway project. For example, in January 2013, the beginning of the Southern Railway Armenia and South Expressway Armenia programs were announced. At that time, a memorandum on mutual consent was signed between CJSC South Caucasus Railway, Rasia FZE (registered in the UAE), and the Armenian Ministry of Transportation and Communication. According to the widespread statement, Rasia FZE is already engaged in widespread activity based on creating a consortium for feasibility reports, design, financing, development, and exploitation.

According to Russian Railways Chairman V. Iakunin, building a southern railway presumes an essentially new infrastructure, the spending on which cannot be quickly reimbursed. This will require between 30 and 50 years and, what is more, implementation of the project will largely depend on the situation around Iran. "We believe that the Iran-Armenia railway construction program has a realistic basis, and we are working in that direction. But it is beyond the sphere of interstate relations and its implementation not only depends on us," he added in an interview with Radio Freedom.¹³

Nevertheless, it is highly likely that Iran is interested in building alternative routes to Europe. The above-mentioned railway will give Iran the opportunity to reach the Georgian Black Sea ports. In turn, the Europeans are definitely interested in the Iranian market. If a new geopolitical and geo-economic situation arises around Iran, whereby the U.S. and EU will try to draw it into regional energy, particularly gas projects, Armenia's role in the regional infrastructures will significantly grow. One of the factors promoting this might be the Armenia-Iran railway.

But at present Armenia is experiencing restrictions in transportation policy (particularly in rail transport development planning). The concessionary agreement, which gives Armenia insignificant economic advantages, restricts the government's freedom to maneuver in developing rail transport. For example, according to the agreement, the concession operator made a one-time entry payment to a concession grantor amounting to 1 700 million drams. In compliance with Art 5.2, the concession grantor should receive an annual concession payment amounting to 2% of the total income of the concession operator (the income obtained from passenger carriage excluded).

On the other hand, the concession operator is free to establish tariffs for rail services, apart from if a state of emergency is declared in Armenia. Nor can the concession operator establish the following:

¹² See: "Ekonomicheskaiia tselesoobraznost stroitelstva zheldorogi Iran-Armenia ne rasschitana—Rebets," arka.am, 24 May, 2012.

¹³ See: T. Avetisyan, "Iakunin—the Iran-Armenia Railway Program is Realistic," Radio Freedom, 15 February, 2012, available at [<http://www.azatutyun.am/content/article/24485399.html>] (in Armenian).

- (a) tariffs for the use of rail transport infrastructure;
- (b) tariffs for shipping strategic goods, the list of which is drawn up by a government decision;
- (c) tariffs for international shipping to Armenia (or from Armenia) regulated by corresponding agreements.

The tariff policy of CJSC South Caucasus Railway is based on international contracts and agreements, Armenian legislation, company decisions and, as noted above, the rail tariff policy of the CIS countries.

The company's tariff policy is drawn up in keeping with the Concept for Establishing a Coordinated Tariff Policy in CIS Rail Transport approved by a Decision of the Council of Heads of Commonwealth Governments of 18 October, 1996. This Concept defines the principles for forming a coordinated tariff policy among the rail administrations of the CIS member states for shipping freight on interstate and international supply routes. Moreover, the concessionary obligations of the Armenian government give the country the role of "servicer" of Russia's geo-economic strategies and restrict the country's geopolitical and geo-economic room for maneuver, which could create serious problems in its rapprochement with the EU.

In June 2012, a founding agreement was signed on the establishment of a Eurasian Union of Transport, Freight Forwarders, and Logistic Organizations (ESTELO), uniting the transport unions and associations of the future Eurasian Economic Union (EEU). ESTELO is called upon to protect the interests of transportation enterprises, primarily the participants in foreign economic activity. It includes the Russian Union of Transport Operators, the Association of International Road Transport Carriers of Russia and the Association of International Road Transport Carriers of Belarus (ASMAR and BAMAR), the Freight Forwarders Association of the Russian Federation and the National Freight Forwarders Association of Kazakhstan (FAR and NFAK), the Ukrainian Association Ukrvneshtans, Kazakhstan's Kazlogistiks, the Russian Union of Road Builders ASPOR, and the Freight Forwarders Guild.¹⁴ One of the Union's main tasks is to assist in developing a regulatory legal base for harmonizing and possibly unifying transport regulatory acts in the territory of the future EEU. As for Armenia, it is still unclear how it will be able to coordinate its transport policy with the EU countries if it joins the EEU.

