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Lost potential in the South Caucasus: Aspects of interstate trade

Yerevan - Baku - Tbilisi - 2003

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The research paper summarizes the existing trends and obstacles of current economic development in South Caucasus Republics – Armenia, Azerbaijan and Georgia – during the last decade. It has been developed by expert groups of the International Center for Human Development /ICHD/ (Armenia), the "AREAT" Center (Azerbaijan) and the Strategic Research Institute /SRI/ (Georgia) – non-governmental organizations – within the framework of the "Lost Potential in the South Caucasus: Aspects of Interstate Trade" project under Friedrich Ebert Stiftung umbrella.

The paper has been developed on the basis of the three 'country studies'. Each of these is focused on one of the three South Caucasus countries' economic situation and was developed by the same countries' expert groups respectively. The views expressed in each topic are those of the authors of the relevant topic and do not necessarily reflect the views of the other expert groups.

The ultimate goal of this publication is to identify the main 'product groups' for potential trade and to help the different businesses to recognize their real losses from lack of the trade. The target audience of the paper is researchers, NGO's, policy makers and business circles of the three South Caucasus countries.

The Friedrich-Ebert-Stiftung (FES) was founded in 1925 as a political legacy of Germany's first democratically elected president, Friedrich Ebert.

Ebert, a Social Democrat from a humble crafts background who had risen to hold the highest political office in his country, in response to his own painful experience in political confrontation had proposed the establishment of a foundation to serve the following aims:

furthering political und social education of individuals from all walks of life in the spirit of democracy and pluralism, facilitating access to university education and research for gifted young people by providing scholarships, contributing to international understanding and cooperation.

The Foundation, which was banned by the Nazis in 1933 and not re-established until 1947, continues today to pursue these aims in all its extensive activities.

As a private cultural non-profit institution, it is committed to the ideas and basic values of social democracy.

International Center for Human Development

The International Center for Human Development is an independent research and public policy institution, a unique think tank, which pays close attention to research as it attempts to develop a unique vision of the main problems facing economic development and social safety. The Center's interests include:

- civil society strengthening;
- regional integration and globalization issues;
- social sector and poverty alleviation;
- governance and public sector reforms;
- free market institutions development;
- assistance to local governance;
- environmental issues;
- cultural promotion, etc.

The Center is aimed to support strengthening the democratic mechanisms and fostering free market values.

“AREAT” Center

The “AREAT” Center was established by the political scientists, sociologists, economists and conflictologists in 1998 year. “AREAT” is an independent non-government organization. The main aim of Center is the promotion of public society and support of the democratic reforms in Azerbaijan. The Center carries out the projects in the different areas of public policy. It successfully co-operates with different international humanitarian organization such as Eurasia, AED, ISAR, UNIFEM, Open Society as well as with national and foreign business structures: BPAMOKO, SOCAR, WB. For 5 years “AREAT” has executed more than 30 projects having got the large resonance in public life of Azerbaijan. The Center is an initiator of scientifically practical conferences on problems of the transit period, publishes analytical and methodical literature. Actively participating in partner's program, the Center promotes the development of integration processes in South Caucasus and the forming of peace culture and tolerance.

The Strategic Research Institute

The Strategic Research Institute (SRI) is the independent think tank for policy analysis and development with mission to support the processes of conceptual and organizational development of new social system and sovereign statehood building in Georgia.

SRI Supports the policy-making processes in all branches of government, political and social organizations to bring about significant policy and institutional changes, covering the issues of:

- Development Policy, Social policy, Economic policy;
- Analysis of conceptual and organizational problems of governance;
- Change management and organizational development in state administration, social and economic institutions;
- Capacity building for policy management;
- Analytical support and facilitation of Business – Government – Civil Society dialogue processes;
- Training programs development on public policy management.

The Soviet economy under central planning was characterized by a high degree of regional specialization and high level of inter-republican trade. This reflected an attempt to maximize benefits from economies of scale and a strategic objective to achieve relatively self-sufficient and fully integrated economic area within the former U.S.S.R. Inter-republican trade has taken up much higher proportion of total trade than is typically observed elsewhere.

Table 1. Comparison of Intra-regional Trade Flows (as of 1988)

	Total trade (As percent of GDP)	Share of Intra-regional in Total Trade (percent)
Armenia	54.9	89.1
Azerbaijan	42.0	85.6
Georgia	44.3	86.5

Sources: Goskomstat U.S.S.R., International Financial Statistics

Following the gradual erosion of central planning in the late 1980s and disintegration of the union structure, the level of inter-republican trade has continued to deteriorate. From about 1988 onward, inter-republican trade was falling in line with the general decline in activity as supply constraints intensified throughout the Soviet economy.

The collapse of the former Soviet Union and the associated breakdown in the command economy in the early 1990s had a deleterious effect also on the economic performance of all three countries of the South Caucasus. The level of real GDP in Azerbaijan and Armenia has fallen to approximately half the level attained at the end of the Soviet era, or one-third of the former level in the case of Georgia. The core impediment to economic development in the three countries is the inherited structural weaknesses in their domestic economies. However, the obverse in this problem is the potential benefit of greater regional co-operation between the three countries. Hence, the aspect of regional trade has a significant role here.

The countries in the region are currently in the process to conduct trade under WTO standards. Furthermore, Georgia and Armenia are already considered to be members of WTO. At the meantime, untapped potential for interstate trade subsists within the region. Insufficiently low level of interstate trade, as well as distinctions in trade liberalization inflict extensive loses for each country.

As of today, the problem as a whole was addressed and comprehensively investigated mainly by the international institutions such as World Bank. In spite of very important value of all these investigations, the outcome has a significant drawback – it didn’t contribute to setting a dialog between representatives of the three countries.

This paper summarizes the existing trends and obstacles of current economic development in South Caucasus Republics – Armenia, Azerbaijan and Georgia during the last decade. It has been developed by expert groups of the International Center for Human Development /ICHD/ (Armenia), the "AREAT" Center (Azerbaijan) and the Strategic Research Institute /SRI/ (Georgia) - non-governmental organizations - within the framework of the "Lost Potential in the South Caucasus: Aspects of Interstate Trade" project under Friedrich Ebert Stiftung umbrella.

The purpose of the project was to generate favorable environment for bringing together qualified experts from Armenia, Azerbaijan and Georgia to work towards a common goal. This final report most comprehensively and comparatively reveals the existing views in these countries on the same topics with similar format.

The ultimate purpose of the paper is merely to introduce concrete and tangible facts and make unbiased comparisons without making final judgments. To the best possible extent it avoids theoretical assessments and basically concentrates on unprejudiced description of the current situation. The paper contains neither policy recommendations nor positive/negative estimations. It eventually helps to recognize the scale of *unrealized potential*.

Submitting the three countries' comparative economic capacities will allow ordinary readers easily recognize the possibilities of economic growth and mutual benefits in case the three countries are realizing the co-operation.

This final report grants an opportunity to answer the question: HOW MUCH? How much is the price of confrontation in terms of interstate trade?

The paper has been developed on the bases of the three 'country studies'. These, in turn, are composed within the frame of a master methodology and address the following points:

- Country overview
    - General economic overview
    - Economic reforms and institutional developments
    - Real sector of the economy
- External Trade
    - Exports
    - Imports
    - Trade regimes
    - Transport costs
    - Trade policy
    - Transit opportunities
- Consumption
- Production
- Trade routes

- Local trade
- Trade in energy

The 'country studies' elaborated by a single standard, enable to get the whole picture of economic situation in the three countries. They also contain enough data to combine and compare the mutual trade benefits of the three countries. As a result, the paper allows the reader to discover the hidden potential for interstate trade in the region. For this very purpose domestic production structure and volumes were analyzed with regard to the tax system and local consumption. Export potential of the neighbouring countries was discussed on the bases of different commodities. This was partially combined with the existing local consumption. Transportation costs and all other relevant expenditures have been assessed as well. Hence, *the ultimate goal of the research – to identify the main 'product groups' for potential trade and to help the different businesses to recognise their real losses from lack of the trade* – was consequently persuaded.

Thus, the paper merely serves as a comprehensive tool: it doesn't provide with universal solutions. It doesn't even persist in calculating South Caucasus countries' annual loses from unutilized trade potential. Nevertheless, it summarises comprehensive data for a wide range of businesses to recognise the neighbouring country's real trade possibilities and, eventually, to estimate the extra profit, they currently lose due to the closed borders.

Thus far, the target audience of the paper are not only researchers, NGO's and policy makers, but also business circles of the three South Caucasus countries. We do believe that 'lost business potential' or 'unrealised profit' eventually will help the business circles of the three countries to contribute the efficiency of ongoing conflict resolution process.

2.1. Country overview

ARMENIA

Geography

The Republic of Armenia is a mountainous landlocked country occupying a part of the mountain chain called Armenian Plateau. It is situated within the Alps-Himalayas mountain system and can be called an island of mountains. The total land area of Armenia is 29.800 sq. km. Georgia borders Armenia on the North (164 km), Azerbaijan on the East (566 km), with Turkey (268 km) and Iran (35 km) on the West and south respectively. The length of the Republic's territory from West to East is 200 km and 400 km from Northwest to Southeast. It is ranging 900 to 1,800 meters above sea level and the climate is dry continental. The highest mountain peak is Aragats (4.090 meters) and the lowest point is Debed River (400 m). Population makes 3,766.4 (as of 1996) thousand people.

Yerevan, the capital of Armenia, nestles in the shadow of the snow-capped heights of the Mount Ararat. Yerevan nowadays occupies 210 sq. km; its population is 1.249 thousand people, that is over one third of the country's total population lives in the capital. Yerevan is a major industrial city, a centre of social, political and cultural life of Armenia.

Natural Resources: On the territory of Armenia there are 10 natural lakes, 15 rivers, 5 canyons which form a common lacework of high and low peaks. Lake Sevan is one of the largest alpine lakes in the world (covering approximately 1.400 sq km). The country possesses small deposits of gold, copper, molybdenum, zinc, alumina Land use: arable land: 17% permanent crops: 3% permanent pastures: 24% forests and woodland: 15% other: 41%

Land: cultivable – 3.2%, pastures – 29.8%, forests – 12%, dry lands – 17.8%, alpine – 37.2%

Population

Ethnic Breakdown: Armenians - 96%, Russian - 2%, Yezidis, Kurds, Assyrians, Greeks, Ukrainians, Jews and others - 2%

Population breakdown: urban - 67.5%, rural - 32.5%, female - 51.5%, male - 48.5%. The age structure of the population is presented hereby:

0-14 years: 25% (male 442,117; female 832,561)

15-64 years: 66% (male 1,100,334; female 1,148,595)

65 years and over: 9% (male 122,170; female 170,457)

The net migration rate is: -8.26 migrant(s)/1,000 population.

Birth rate is: 13.53 births/1,000 population. Death rate is: 9.03 deaths/1,000 population.

Sex ratio: at birth: 1.05 male(s)/female under 15 years: 1.04 male(s)/female 15-64 years: 0.96 male(s)/female 65 years and over: 0.72 male(s)/female total population: 0.95 male(s)/female.

Life expectancy at birth: total population: 66.56 years male: 62.21 years female: 71.13 years. Total fertility rate: 1.68 children born/woman.

The State

Language: The Armenian language is of Indo-European family, representing a stand – alone ramification of the family with one of the oldest scripts being created on the 5th century.

Date of Creation: September 21, 1991, the day of the referendum for independence of Armenia. Based on the results of the referendum (99% voted for independence), the parliament (The Supreme Soviet of the Armenian SSR) adopted the Declaration of Independence and announced the independence of the Republic of Armenia.

The Flag: The law "On the State Flag of the Republic of Armenia" was adopted on August 24, 1990, by the Supreme Soviet of the Republic of Armenia. The State Flag is a rectangular panel with three equal horizontal stripes of red, blue and orange (from top to bottom).

The State: The Republic of Armenia is a sovereign, democratic, social, rule of law state. The state power is administered pursuant to the Constitution and the laws based on the principle of separation of the legislative, executive and judicial branches.

Under the old Soviet central planning system, Armenia had developed a modern industrial sector, supplying machine tools, textiles, and other manufactured goods to sister republics in exchange for raw materials and energy. Since the implosion of the USSR in December 1991, Armenia has switched to small-scale agriculture away from the large agro industrial complexes of the Soviet area. The agricultural sector has long-term needs for more investment and updated technology. The privatization of industry has been at a slower pace, but has been given renewed emphasis by the current administration.

Armenia is a food importer, and its mineral deposits (gold, bauxite) are small. The ongoing conflict with Azerbaijan over the ethnic Armenian-dominated region of Nagorno-Karabakh, economic blockade of Armenia by Azerbaijan and Turkey (which continues till now) and the breakup of the centrally directed economic system of the former Soviet Union contributed to a severe economic decline in the early 1990s. By 1994, however, the Armenian Government had launched an ambitious IMF-sponsored economic program that has resulted in positive growth rates in 1995-98. Armenia also managed to slash inflation and to privatize most small- and medium-sized enterprises.

The Republic of Armenia has established diplomatic relations with 125 countries. 71 states have accredited their ambassadors in the RA. Armenia has accredited its ambassadors and representatives in 42 states and 7 international organizations.

The Constitution: Was adopted on July 5, 1995, through a popular referendum. The Constitution is the basic law of the Republic of Armenia and is the safeguard of independent democratic society in Armenia, based on the supremacy of social justice and the law.

The President: The Republic of Armenia has a system of presidential rule. In accordance with the Constitution, the President ensures compliance with the Constitution, the normal operation of the legislative, the executive and the judiciary, and serves as the guarantor of sovereignty, territorial integrity and security of the Republic.

The President is elected by the citizens of the Republic of Armenia for a five-year term.

The Executive Power: The executive power in the Republic of Armenia belongs to the Government of the Republic. The Government is composed of the Prime Minister and the Ministers.

The President of the Republic appoints and removes the Prime Minister of the Republic. The President also appoints and removes all members of the Government nominated by the Prime Minister.

The Legislative Power: Legislative power in the Republic of Armenia belongs to the National Assembly. The National Assembly is a 131-seat body, of which 75 are elected from single-mandate districts and 56 by party list.

Last parliamentary elections were held in May, 1999.

The Judicial Power: In the Republic of Armenia justice is carried out by Courts in conformity with the Constitution and the Law. In the Republic of Armenia, the courts of general competence are: courts of first instance, review courts and the Court of Appeals.

There are also economic, military and other courts provided by the Law.

The President of the Republic serves as a guarantor of independence of judicial bodies. He is the Head of the Council of Justice.

Major Cities: Gyumri, Vanadzor, Hrazdan, Abovyan.

Administrative Division: Eleven marzes (provinces) (including the capital city of Yerevan that has a status of a marz). Provinces and communities are the administrative/territorial units of the Republic of Armenia. The provinces comprise the rural and urban communities. The communities are elected for a three-year term with the purpose of administering community property and resolving issues of community significance. The city of Yerevan possesses the status of a province. The mayor of Yerevan is appointed by the President of the Republic of Armenia.

AZERBAIJAN

Geography

Azerbaijan Republic is situated in the eastern part of the South Caucasus in the South-North of Europe. The mountains from three sides surround Azerbaijan territory. The mountains occupy near the half of its square. The Large Caucasus with the highest top named Bazar-Dhuzu (4480 m) raised its bulk in the North (only the South-East part of the Large Caucasus is in the boundaries of AR). In the Southwest the massive Tran Caucasian plateau, running into Armenia and Georgia, is restricted with the ridges of the Small Caucasus. This plateau joins the Talysh Mountains in the South. All the space between these mountains is occupied by Kure–Araz lowland that is the largest in Azerbaijan.

The sloping plains and low mountains edge it. From the East, Azerbaijan is washed by the Caspian Sea (the shore length makes 173 km). Thus, the surface of Azerbaijan looks like the giant vat with the steep mountain rims straightly tilted to the Caspian Sea. All the rivers of Azerbaijan belong to the basin of the Caspian. Kure River the largest river is used for the local navigation with its lower flow.

Azerbaijan borders on the Russian Federation, in particular on Dagestan (390 km) in the North, on Armenia (1007 km) in the West, on Georgia (480 km) in the Northwest, on Turkey (15 km) in the Southwest and on Iran (765 km) in the South. The square of Azerbaijan Republic in which Nakhichevan Republic enters, it is 86600 sq. km. The numerous small islands (Baku and Absheron archipelago) are amongst given above. Azerbaijan Republic is divided out among 65 administrative–territorial regions. The capital of Azerbaijan is Baku-city having about 2-mil. population. This largest country's city occupies 192 thsd. hectares.

Advantages:

Being between Europe and Asia, since ancient times Azerbaijan was situated on the fork of the sea and caravan ways that was one of key links of the Great Silk Way. And today Azerbaijan is sure not to lose the same connecting role. In 1993 Europe Council passed special program of creating the transport corridor from Europe across the Black Sea and Caucasus into the Central Asia. This program result in expanding the regional trade and restoring the connections lost after USSR disintegrating. In 1998 12 states within the framework of this program signed the multilateral agreement named Baku Agreement that meant the economical cooperation for the purpose of developing the transport infrastructure. New Silk Way turned into the reality and trade amount exceeded the original plans.

In republic all the kind of transport means (land, air, railway, automobile) are developed very well. Considering the numerous transport and communicating lines, coming through the Azerbaijan territory and connecting Asia and Europe (the Eurasian corridor) one can confidently demand that strategic situation of Azerbaijan turns it into geographically more important country of that region. Azerbaijan is already significant point in the relation of the West-East and can play no less important role in the relations of the South-North. Azerbaijan is rich of natural resources among which oil has the main place. The prospected and proposed resources of oil in Azerbaijan, of cause will play the important role on the world oil market in XXI century.

On the Azerbaijan territory there are 9 from 11 existing in the global climatic zones from the climate of mountain tundra on the slopes of Big Caucasus to the dry and wet subtropics in Lencoran low-lying place. It, certainly, determinates the generosity and favorable conditions of Azerbaijan nature creating the splendid perspectives for the successful development of agriculture.

Disadvantages

The absence of the general borders with Nakhichevan Republic, that in the blockade conditionals by Armenia leads to the complete isolation of this region from the other part of Azerbaijan territory. The communications are carried out by only air.

Six administrative and territorial regions of Azerbaijan Republic are under the full or practical occupation by Armenia. It is approximately 20% Azerbaijan territory and about mil. refugees.

The Caspian Sea geographically introduced the largest lake in the world. It hasn't the direct way out on World Ocean. And it is one of the main limitations for oil export. The Caspian level annual fluctuates and it has an effect on the transport and communicational mains coming along the seaside, oil output on the shelf, fishery and other branches of economy. The serious problem is unsolved legal status of the Caspian Sea. And the consequence of that Iran and Turkmenistan bear a grudge against Azerbaijan because of arguments about the sea oil and gas deposits.

Population

By the first of July 2002 all Azerbaijan population had consisted of 8 mil. 173 thsd.. There were 4 mil. 146 thsd. (near 51%) city dwellers and rural population reached 4 mil. 27 thsd. (49%). The most part of citizens consisted of females – 4 mil. 169 thsd. (51%) and respectively the country's male population composed 4 mil. 4 thsd. (49%). One of factor restricting the population growth it is the rather high level of migration. So in 2001 year 73 thsd. people left the republic and quantity those who arrived had only 23 thsd.. Azerbaijan is remarkable for rather life expectancy 72-years (women 75.2 years, men – 68.8 years). In every 100 thsd. inhabitants there are more 80 persons having the age of 100 and more years. For six months of 2002 year in the country 56.8 thsd. people were born, 23.6 thsd. died. Thus, the nature population growth according to results of the first half of year composed 33.2 thsd. and outstripped the death rate level for 9.6 thsd.