So, as of today, the only solution that meets the country's national interests could be to reexamine the existing approaches of the sides interested in building the Armenia-Iran railway, as well as resolve several issues relating to the activity of South Caucasus Railway.

Transit. A Regional Approach

Transit is a certain system of concessions, the aim of which is to simplify trade within a particular customs territory or between individual customs territories. The competitiveness of landlocked countries is suffering due to transit payments (port and road tolls, payments for freight forwarding services, and so on) and many other problems. The situation is also aggravated by the fact that a significant number of both littoral and non-littoral states are developing countries and encounter the same infrastructural, institutional, administrative, and legal obstacles.

¹⁴ See: V. Romanova, "Sozdan novyy transportnyy soiuz," *Rossiiskaia Buznes-gazeta*, 26 June, 2012, available at [<http://www.rg.ru/2012/06/26/transport.html>].

In addition to the shortcomings in the transportation system and infrastructure, landlocked countries are extremely vulnerable in terms of security. For example, transit routes can be closed at any moment (specifications concerning this problem are often found in transit agreements). What is more, goods that cross the border during export, import, or transit go from one legal system to another. Their incompatibility can lead to “legal stalemate” and ultimately to interruptions in goods transit.

It should be noted that cooperation in transit shipments has significant advantages for both transit and landlocked countries. Consequently, when talks are held about a transit agreement, the positions of these countries do not necessarily have to oppose each other.

On the one hand, during shipping operations, the infrastructure of the transit country is used and the related expenses are included in the tariffs and payments imposed, which is considered very normal.

On the other hand, a landlocked country has certain opportunities to protect its interests. The flows of goods coming from it serve as a source of income for the transit country. In this respect, the existing transit capacities must be profitable. Therefore, transit countries are usually interested in entering reasonable agreements in order to attract trade flows.

The only logical way to resolve the above-mentioned problems is to develop regional approaches within the framework of bilateral and multilateral transit agreements. Sometimes bilateral transit agreements have general provisions, which could be unattractive for business circles and create a certain amount of vagueness. In this case, consumers will most likely begin to relate cautiously to long-term export agreements they are asked to enter, while foreign companies will want to think again about placing their facilities in a landlocked country.

Bilateral agreements usually give a very detailed description of transit corridors, which could apply to the following: entry and exit points, land routes, service tariffs for the transit country, duty-free zones, warehouses, or free zones (open or closed space) in port terminals for transshipments, regulations for shipping hazardous freight, and so on. What is more, such agreements often contain specific instructions on rent or rent payment addressed to the representatives of customs agencies in free zones (for control of goods flows and resolution of administrative issues in the transit country).

Some agreements may also examine quotas for issuing licenses and environmental protection limits. This creates restrictions, makes transit more expensive, and consequently reduces shipments and trade volume. So it can be stated that in integration conditions transit is carried out without particular problems for either transit or landlocked countries. In this respect, the integration of Armenia and Georgia within the framework of one and the same regional union does not have a reasonable alternative in either the political or economic respect. If goods are moved freely and without barriers, and decisions on investments are made keeping account of the general prospects, transport costs are reduced and the prosperity of both sides is increased.

This interaction results in the creation of transport corridors (or so-called development corridors) that could open up great opportunities both for transit and for landlocked countries. Such corridors include highways, railways, ports, trade warehouses, distribution terminals, and mixed shipping operations between littoral and non-littoral countries.

Armenia and Georgia (or Armenia and Iran) can also create such transport corridors.

A development corridor is an important prerequisite of the integration processes between countries with and without access to the sea. The use of a coordinated approach regarding international shipments, unified legislative framework,¹⁵ as well as coordinated documents and procedures corresponding to international practice could be the results of such initiatives.