Historically Azerbaijan always was a polyethnic and multireligious country. On data of the last population census (1999 year) the ethnic background is divided up in such way the Azeries – 90.6%, Lezgies –2.2%, Russians – 1.8%, Armenians – 1.5% (they are concentrated inside of separatistic Kharabach or they live in the mixing families). Talyshes – 1%, Avarians – 0.6%, Tatars – 0.4%, Turkeys – 0.5%, Ukrainians – 0.4%, Kurds – 0.2%, Georgians – 0.2%, Kahurs – 0.2%, Tats – 0.13%, Jews - 0.1%, Udins – 0.05% and the others – 0.12%. The general number of those who speaks motherland language among the national minorities is 99.2%. The representatives of different ethnic group have been taking in the cultural and economic life of country. The separatistic nationalistic movements (if we detach ourselves from Armenian separatism) whose the activity peak was in 1993-1994 years had not the real mass support. Azerbaijan government officials and society always go to meet the needs and wishes of minorities at all points as for culture, education, and representation in power structures. It is sure to stabilize interethnic relations and promote minorities integrating into Azerbaijan society.

The State

Azerbaijan is a civil, democratic Republic. The National Referendum passed and approved Azerbaijan Constitution on 12 November 1995. In October 18th, 1991 Republic proclaimed its independence. The Azerbaijan political system is based on power–sharing principles: executive, legislative and judicial. The president is a state head. He possesses the executive power. The post of the Azerbaijan Republic President was set up in 1991. The President is elected by secret ballot for the universal election. His term of office is 5 years, but no more two times. The highest authority of the executive power is the Minister Cabinet appointed by the President and approved by Parliament. The activity of officials is determined by Azerbaijan Constitution passed for the referendum in November 1995.

The legislative power is realized by Parliament named Milli Medjlis. It consists of 125 deputies elected by universal secret ballot for 5 years. Respectively the last parliament election conducted in October 5th 2000, the representatives of four political parties were elected on system of majority rule and the representative two more parties were did on the proportional list. The Azerbaijan judicial power belongs to independent courts: the Constitutional Court, the Supreme Court and the Highest Economic Court. The highest court authority is the Supreme Court elected by Parliament for 5 years. The Supreme consists of two chambers on criminal and civil affairs. Local courts realize the legal proceedings.

The former Soviet Union Republic Georgia is strategically located in the Caucasus as a trade and transit corridor between Europe and Asia. The country with a population of approximately 5.0 million people and a geographical area of about 70,000 square kilometers is bounded by the Black Sea, the Russian Federation, Azerbaijan, Armenia, and Turkey. During the period following independence and the break up of the former Soviet Union (FSU) in 1991, Georgia has faced severe shocks from disruptions in its trade and payments relations, and a large terms of trade shock for energy imports. This difficulties were compounded by civil conflicts, which created serious refugee problems, and closure or blockage of its trade routes. As a result social situation in Georgia have deteriorated significantly. However, implementation of the stabilization and economic reform programs under support of IMF and World Bank led to some improvement in economic and social situation over the past eight years, but wage and pension arrears are still the most salient problems. Despite myriad problems, progress on market reforms and democratization support the country's goal of greater integration with Western political, economic and security institutions.

Geography

Geographically Georgia is located in Southwestern Asia, bordering with the Black Sea, between Turkey, Azerbaijan, Armenia, and Russia with total land area of 69,700 sq km. Georgian geographic coordinates are: 42 00 N, 43 30 E. Georgia has land boundaries with: Armenia 164 km, Azerbaijan 322 km, Russia 723 km, Turkey 252 km. Georgian land boundary totally amounts to 1,461 km and cost line to 310 km. Georgian climate is warm and pleasant; Mediterranean-like on Black Sea coast. Georgian terrain is largely mountainous with Great Caucasus Mountains in the north and Lesser Caucasus Mountains in the south; Kolkheti's Dablobi (Kolkhida Lowland) opens to the Black Sea in the west; Mtkvari River Basin in the east; good soils in river valley flood plains, foothills of Kolkhida Lowland. The elevation extremes are Black Sea 0 m - the lowest point, and Mt'a Mqinvartsveri - the 5,047 m highest point. Natural resources include: forests, hydropower, manganese deposits, iron ore, copper, minor coal and oil deposits; coastal climate and soils allow for important tea and citrus growth. The land use can be described as follows: arable land -11%; permanent crops - 4%; and irrigated land - 4,700 sq km.

To summarize, Georgia is strategically located east of the Black Sea and controls much of the Caucasus Mountains and the routes through them

Population

By the estimation on July 2002 Georgian population was 4,960,951 with annual growth rate of -0.55%. The age structure of the population can be described as follows:

- 0-14years-19% (male 481,669; female 462,966);
- 15-64 years-68.2% (male 1,631,351; female 1,752,230)
- 65 years and over-12.8% (male 246,663; female 386,072).

The net migration rate is of -2.39 migrant(s)/1,000 population. Ethnic groups in Georgia has the following structure: Georgian 70.1%, Armenian 8.1%, Russian 6.3%, Azeri 5.7%, Ossetian 3%, Abkhaz 1.8%, other 5%. Georgian population can be divided by Religions: Georgian Orthodox 65%, Muslim 11%, Russian Orthodox 10%, Armenian Apostolic 8%, unknown 6%; and by native languages: Georgian 71% (official), Russian 9%, Armenian 7%, Azeri 6%, other 7% (where Abkhaz is the official language in Abkhazia).

The State

Georgia was absorbed into the Russian Empire in the 19th century. Independent for three years (1918-1921) following the Russian revolution, it was forcibly incorporated into the USSR until the Soviet Union dissolved in 1991. Currently ethnic separation in Abkhazia and South Ossetia, poor governance, and Russian military bases deny the government effective control over the entirety of the state's internationally recognized territory.

Georgia has a republic type government with capital in Tbilisi. The administrative division of Georgia is as follows: 9 regions, (mkharebi, singular - mkhare), 9 cities* (k'alak'ebi, singular - k'alak'i), and 2 autonomous republics** (avtomnoy respubliki, singular - avtom respublika); Abkhazia or Ap'khazet'is Avtonomiuri Respublika** (Sokhumi), Ajaria or Acharis Avtonomiuri Respublika** (Bat'umi), Chiat'ura*, Gori*, Guria, Imereti, Kakheti, K'ut'aisi*, Kvemo Kartli, Mtskheta-Mtianeti, P'ot'i*, Racha-Lechkhumi and Kvemo Svaneti, Rust'avi*, Samegrelo and Zemo Svaneti, Samtskhe-Javakheti, Shida Kartli, T'bilisi*,Tqibuli*,Tsqaltubo*,Zugdidi*.

Georgia received independence from the Soviet Union in 9 April, 1991. However, The Independence Day is celebrated on 26 May (1918)- the date of independence from Soviet Russia. Georgian Constitution was adopted on the 17th of October 1995 and legal system is based on civil law system. Executive branch can be described as follows: the president is both the chief of state and head of government. President of Georgia is Eduard Amvrosiyevich SHEVARDNADZE (previously elected chairman of the Government Council 10 March, 1992; Council has since been disbanded; previously elected chairman of Parliament 11 October, 1992; president since 26 November, 1995). Government is presented by Cabinet of Ministers.

Legislative branch has unicameral Supreme Council (commonly referred to as Parliament) or Umaghliesi Sabcho (235 seats; members are elected by popular vote to serve four-year terms). Election results*:* percent of vote by party - CUG 41.85%, AGUR 25.65%, IWSG 7.8%, all other parties received less than 7% each; seats by party - CUG 130, AGUR 58, IWSG 15, Abkhaz (government-in-exile) deputies 12, independents 17, other 3 Elections*:* last held 31 October and 14 November 1999 (next to be held NA 2003)[1].

Judicial branch is comprised from Supreme Court (judges elected by the Supreme Council on the president's recommendation) and Constitutional Court.

2.2. General economic overview

ARMENIA

FSU Heritage

The reforms for changing planning system of the USSR that started in the late 1980s and gathered momentum in already independent Armenia within 1991-92 led to a

[1] Citizen's Union of Georgia or CUG; Georgian People's Front; Georgian United Communist Party or UCPG; Greens ; Industry Will Save Georgia or IWSG; Labor Party; National Democratic Party or NDP; New National Movement; New Rightists; Republican Party; "Revival" Union Party or AGUR;

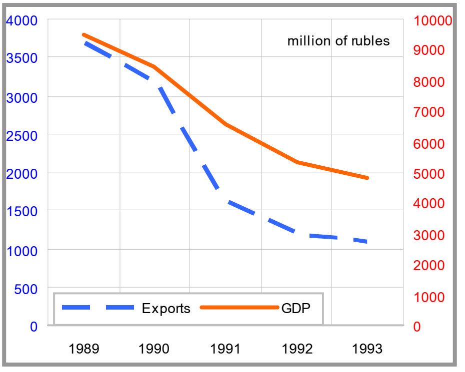
number of negative effects and were reflected in deteriorating macroeconomic indicators and unstable financial situation (faster decline in output, growing inflation pressures, increasing unemployment, etc.).

Armenian economy, like other economies of former Soviet republics, has accumulated a substantial inflation potential, mainly due to decreasing production and fast growing currency issuance to cover USSR state budget deficit (during 1961-1985 currency issuance once has been growing by 10 percent per annum on average). Therefore, it was natural that after price liberalization the hidden and administratively restricted inflation showed enormous growth in all Soviet republics and after declaration of independence financial stabilization became the number one issue to be addressed.

Economic reforms in Armenia started after 1985 and were implemented centrally as a part of USSR. This was so-called "Gorbachov" reform period which ended in 1991 and during which two main directions of reforms were initiated. The first was liberalization of economic activity that could be observed in terms of growing number of cooperatives and introduction of sole entrepreneurship concept. As a result many new production cooperatives were registered increasing the number of cooperatives to 16,133 in 1990 and 17,251 in 1999. This indicator for Armenia was above the average Soviet Union indicator. Naturally, the growing number of cooperatives required substantial investments, sources for which were various (borrowings, savings, assets released from state owned enterprises, income generated in shadow economy, etc.). This also led to the growing demand for various raw materials and components that along with growing money supply substantially contributed to inflationary pressures. Other factors that contributed to the increase in hidden inflation included budget financing by currency issuance once, decreasing budget revenues due to anti-alcohol campaign, increasing subsidies to state enterprises, etc. The results of such economic policy were much more "effective" than Soviet authorities would expect: consumer goods deficit, devaluation of rouble against US dollar and German mark in the black markets resulting in unstable financial and macroeconomic situation. Only at the beginning of 1991 Rizhkov Government, and in a short period after that Armenian Government, decided to take radical steps and started price liberalization. Retail price liberalization in fact was the start of a new phase in economic reforms because by eliminating the difference between official and hidden inflations it made necessary to undertake a large-scale and comprehensive reform program. On the other hand, this change coincided with the declarations of independence by Soviet republics and from that point reform directions, methods and speed were different for newly independent republics.

The transition from planned economy to market relationship and the collapse of the Soviet Union adversely affected economies of all former soviet republics. The legacy of central planning and difficulties of the initial stage of transition made general economic conditions in all these republics largely common. The breakdown of former trade and production relationships under which small republics had large scaled productions was a major factor in decline of the economy. At the same time economies of each of the former soviet republics had their distinctive features. Armenian economy severely suffered even before the collapse of the Soviet Union. A devastating earthquake in 1988 adversely affected Armenian economy. A year later military conflicts started in the South Caucasus, which has had a negative impact on the development of SC countries' economies in terms of limited regional trade opportunities and high transportation costs. Another negative factor was the energy crisis, which seriously affected operations of many industrial enterprises. During 1989 and several subsequent years the actual gross domestic product declined by more than 50%. Armenian economy's decline was the deepest especially in 1992 (52.6%). As a result, even having stable economic growth rates since 1994 (on average 5.7% per annum), the real GDP for 1998 composed only 41% of real GDP for 1989. This was one of the lowest levels amongst all former soviet republics.

Figure 1. Exports and GDP Dynamics



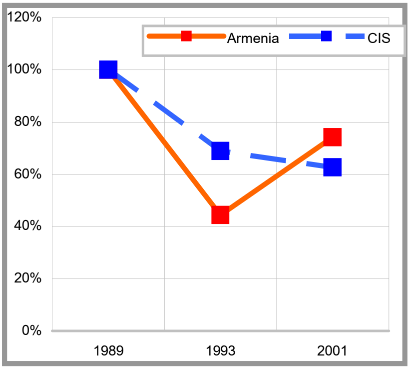
Economic recovery

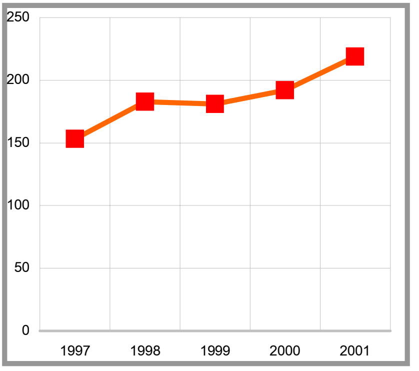
The year 1994 marked a watershed in Armenia’s economy. The authorities began to implement strict fiscal and monetary policies accompanied with widespread structural reforms in order to achieve sustained price stability and economic growth. As a result of these policies, inflation slowed to 1.1 percent in 2002 (on an end-period basis) compared with over 10,000 percent in 1993. The economy began to stabilise and real GDP increased by 5.4 percent in 1994. This stabilizations and economic growth continues until now the rate of which reached to 12.9% in 2002.

1998 was marked as the year of an economic growth’s qualitative change for our Republic. The growth recorded for the period of 1994-1997 was mostly conditioned by the previous economic crisis that testifies the deceleration of the economic growth rates throughout 1996-1997. The growth high rates in our country within 1998 on condition of Russian financial crisis were the performance of designing stable growth preconditions.

The GDP real growth average rate per annum was 7.6 percent in 1998-2002 compared with the same indicator of CIS countries that is 3.8 percent. Other comparative indicators reveal our economy’s progressive indicators. Consequently, if the annual production of Armenian economy for 1993 was only 44.3 percent of 1989 level, and the same figure for CIS countries was 69.0 percent, then in 2001 the picture had been entirely changed. Over 70 percent of our country’s GDP was produced in Armenia of 1989 level whereas that indicator approximately made up 65 percent on CIS level in 2001.

Figure 2. Comparative dynamics of Armenian and CIS countries GDP (1989 = 100%),
Figure 3. The dynamics of investments in economy (bln of AMD)





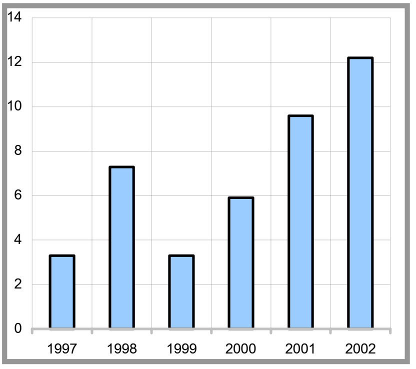
The economic growth recorded within the recent 4 years has gone along with the general investment growth of 4.4 percent on average per annum made in the economy. Principally 2001 recorded about 12.6 percent of investment growth and the first half-year of 2002 of 13.8 percent.

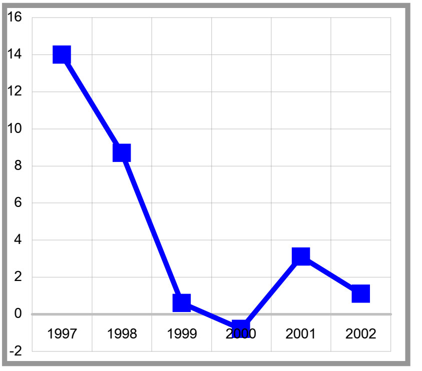
It's worthy to accentuate the key role of domestic investments along with foreign one in the range of annually growing general investments.

Throughout 1994 to 2001 the share of the sectors of production output in GDP providing stable economic growth was being continuingly reduced in favour of trade and services. Nevertheless, the aforesaid tendency was changed for the duration of 2001-2002. Thus the share of the sectors in GDP providing production output growth started to boost. The year of 1998 was constructive enough in the sense of assuring the economic growth, particularly enlarging the role of industry and constructions.

The tendencies recorded in the real sector of economy are therefore testifying the first phase of structural reforms in Armenia to be concluded. In principle the results of the latter, particularly from the standpoint of the economic growth model alternative can be positively evaluated. Armenia nowadays entered to a phase when mainly rapid growth rates providing issues are being solved.

Figure 4. Real GDP Growth
Figure 5. Inflation (period average)



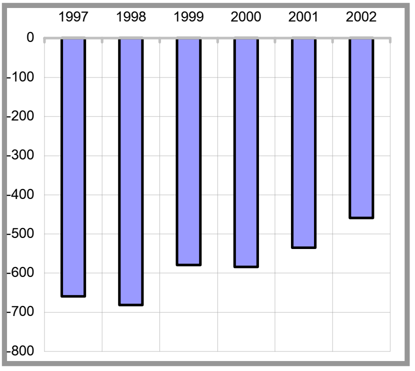


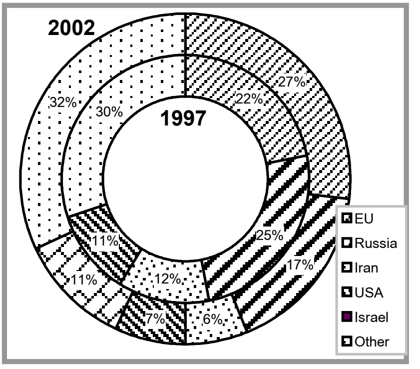
External policies

The disposition of Armenian foreign trade policy has mostly possessed a number of inauspicious influences of exogenous factors within the 11 years of post-independence period. Armenia primarily can not be considered as a country being rich in natural resources. Secondly, foreign trade structure has undergone a sort of amendments due to the landlocked situation as well as given to well-known reasons re the impediments in utilization of other means of transportation. And thirdly, many of economic issues conditioned with transition period peculiarities; the economic recession at the beginning of 90s; slackening the traditional interrelation between USSR republics played an essential role on import and export of Armenia both from the structural and quantitative standpoint. As a consequence of the aforementioned the foreign trade balance of Armenia was negative throughout the whole post-independence epoch.

In the meantime, it's worth to indicate the qualitative changes occurred within the previous years in the sphere of foreign economic activity, initially being realized with developed countries through trade turnover expansion. Particularly, if in 1997 the share of trade turnover with EU countries was 21.5 percent, then in 11 months of 2002 it already covered 27 percent. It's the evidence of the fact that the domestic producers were capable of not only increasing the quality of produced goods in conformity with European standards for the comparatively short duration but also obtaining the skills to favourably function in already formed and developed markets.

Figure 6. Current Account Balance (mln of USD),
Figure 7. Geographical structure of Armenia's foreign trade





The positive advancements in export and import products structure are substantial enough. The export growth dynamics of raw and other materials in export structure has taken major backward steps **vis-à-vis** the finished goods export growth. Hence, on the assumption of 2001 data, the finished goods exports values has amplified the 1998 rates with 75 percent, whereas that growth has made with 25 percent by the category of "Raw material". Therefore, even if slowly but definitely Armenia becomes a country exporting finished goods yet in the state of nowadays industry rehabilitation indicator.

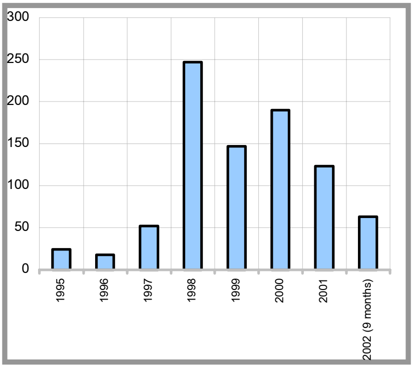
The importing share of finished food production within commodity composition of import has made up 20.4 percent in 2002 within 11 months, reducing about 10.4 percentage points instead of 30.8 percent in 1997. Consequently, this group of products import substitution with local ones successfully keeps on progressing being the result of both qualitative and quantitative development in Armenia's food industry.