¹⁵ A unified legislative framework includes common railway codes, civil aviation laws, transport codes, customs legislation, laws on freight forwarding services, legislation on the shipment of hazardous freight, and so on.

Regional integration and cooperation make it possible to remove trade barriers and lower transaction costs. Economy of scale helps them to create a stimulus for economic development. At the same time, this could promote economic growth both in landlocked and in neighboring transit countries.

Transport corridors make it possible to increase the potential of interregional cooperation as much as possible. The program to create the Europe-the Caucasus-Central Asia (TRACECA) transportation corridor initiated by the EU in 1993 serves as an example of this. At the first stage of creating this corridor, the general legislative framework of the transportation and transit sectors was laid. It envisaged the regular coordination of laws and making amendments to them (in order to bring them into correspondence with international principles). It was also decided to adopt new laws to regulate international shipping operations.

Multidimensional and regional trade agreements (in economic, customs, and free trade zones) presume an invariable drop in tariffs. This actively stimulates goods and services exchange and raises integration of production and distribution systems. Improvement of the physical movement of goods, that is, their actual shipment through the territory of sovereign states, is beginning to play an ever important role.

Today, the main problem is not so much access to world markets as supplying them with goods without an increase in costs relating to legal, administrative, customs, or technical barriers. This problem is felt particularly acutely in landlocked countries.

One of the most urgent tasks facing Armenia is raising the efficiency of bilateral agreements with Georgia and Iran.

In 2006, Georgia and Armenia signed an agreement on road transport, and in 2007 on mutual support in customs issues. These bilateral agreements are not administrative, but are largely general in nature. There are still unresolved issues between the two countries relating to transit shipments through Georgia (for example, an extremely large number of documents necessary for carrying out phytosanitary and zoological sanitary control procedures, a mandatory special permit for transit shipments of dual purpose goods, and so on). It is likely that this is also related to the fact that Georgia does not give Armenia the most-favored-nation status.

As for Iran, Armenia signed an agreement on road transport with it in 1992. In 2003, an agreement on cooperation and rendering mutual administrative support was ratified. As in the case with Georgia, the agreements with Iran are also general in nature.

If signing the above-mentioned documents is viewed through the prism of Armenia's possible accession to the Customs Union (CU), it can be stated that there are serious risks threatening the prospects for its bilateral agreements with Georgia and Iran. There is a widespread opinion that ways to prevent them should be sought in international conventions. But studying the provisions of these conventions shows that the risks in the transport sphere are very real and they cannot be avoided merely by joining particular agreements.

Principles on the freedom of transit and sovereignty. The question of the applicability of the term "principle of freedom of transit" is still being discussed in the legal literature. The main international law documents using the concepts of "freedom of transit" and "the right of freedom of transit" are the Convention and Statute on Freedom of Transit of 20 April, 1921, the General Agreement on Tariffs and Trade of 1947, the U.N. Convention on the High Seas of 1958, the Convention on Transit Trade of Intercontinental States of 1965, and the U.N. Convention on the Law of the Sea of 1982. Their analysis shows that the principle of freedom of transit is not universal and is more conventional in nature.

Freedom of transit is accompanied by limitations. We will also note that despite its declared freedom, the transit movement procedure is still coordinated with the general principle of international law on state sovereignty over its territory.

The interested side is granted transit rights not only because it is necessary (in the case of a landlocked country), but also in compliance with the agreements reached with the transit country under bilateral or multilateral agreements on this issue.

American specialist in international law Charles Hyde noted in his work, *International Law chiefly as interpreted and applied by the United States* that it is questionable that international law would obligate one state to give another state the right to transit by land through its national domain.¹⁶ In so doing, he is convinced that the “principle of freedom of transit” is sufficiently encompassing to include the right to use any type of supply route.¹⁷ According to Charles Hyde, justification for the need to grant the right to transit through another state’s territory depends on the nature and state importance of the particular supply route, and it differs depending on the geographic location and relative isolation of the territory of the state claiming the right to use a particular supply route.¹⁸

Thus, in contemporary international law, two different concepts of freedom of transit have developed. In the first case, freedom of transit is recognized by the world community as a necessary principle of trade communication for landlocked states due to their particular geographic location and generally recognized freedom of the high seas. In the second case, freedom of transit is a legal provision recognized as desirable when entering bilateral and multilateral agreements, but it is not *sine qua non*. This principle cannot be considered a generally recognized regulation; however, comprehensive agreements that regulate transit issues make it possible to turn it into a universal principle.

The appearance of other likely problems relating to CU membership. In the past decade, the EU has been focusing great attention (within the framework of a comprehensive regional approach) on the question of creating a corresponding regulatory field with the Caucasian region and Central Asia. It should be noted that Armenia has achieved a certain amount of success in adapting to EU rules and international standards in the transport sphere.

Armenia has been concentrating its efforts on developing the North-South highway. Within the framework of the neighborhood investment fund, the EU has been rendering Armenia assistance in modernizing the checkpoints on the Georgian border for land vehicles. Armenia has also ratified ten UNECE conventions. They include five of the seven most important conventions promoting the development of land transport; they are all, with the exception of one, included on the TRACECA list.¹⁹ Along with this, the country is also in the process of acceding to two UNECE conventions in the land transport sphere.²⁰

In 2013, Armenia joined the 1965 Convention on Transit Trade of Landlocked States (the so-called New York Convention); it is presumed that this will give it additional opportunities to protect its rights on those international forums that Turkey participates in.

Transport integration with the EU could turn Armenia into Europe’s southeast boundary. In so doing, the country will gain more opportunities for developing a contemporary service sector and performing an important transit and civilizational role.

¹⁶ See: Ch.Ch. Hyde, *International Law Chiefly as Interpreted and Applied by the United States*, Vol. 2, Little, Brown & Co., Boston, 1922.

¹⁷ Ibidem.

¹⁸ Quoted from: V.A. Malashevich, “Printsip svobody tranzita v mezhdunarodnom prave,” *Problemy upravleniia*, No. 3 (36), 2010, p. 139.

¹⁹ See: *Trade Facilitation and Institutional Support Project for Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Romania, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan*, Progress Report III, February 2006.

²⁰ The Vienna Convention on Road Signs and Signals of 8 November, 1968 and the Customs Convention on the Temporary Importation of Private Road Vehicles of 4 June, 1954.

Armenia is a member of several international transport organizations (for example, the International Transport Forum and TRACECA) and is a participant in the transportation programs of the Black Sea Economic Cooperation, CIS, and other organizations. In 2003, Armenia became a member of the World Trade Organization; this means that the country's transport market has been liberalized.

However, in the event of accession to the CU, Armenia could come up against serious problems in transportation and transit. The matter concerns the country losing a large number of those advantages the above-mentioned conventions could give it.

For example, the Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention of 1975) establishes a procedure that makes it possible to transport goods (in vehicles or containers) from the customs authority of the dispatch country to the customs authority of the destination country, crossing one or several borders, without intermediary inspection of the goods being transported and having to provide financial guarantees at every border.

At the end of last year, Russia reexamined the provisions for use of the TIR procedure. In turn, other participating states of the Convention can demand additional guarantees from Moscow and carriers from other CU countries on the basis of reciprocity (if they reexamine the current TIR system).²¹ If Georgia and Iran (which provide Armenia with access to the external world) demand additional guarantees from Moscow and the CU countries, this will significantly increase the cost of both Armenian import and export, the transport component of which is high anyway. This equally applies to export to the CU countries and import from them (since Armenia does not have a direct land border with the CU).²²

In 2008, Armenia's transportation sphere was subjected to the negative impact of the Georgian-Russian conflict. On 1 March, 2008, Georgia cancelled the current benefits (discounts) for the transit of Armenian shipments under the tariff agreement of the railway administrations of the CIS countries. The Georgian side justified its decision by saying that the benefits were granted to the Armenian company and not to Russian Railways, which was the concession operator of Armenian Railways.²³ In particular, a 17% discount on the transportation of liquid cargo and a 22% discount on the transit of dry cargo were cancelled. We will note that according to the documents signed under TRACECA, Georgia assumed the international obligation to apply a 50% discount for transit shipments (Georgian and Armenian) through its territory.