Some positive developments are also achieved parallel to already recorded steps forward in foreign trade particularly a propos the growth of foreign capital volume inflowing to Armenia. The surplus volume of foreign direct investments realized in Armenia (without the credits received via state government and banking system) has made up 649.4 million US dollars.

Foreign investment volumes realized throughout 1998-2002 undertook a number of structural advancements. Consequently, if during 1998-1999 the volumes of foreign direct investments were essentially conditioned by the investment privatizations of communication and power engineering (HayRusgazard) sectors, then the quantity of small and medium volume foreign investments has predominantly increased within the recent two years.

The outcome of business environment enhancement oriented policy could be also considered taking into account the fact of more than 2000 companies with foreign investment already functioning in Armenia up to 2002, comprising a range of companies opened via Russian, Iranian, USA and French investors participation.

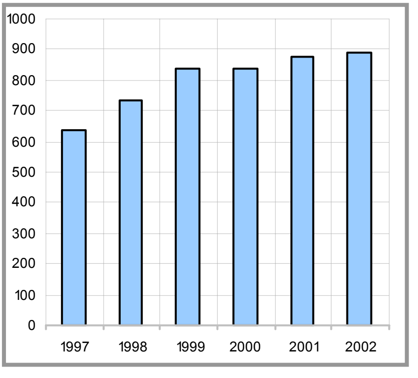
Figure 8. Foreign Direct Investments (mln of USD)



External Debt: There was another major factor during the years of economic stabilization that affected the general economic and financial policy of the government. That was the burden of rapid growth of foreign debts. The debt of about 0.7 million USD in 1992 grew up to 892 million USD in 2002. In fact, the main growth of the foreign debt was recorded during 1993-95, which was caused by such objective reasons as the necessity of eliminating the consequences of the earthquake, and the energy crisis.

The Republic of Armenia's foreign debt growth indicators essentially reduced for the period of recent 3-4 years. As a consequence of the aforementioned Armenia considered within the range of the countries having lower debt burden according to different indicators of debt burden assessment. Also some positive advancement was recorded on account of productive policy of foreign debt management therefore slightly reducing the debt service burden.

Figure 9. External Debt (mln of USD)



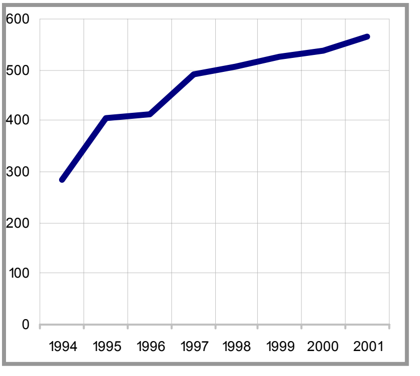
Till the 30th of December, 2002 Armenian foreign reserves has made up about 257.7 billion AMD increasing for more than twice compared with 1997 rates. Conditioned with the aforesaid the rate of import coverage indicator has fairly risen owing to gross reserves which were 4.1 months in 2002 compared with 3.5 months of 1998.

Financial sector

The disintegration of the financial markets of the former Soviet Union and in particular the withdrawal of the Russian Federation from the rubble zone in 1993 reinforced the need for independent monetary and financial policies.

Reforms and liberalization of the financial sector done by the Government and the Central Bank of Armenia (CBA) started in early 1994. As the main financial authorities in the country the Ministry of Finance was responsible for fiscal policy and regulation of the non-bank financial institutions and the Central Bank of Armenia for price stability; for financial and payment system soundness, foreign exchange and monetary policy. The CBA was responsible for supervision and regulation of the Banking system too. Given the countries particular conditions there were no non-bank financial institutions except the state insurance company and few other point shops.

Figure 10. AMD / USD Exchange Rate



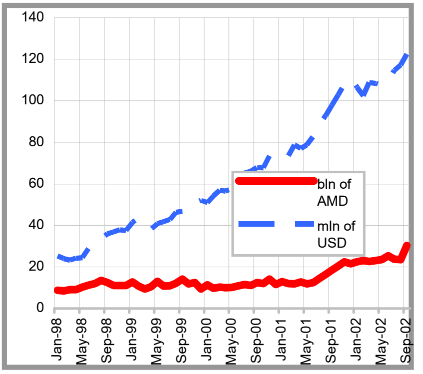
Laws "On the Central Bank of RA", "On Banks and Banking", "On Banks Insolvency" and "On Bank Secrecy" were adopted bringing an independent status to the CBA and raising the banking system to the international standards.

As in many other countries of the former Soviet Union, the financial system in Armenia is very small, in part because the stock of domestic savings was virtually wiped out by the initial period of hyperinflation and economic contraction immediately following the break-up of the Soviet Union. The banking system is by far the most important element of the financial system. Most of the banks are small, which, given their relatively high fixed costs and their inability to take advantage of economies of scale, contributes to rather high intermediation margins.

Nowadays the Armenian banking system can be conditionally divided into two groups.

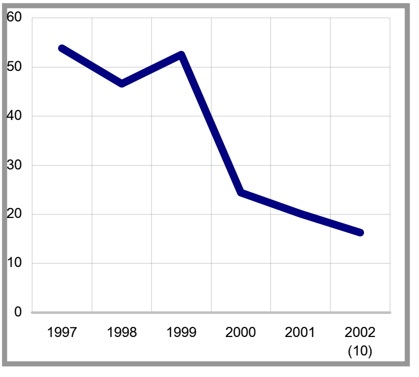
- Approximately 20 banks are operating within general controlling environment. These banks are considered as real financial mediators possessing stable customers basis formed previously. The financial indicators of the aforesaid banks mainly perform stable growth tendency.
- 5 banks are operating within special control environment. These banks' activities are being controlled in the framework of financial improvement programs adopted by the board of the CBA.

Figure 11. Dynamics of AMD & USD Deposits in the Banking System



Capital markets are small and narrow. The main capital market instruments are government securities (mainly treasury bills). The high level of interest rates was considered to be one of the obstacles of the economical upturn of Armenia for a long time. The interest rates decline in Armenia was recorded in 1998 at first. Despite the interest rates level was raised in 1999 owing to Russian financial crisis, nevertheless subsequent to twice endure crises through 2000 they are keeping on to reduce of about 4 percent annually.

Figure 12. Average Interest Rates Dynamics



Social indicators

Like any of newly independent states of the post USSR stage Armenia also faced the complexities due to developments occurred in the rapidly changing society. The fundamental institutional and structural reforms in Armenia's economy caused essential changes in the labour market structure. As a result of structural reforms employment declined in the state sector whereas its rate went up in the private sector.

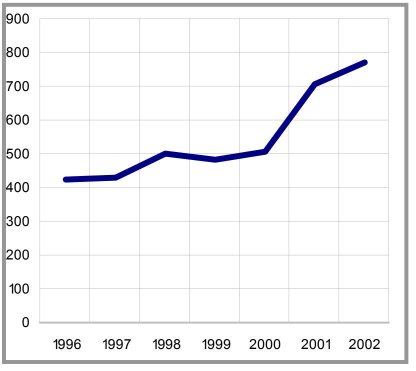
If in 1995 the balance between the numbers of employed in the state and private sectors of economy was 49.8% to 48.8%, in 1999 the total number of employed in the state sector was only 27.3%, while in the private sector raised up to 71.7%.

Table 2

	1995	1996	1997	1998	1999	2000	2001	2002
Number of unemployed (thousands)	105.5	147.9	166.1	139.1	164.2	169.5	146.8	133.7
Unemployment rate (%)	8.2	10.1	10.8	8.9	11.2	11.7	10.4	9.4

Many changes took place also within the employment structure by branches of economy. The number of people employed in industrial sector decreased significantly. It went down from 24% in 1993-1994 to 21% in 1995, while in the course of 1998-1999 it was as low as 15-16%. The total number of employed in agriculture and forestry showed a tendency to increase. It was 37.4% in 1995, and it gradually rose up to 41-43% in the course of 1997-1999. The number of employed in construction sector went down, which is explained by the decrease of investment into this sector and accordingly in the volumes of building and assembly jobs.

Figure 13. GDP Per Capita (in USD)



Official statistics show growth tendencies for per capita GDP; in 2000 it increased 1.47 times against 1995. This positive, yet slow, dynamic is, however, not accompanied by noticeable growth in population's living standard. This can be explained by low level of population incomes and severe disproportion of incomes distribution[1].

The Republic of Armenia still belongs to the group of countries with low (below 765 USD) per capita GDP (which in 2000 in Armenia was 503 USD), falling behind countries with below average (766-3035 USD), above average (3036-9385) and high (from 9386 and up) GDP[2].

Poverty in Armenia has emerged, on one hand, following the dissolution of the Soviet Union, as a result of disruption of integrating economic ties with other union republics, particularly Russia, resulting in inactivity of enterprises and, on the other hand, set-off by economic blockade of the country since the beginning of the Nagorno Karabagh conflict.

[1] According to the National Statistics Service of the RA, in 1999 the highest (0.59) Jini index (by incomes) among all FSU countries was observed in Armenia. That index in 1993-94, in Russia was 0.41, in Belarus, 0.22, in Estonia, 0.40, in Lithuania, 0.34 (see "Social Profile and Poverty in Armenia;" page 45)

[2] see "World Development Report", World Bank, W., 1997

Land privatization in 1991 to some extent cushioned the process of impoverishment in rural areas, but later on, owing, on the one hand, to losses caused by adversary weather and natural conditions (floods, storms, hail, freezing, drought, land and mudslides, etc) and, on the other, as a result of inflation, considerable portion of rural households approached poverty line, while many plunged into extreme impoverishment.

Being aware of how critical this issue is, government of the Republic of Armenia spares no effort trying to alleviate expanding poverty and lead the country out of the social and economic crisis through application of financial resources obtained from foreign states and international organizations in the form of loans or humanitarian aid.

Table 3. Main macroeconomic indicators, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
(in percentage change over previous year)								
Real sector								
Nominal GDP (mln, dollars)	648.2	1287	1599	1639	1892	1845	1912	2118
Real GDP growth		6.9	5.9	3.3	7.3	3.3	5.9	9.6
Inflation (end period)		32.5	5.7	21.9	-1.3	2	0.4	2.9
Inflation (period average)	100	175.5	18.7	13.8	8.7	0.6	-0.8	3.1
External Sector (mln, US dollars)								
Export (FOB)	215	270.9	290.3	232.5	220.5	231.7	300.5	342.8
Import (FOB)	394	673.9	855.7	892.2	902.4	811.2	884.7	874.3
Current account balance (excluding official transfers)		-218.4	-287	-306.5	-402.6	-306.9	-278.4	-196.3
in percent of GDP		-17.0	-17.9	-18.7	-21.3	-16.6	-14.6	-9.3
Gross official international reserves[1]		109.5	168.4	239.8	292.1	304.6	314.1	329.6
in month of imports of goods and non-factor services			5.2	6.2	6.9	7.4	7.2	7.3
Foreign direct investment	8	25.32	17.57	51.94	220.83	122.04	104.2	
Fiscal Sector (in percent of GDP)								
Consolidated Budget[2]								
Total revenue and grants	144.8	232.7	237.5	257.0	334.1	356.8	319.0	348.7
Total expenditure and net lending	140.7	309.3	307.5	299.3	405.3	433.0	413.1	440.3
Budget balance (accrual; deficit (-))	4.2	-76.6	-69.9	-42.2	-71.1952	-76.1	-94.1	-91.5

(in percentage change over previous year)								
Monetary Sector								
Reserve Money (end of period growth rate, in percent)		86	40.5	22.5	6.5	0.03	34.4	11
Broad Money (end of period growth rate, in percent)[3]		64.3	35.1	29.2	36	13.6	38.7	13.6
Per capita GDP (US dollar)	172.7	342.0	422.9	432.3	498.2	485.1	502.7	557.3
External public debt (in percent of GDP)						47.2	44.9	
External debt service (in percent of export)								
Dram/US dollar Exchange rate (end of period)	405.51	402	435.07	495	522.03	523.77	552.18	561.81
Dram/US dollar Exchange rate (period average)	288.65	405.88	413.4	490.8	504.87	535.06	539.52	555.08

AZERBAIJAN

In 80-s the Azerbaijan economy had been developing as a part of economic system of USSR orienting to union market. The country having the richest natural and climatic resources on the quantity of national income per head of population took the 12-th place among the former Soviet republic in 1990. Moreover, the backwardness from medium state level on that indicator has begun since 1986. If in 1986 that indicator constituted 588 rub, in 1988 – 647 rub., that in 1990 – already 927 rub.

More half of GDP are created in the industrial production 70%, which was concentrated on Absheron. It consisted of oil and oil-processing industries closely connected with chemical, electro-technical, machinery construction, ferrous metallurgy. The oil and adjacent branches concentrating some 50% of the industrial potential were fundamental for Azerbaijan economy. The most important place in the economy of state was taken with oil pipelines, oil-processing, chemical, machinery construction, mining-industries and non-ferrous metallurgy, the different branches of light and food industry. The agriculture in general specialized in wine-growing, horticulture, tobacco-growing, animal husbandry, silk-worm breeding and vegetables-growing. In the general GDP volume 2/3 made the industry share, 1/6 – agriculture, 1/10-construction, all the rest – trade and other non-industrial branches.

In USSR Azerbaijan produced 10% of all the agricultural production of former state. In particular in 80-s Azerbaijan agricultural sector output about 2 mil. tons of grapes, 1 mil. tons of raw cotton, 800 thsd. tons of fresh vegetables, 400 thsd. tons of fruits, 55 thsd. tons of tobacco. And some 70% of this production made exports. Azerbaijan was broadly involved in the process of inter-republican trade, exporting 250 names of trade groups. The important place in export structure was taken with raw mineral materials, oil and oil production, products of machinery construction and chemical industry, including mobile boring arrangements, lifting equipment, different derricks, gushing fitting, deep-water pumps, electro-engines, geophysical devices, air-conditioners, refrigerators and productions of light, textile, food industries and agriculture as well. Some 90% exports were destined for Soviet market.

The main import of Azerbaijan was, as rule, the ready production: mechanic – tools, different agricultural mechanisms, cars, buses, lorries, clothes, foodstuffs and the different kind of chemical, metallurgical, textile raw materials. They are supplies for processing and industrial enterprises. Moreover, some of them functioned only for score of import raw materials.

In the plan economy Moscow distributed the investments for every republic and region. There were periods when the state limited the investments. The main production founds finishing work of their resource are in the operation. Compared with 1986 year the renovation coefficient of main production found reduced from 7.8% to 4.3% in 1990. It led to reduction of technical level production. The limitation of the capital enclosures revenues in republic had the plain obstacles for using the new machineries, equipment, devices and automatic means.

In 1981-1985 479 units of technical equipment were taken down off production, in 1986-1990 – 477 units. The equipment was changed because of the worn out. In 1986 in the enterprises industry 33% of the equipment general quality had in age of 11-20 and more 20 years, in 1990 – 34.3%. Till 5 years accordingly 39% and 37.5%. Having such age indicators the enterprises couldn't reach the high level of effectiveness.

The share of raw materials and semi-fabricates in the Azerbaijan export structure, the breaking off the technological cycles in chemical, non-ferrous metallurgy, mechanical engineering, light and food industries brought about the deficit of lots simple or articles.

FSU Heritage

In soviet period of Azerbaijan the drilling for oil, oil-processing industry, agriculture were the main branches of industries. However, in 1960-1980 the mechanical engineering, chemical, textile, food and other industries energetically developed in Azerbaijan. Since the end of 80-s and the beginning of 90-s the bright illusions started predominating in Azerbaijan society that was sure of fast and abrupt improving the economy and transforming its own state in the prospering country if Azerbaijan would departure from USSR get the market transition and use its oil potential. But Soviet Union collapse and the break up of integrating connection demanded establishing both absolutely new economic and financial relations and the infrastructure.

Appearing the new financial resources in foreign trade, initiating the independent connections with other countries resulted in raw material exporting and encouraging the mass imports of cheap (mostly poor-quality) food goods. In the beginning of 90-th in Azerbaijan (and basically on the all post-soviet space) there took place the radical with political disorganization and Karabakh conflict having become the open military contradictory, it's them that resulted in destroying the bases constructed with soviet economy, significant industrial output and agriculture production reducing. In Azerbaijan the production decreased from the independence proclamation in 1991 to 1995 year composed 67% the GDP reduced off – 58%; agricultural yield – off 48%. The financial politics a wage freeze in the terms of high inflation increased social problems. But its transformation into the hyperinflation provoked some more large tension.

Economic recovery

In May 1994 after concluding Azerbaijan – Armenian Agreement on the Cease-Fire and stabilizing of political situation, the economy fall was stopped off. In Republic they got under way of stabilization program. The leadership of Azerbaijan conducts the structural and branch reforms calling for helping Azerbaijan economy to get out of crisis. The government progressed to significant degree decreasing the inflation level. The consistent monetary program in the close cooperation with IMF promoted enjoying the population's confidence to national currency - manat. By the end of 1997 the inflation had been minimized and at present its level composes 1-3% a year, manat became stronger (devaluation level is 2-3% per year). The Total growth of GDP in 1995-2002 composed 56.6% (from 6 to 11 per year) and the state revenues increased for some times from 1994-2001.

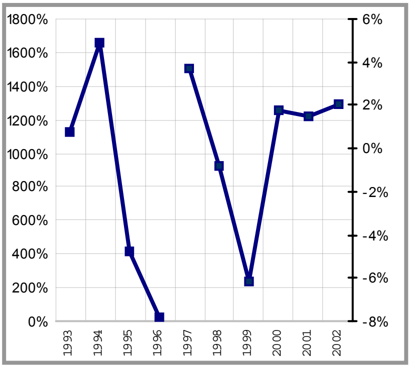
There are capital investments in the different branches of industry in first all in oil one. At present Azerbaijan signed 21 contracts for exploiting oil-gas fields with 35 large oil companies from 14 world's countries. The overall cost of these contracts is more 60 bil. USD. In the time of liberalization there invested in Azerbaijan economy some 10.4 bil. USD including 7.2 bil. as foreign investments for 8 last years.

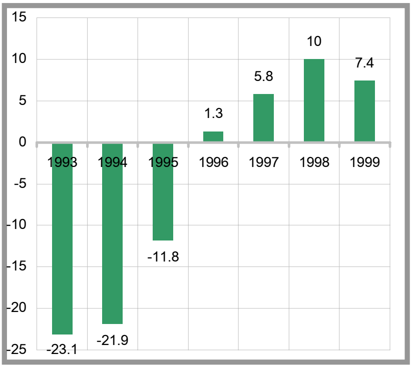
There conducted the reforms in the financial-banked system, passed Tax, Custom, Civil and Civil-proceeding Codes, laws on foreign investments protection, securities, leasing, tenders, banks, join-stock companies and other founding laws and normative acts. There created necessary legal basis normalizing free enterprise. The government has been conducting the successful privatization of state property. Passing the law of land reforms the very important step establishing the private property land rights for the country's citizens. The share of non-state sector for forming GDP has already reached more than 70%. Trade, agriculture, consumer services, public transportation belong to private enterprise.

The situation is such that Azerbaijan established the macroeconomic stabilization persistently conducting the structure transformation. The budget deficit doesn't exceed 2% to gross domestic product. National currency is stabilized. The foreign trade turnover of goods and services became 5 times bigger and reached above 4 bil. USD.

But at the same time as the indisputable economic achievements take place, Azerbaijan got a number of problems. In particular there is proof of "Holland Syndrome" for the extreme concentration of government means and efforts in oil industry gives rise of decreasing in the other economy branches. So the strategic task of Azerbaijan government is not only oil industry development. However, the unemployment and presence of one million refugees lead to lots of difficulties, with which the fiscal policy meet. At a time when the government must direct the significant capital investments for cleaning up all the economics and developing the infrastructure, it is engaged in increasing the expenses because of unemployment growth and the financial support of different social programs.