At present, the CU is using unified customs-tariff and non-tariff regulations, as well as unified customs legislation, and a unified legal field also functions in the area of barriers and restrictions.

The CU envisages the signing of three agreements that will regulate the following:

- the special features of shipping operations using TIR carnets in the CU customs territory;
- the special features of moving goods and vehicles through the territory of states that are not CU members;
- the special features of carrying out customs support of vehicles.

The above-mentioned changes could create restrictions for Georgia. On the other hand, stronger relations between Georgia and NATO are fraught with problems related to military transit to Armenia.

²¹ See: M. Liutova, "Rossia vykhodit iz mezhdunarodnoi sistemy transita," *Vedomosti.ru*, 1 August, 2013.

²² [<http://www.lragir.am/index/arm/0/comments/view/90831>].

²³ [<http://izvestia.ru/news/417711>].

Conclusions

No access to the sea, isolation, remoteness from the world markets, high transport and transit costs, complicated border-crossing procedures, and other factors restrict the participation of non-littoral countries in international trade and create serious problems for their socioeconomic development and for raising global competitiveness.

It is important for landlocked countries to develop their transport infrastructure, simplify the border-crossing procedures, intensify regional integration, look for ways to gain access to markets, and improve the foreign trade structure (with the accent on producing profitable products, developing information technology and other high value added spheres).

The August events of 2008 showed that Armenia's closed borders are making it necessary to retain and develop good relations with Georgia (which links Armenia with the Black Sea ports by means of roads and railways) and Iran (the ports of which serve as an alternative to Georgia's ports).

Building the Armenia-Iran railway may be important for modernizing the transport infrastructure. Implementation of this project will play a significant role in improving the country's economic structure, raising its transit potential, and realizing its prospects in the markets of the Middle East and Central Asia. However, at present, implementing this project is still in question due to the absence of the necessary financial resources and lack of interest on the part of South Caucasus Railway.

At present, the infrastructure and rolling stock of Armenia's railways has significantly deteriorated and does not meet contemporary standards. In the past few years, South Caucasus Railway has repeatedly encountered problems relating to the technical servicing of moveable carriages, speed restrictions, and so on. It has been unable to acquire the necessary experience in short-distance shipments, make the railroad more competitive (compared with alternative types of transport), or create wide opportunities for using containers and refrigerator cars. What is more, South Caucasus Railway has some of the highest tariffs in the world.

Landlocked countries are doubly vulnerable. They often come up against the unwillingness of neighboring littoral countries to grant them transit opportunities. Moreover, littoral countries sometimes block access to the sea or transit through their territory for economic reasons and security considerations.

Two different concepts of freedom of transit have developed in contemporary international law. In the first case, freedom of transit is recognized by the world community as a necessary principle of trade communication for landlocked states due to their particular geographic location and generally recognized freedom of the high seas. In the second case, freedom of transit is a legal provision recognized as desirable when entering bilateral and multilateral agreements, but it is not *sine qua non*. This principle cannot be considered a generally recognized regulation; however, comprehensive agreements that regulate transit issues make it possible to turn it into a universal principle.

A central role is played by bilateral and multilateral agreements in any reform aimed at improving the state of landlocked countries. In this respect, it is not a particular country, but a region, or, for example, a specific transport corridor (or corridors) that is the natural target of regulation.

In the next few years, Armenia will have to solve the important task of creating real trade corridors with Georgia and Iran that will link the country with the global and regional markets. Strengthening relations with Iran and gaining access to the Caspian and Arabian seas will raise Armenia's competitiveness even more. If Armenia joins the CU, significant restrictions may arise

in developing its transportation ties with the outside world, and then the country will find itself in extreme isolation.