Figure 14 Inflation Rate (%)
Figure 15. GDP Real Growth (%)





External policies

The main priority of Azerbaijan external policies is the comprehensive development of relations with friendly neighboring countries – Russia, Turkey, Georgia, Iran, but the most part of efforts, of course is concentrated on searching the way out of Azerbaijan-Armenian conflict. Azerbaijan is at war imposed on the state (since 1994 year there has been operating the agreement on cease-fire). So the factor of ''toughness'' is one of the external policies elements. But only one of them as in general terms the foreign-policy conception of Azerbaijan Republic emanates from the creation of equal right and mutual advantageous relations with all states and the active participation in multilateral democracy. The main peculiarities of these policies are the transparency, striving for neighborly and partner relations, refusal from last stereotypes.

The backbone of foreign-policy aspirations in the international activity became the thesis about the necessity of applying exclusively the peaceful means to international relations, searching of compromise in critical situations and the support of international peacemaking efforts.

Azerbaijan is activity introduced in the different international structures. Besides UN and CE it is CIS, North-Atlantic Cooperation Counsel, Islamic Conference Organization and Economic Cooperation of Middle East Countries Organization. Azerbaijan is the participant of agreement about creation of free-trade zone among CIS countries, Black Sea Economic Cooperation, GUAM, the project of riving the Great Silk Way. For the purpose of effective integrating into the international trade and economical community organizing the trade in according with international right in 1997 Azerbaijan began the procedure of entering WTO. At present the country has the rights of observer in that organization. Moreover, one of the most important points of State Program of Trade Development is an acceleration of entering WTO as a full-fledged member. There continues the successful cooperation with lots of international financial-economic organizations including IMF, WB and the others. There develops the Azerbaijan bilateral relations with other states. At present trade relations with 126 countries of world are established. Azerbaijan signed above 300 agreements in all the areas with more than 30 countries.

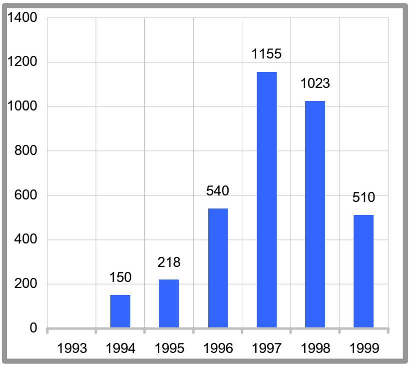
So in 2001 the foreign trade turnover constituted 3,74 bil. USD, under the favorable balance 883,4 mil. All the trade operations were realized with 123 countries. The exports volume constituted 2,3 bil. USD, and imports – 1,4 bil. USD.

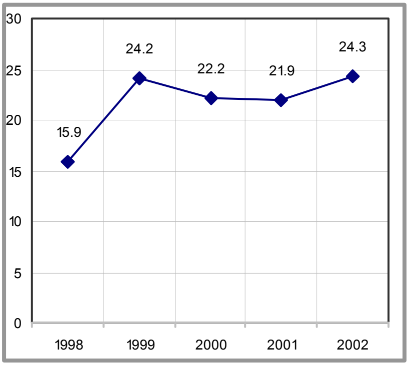
According to data for 11 months of 2002 experts forecast increasing the foreign trade turnover to the level of 4 bil. USD, and completing with the favorable balance in 300-330 mil. USD amount. In last years Azerbaijan more integrated in world economy. It's confirmed with increasing of the foreign trade operations amount, which reached 67% to GDP. About 76% of foreign trade operations are realized with countries, which are not members of CIS. The balance of BOP in total of 2002 – negative on the level of 500-700 mil. USD. Having favorable foreign trade balance and the sum in 2 bil. USD of foreign capital, one can maintain that the country is accumulating means for qualitative growth.

According to data by January of 2003 the amount of external debt reaches 24% from the level of GDP and constitutes 1,35 bil. USD. Approximately it's a sum of Azerbaijan gold and currency reserves. There are 169 USD of foreign credits per head of population. Ministry of Finance gives the next description of external debt. It is credits taken under state guarantee from international financial institutions. By January 2003 the similar deed of agreements were signed in the sum of 2,2 bil. USD. However, only 1,6 bil. USD were realized from this means. 250 mil. of this money is already returned. So the external debt of Azerbaijan constitutes 1,35 bil. USD. In the list of Azerbaijan creditors the first place from general amount of credits belonged to IMF, to which Azerbaijan indebted 28% of general amount of borrowings. Further it is WB (21%), Japan international Bank of Cooperation (14%), German Bank of Development (9%), ''Eximbank'' USA (8%), European Bank of Reconstruction and Development (7%), ''Eximbank'' Turkey (7%), Islamic Bank of Development (2%) and the over commercial bank organizations. More than half credits used by Azerbaijan are got by economical subjects, where representatives of Ministry of Finance watch over using and timely repaying of credits. Other part of state debt is long-term and preferential credits got from IMF and WB. For external debt service the government decided to allocate fund amounting to 15,4 bil. manats from state budget of 2003. It is less for 12,7% than in 2002.

On the basis of correlation the amount of external debt to GDP and its intensive repayment in 2002 the rating agency ''Fitch'' increased Azerbaijan rating from stable to positive, confirmed the importance of long-term rating in foreign and local currency on the level ''BB-'' and short-term on the level ''B''. However, the situation can fundamentally change if the government set a course for increasing the debt and slow down its repayment.

Figure 16. Foreign Direct Investments (mil. USD)
Figure 17. External Debt (% of GDP)





Financial sector

The National Bank of Azerbaijan and Ministry of Finance implement the state regulating of financial system in Azerbaijan. The Ministry possesses the power besides regulating, controlling and creating the conditions for development the financial infrastructures, to draw up and ensure the State budget and all the state finances. National currency of Azerbaijan Republic is manat put into circulation in August of 1992.

The currency regime is regulated with the law about currency regulation and normative documents of NBA. As there economic transformations, the regime of currency operation became more convenient and liberal. NBA and State Custom Committee are authorities of currency control operate as agents. In Republic for last 5-6 years there implements the policies of artificial reduction of the demand for foreign currency and the growth of its supply.

The organized credit market is introduced with auctions of National Bank on refinancing of the commercial banks for BBVB and in trade system of the exchange as Organized Interbank Credit Market (OICM).

The monetary policies are introduced by purposeful activity of NBA supported with Ministry of Finance and Ministry of economy for executing state tasks. The main subject of monetary policies is state produced with NBA.

In the epoch of Azerbaijan economy formation beginning the Azerbaijan leadership had encountered with subsequently transformed in the hyperinflation. In such conditions one can't tell about economy development, so for a long time one of the most direction of the government economic course was strict monetary policies, oriented for reaching the macro-economic stability, the fighting against inflation and strengthening of exchange rate of national currency.

In conditions of supporting of monetary mass the growth rate the stable level and implementing of strict monetary policies National Bank had to increase the rate on centralized credit resources for reducing the demand of inflation for money and the speed of currency circulation. By the beginning of 1995 that rate had already reached 205% annual and namely on that level there began falling the demand of inflation for manat recourses. In the future the policy of National Bank was oriented for keeping rate of increasing the monetary mass and reducing interest rate on credit resources with their demand reduction. As a result of monetary policies in 1995-1998 NBA succeeded in reducing the interest rate on credits from 250% to 12% annual (than 200 times bigger), expending the monetary mass (M2) from 431 billion to 1556.3 billion manats (3.6 times bigger). Moreover, at the beginning of 1999 declared aims of monetary policies are realized. And particularly there reached the macro-economic stabilization, completed the fight against inflation (for 1998 year its level was -0.8%) and strengthened the national currency rate (for describing period the rate of USD reducing towards manats from 4300 to 386886 manat for 1 USD or 7.6%).

But the reached stabilization had its own negative sides. So increasing the rate of national currency provoked the serious deterioration of payment balance. The negative balance of current operations account rapidly grew because of reducing of export operations efficiency and the supply of cheap import in the country.

According to the data of 1998 the balance of payment deficit compared with the previous year increased from 566.9 mil. USD to 1046.1 mil. USD, for 46% at that time exceeding the gold and currency reserves almost doubly. In those conditions the continuation of monetary policies with former priorities could provoke the exhaustion of gold and currency reserves and the collapse of financial system. So they set a course for implementing the macro-economic update. There took place the movement of rate of national currency in that direction, beginning from the last quarter of 1998 year. However, the gradual reduction of national currency rate could not stop the developing crisis of payment balance and solve of the problems of budget deficit. As a result of such situation in July of 1999 year National Bank artificially devalued manat for 7% and the next months the effect of this transformation became real. In spite of manat rate reducing and strong fluctuation of monetary mass, the rate of NBA financing didn’t change and constituted 14% annual for that period. As well the moderate policy of national currency rate reducing, begun after implementing of macro-economic update was supported by the NBA solution about increasing limits on open currency position. Besides the official financial authorities repeatedly stated about the intention of monetary mass increasing. I.e. in the country there takes place the gradual transition from the strict monetary policy to the moderate. Regulating the payment balance crisis, supporting of local producers and keeping of macro-economic stability become its new priorities and supporting of the interest rate stabilization with changing monetary mass also become its main direction. The policy of rate is also based on the smoothly regulated regime and directed on the manat rate stabilization. Thanks to successful stabilized policies for the last three years the inflation rates in country keep any stabilization (on level 1-3%). Practically they succeeded in restraining as unchanging the manat rate towards USD. As well the currency policy of NBA is oriented for stimulating the profitable export by means of restraining the dominating tendency of the currency supply amount over the demand one in the market. In 2002 strategic gold and currency reserves of NBA were equal 618 mil. USD. On NBA data by the 1st of January, 2003 the monetary mass amount (M2) had constituted 2032,1 billion manats, increasing on 15.8% for a year.

By the end of 2002 year the first stage of preparing the country’s monetary system to the denomination had been over. It is projected for 2005 and it will have the smooth type. The second stage of preparing will start in 2003. NBA and all financial structures will have to conduct the preliminary procedures so as to ensure the unproblematic issue of new currency in circulation.

Forecasting the situation for the first half of 2003, experts tell about the certain intention of NBA to support the USD rate at the low mark. That proposal is based on both official statements of NBA, and rating and inflation government forecasts marked in the state budget. In conditions of the abrupt growth of incomes and expenses, NBA and Ministry of Economic Development forecast the USD/AZM rate on the level 5000 manats per 1 USD of USA and estimate the yearly inflation in 2-2.5%. The forecasts of monetary mass increasing for 18-20% and also the growth of gold and currency reserves for 120 mil. USD testify in favor of the insignificant growth rate. As for the very amount of monetary mass on market, the difference between forecasts on its growth (18-20%) and expected data on GDP (11%) testifies about it, i.e. according to the point of view of monetary economy Azerbaijan has the necessary provision of cash balance.

Figure 18. Currency Exchange Rate (annual average, AZM per 1 USD)

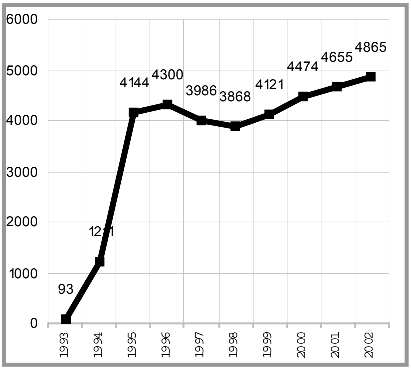


Table 4. Change in Consumer Price Index, as compared to previous year,%

	Total goods and services	Food products drinks, tobacco	Non food products, services	Non food products	Food and non food products	Services
1995	511.8	522.4	481.2	408.0	502.0	601.3
1996	119.9	117.6	129.2	117.0	117.7	166.3
1997	103.7	99.5	118.8	105.6	100.5	150.5
1998	99.2	98.7	101.3	98.9	98.7	106.3
1999	91.5	89.0	99.4	97.5	90.3	102.3
2000	101.8	102.3	100.9	101.9	102.2	99.5
2001	101.5	102.7	99.6	100.2	102.0	98.8

Social indicators

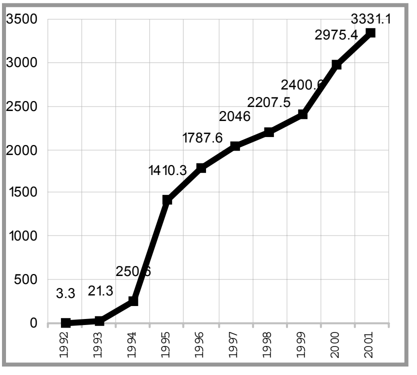
The condition of social area in Azerbaijan is burdened with being present of near one million refugees that it is one of the main problems of the state. There is a difficult situation in the population employment area. The official statistics obviously keeps on minimizing the unemployment index in the country allowing such doubtful data like 50 thsd. people (1,3% from economic active population). In reality the quantity of unemployed persons approaches 500 thsd. as minimum. According to the non-government sources the level of unemployment reaches 35% of economically active population.

Moreover, the problem of unemployment can some more intensify with the result that there is a tendency of Azerbaijan citizens returning from CIS countries. And though the Ministry of employment and social protection takes measures and structure reforms for solving the problem of employment one can not count its activity as rather effective in spite of its doing a most large amount of work.

There are critical poverty issues. According to approximate counting more 50% population of republic lives below the poverty line. Relativity poverty in Azerbaijan is approximately 17%. The average wages in the country had reached 331 thsd. manats or $62 by the end of 2002 year. Moreover, on data of Azerbaijan Trade-unions Confederation minimal living wage is 332 thsd. manats and minimal food basket is 332 thsd. manats.

There continue discussing the unsolved problem of pension rate. The month's pension rate in Azerbaijan is $15, at that Cabinet ministers carries out the pension calculations basing itself on the average wage of 1997 though according to the law these calculations together with the payment of work system and evaluation on categories must be reconsidered annual.

Figure 19. GDP Per Capita (thsd manat)



At present the efforts of government in social area became more noticeable. In the budget 2003 the different official structures have the concrete errands. There approved the State Program on the poverty reduction. The government plans of poverty eliminating by developing the Azerbaijan economy. The Program consists of 6 parts, each of them covers the different aspects of social-economic development. However, a lot of experts maintain the Program is drawn up rather unconscientiously as there suggested the index of poverty in 84 cents at a time when Europe Counsel estimates the one in $2,15 for countries of East Europe.

In such a way one can determine the broad range of problems that must be solved soundly and in stages by using the means of government policy that will allow improving the social area in Azerbaijan.

GEORGIA

The economic development of Georgia prior to 90-th passed in a typical for the Soviet economy manner without outstanding results or shortcomings. It can be argued that Georgia was the country with average level of development among the countries of the FSU (Former Soviet Union). In 1990 Georgian GDP accounted for almost 10,000 mln. US$, and GDP per capita was 2000 US$. Though these indicators significantly fell behind the same indicator in developed countries, on average it reflected an acceptable level of economic development.[2]

During the period of 1980-1990 Georgia annually produced: electricity – 14.8 billion KWH; coal -1.42 mln. tons; petroleum 245 thsd. tons; pig iron -747 thsd. tons; metal – 1.4 mln. tons; finished rolled ferrous metal- 1.3 mln. tons; manganese ore – 1.9 mln. tons; electro ferromanganese -88 thsd. tons; metal-cutting machines -2353 units; electric welding equipment -17 thsd. units; column cranes -36.3 thsd. units; mineral fertilizers- 132 thsd.tons; footwear – 14 mln. pairs; fabrics- 124 mln. sq. m.; packed high quality tea -132 thsd. tons; canned fruit and vegetables – 750 mln. standard cans; non-alcoholic beverages – 14 thsd. deciliters; mineral waters – 311 mln. half liters; wine -15.3 mln. deciliters; sparkling wine -20.4 mln. bottles; liquor – 1.8 mln. deciliters and etc. for the same period yield of agricultural crops (in thsd. tons) was: grains – 639; potatoes -365; vegetables -590; grapes – 772; fruit- 684; citrus- 197; tea leaves- 551.[3]

Georgia was widely involved in the process of inter-republic and international trade. Georgia exported about 300 items to almost 80 countries. Interstate trade accounted for almost 30% of GDP. Georgian main export items were: manganese ore and electro ferromanganese; electrical appliances and equipment; aircraft and parts thereof; tracks; vessels; locomotives; pig iron and finished rolled ferrous metal; metal-cutting machines; electric welding equipment; column cranes; footwear; fabrics; mineral fertilizers; packed high quality tea; canned fruit and vegetables; mineral waters; wine; sparkling wine; liquor; fruit; grapes; citrus; tea leaves etc. However, it should be mentioned that such deep involvement in the international trade was supported by tight inter-republic cooperation, or to say distinctly Georgian production and export capacity heavily relied on energy and raw material resource supply from other republics (usually at lower than international price levels). This principle of inter-republic division of labor and cooperation led to a serious deterioration of Georgian international trade activities after dissolution of the Soviet Union. The disruption of traditional linkages between trade partners and lost of cheap sources of energy and raw material source significantly lowered the competitiveness of Georgian export. After liberalization of trade at most of the FSU markets Georgian products were replaced by more competitive items from the rest of the world. The same time the ability of Georgian producers to compete in foreign markets also was diminished. As a result Georgian export reduced significantly after the break up of the Soviet Union in 1992 the total exports decreased more than 30 times, export to FSU countries dropped by almost 70 times, and export to the rest of the world diminished by 17 times as compared to the pre-reform 1990 year.

Table 5. Georgia: International trade, 1990-1993, (mln. of current US$)[4]

Trade, with	**1990**		**1991**		**1992**		**1993**	
	Export	Import	Export	Import	Export	Import	Export	Import
Countries of FSU	9702	8388	5594	4806	144	224	295	433
Rest of the World	515	1543	30	480	161	269	222	460
Total trade	10217	9931	5624	5286	305	493	517	893

[2] Чикава Л. Экономический потенциал Грузии и уровень его использования к началу становления новой социально-экономиеской системы //Общество и экономика. -1988. №2. - с.9-28.
[3] "Народное хозяйство Грузии в 1990 году". Статистический сборник. Тбилиси, 1991.
[4] Trade in the new independent states. The World Bank/UNDP, Washington, D.C.,1994

Georgia must spend a lot of efforts to restore its export capacity and improve its overall economic performance. One of the prospective ways for achieving of this objective is to look for more close cooperation and integration with the countries in the region – Armenia and Azerbaijan.

General economic overview

Georgia's main economic activities include the cultivation of agricultural products such as citrus fruits, tea, hazelnuts, and grapes; mining of manganese and copper; and output of a small industrial sector producing alcoholic and nonalcoholic beverages, metals, machinery, and chemicals. The country imports the bulk of its energy needs, including natural gas and oil products. Its only sizable internal energy resource is hydropower. Despite the severe damage the economy has suffered due to civil strife, Georgia, with the help of the IMF and World Bank, has made substantial economic gains since 1995, achieving positive GDP growth and curtailing inflation. However, the Georgian government suffers from limited resources due to a chronic failure to collect tax revenues. Georgia also suffers from energy shortages.

Table 6. Main macroeconomic indicators, 1994-2001[5]

	1994	1995	1996	1997	1998	1999	2000	2001
Real sector (in percentage change over previous year)								
Nominal GDP (mln, dollars)	2813	2880	3182	3520	3622	2836	3023	3159
Real GDP growth	-11.4	2.4	10.5	10.6	2.9	3.0	1.9	4.5
Inflation (end period)	6474	57	14	7.2	10.7	10.9	4.6	3.4
Inflation (period average)	15607	163	39	7.0	3.6	19.1	4.0	-
External Sector (mln. US dollars)								
Export (FOB)	380.7	362.6	417.0	493.5	478.3	477.0	645.5	-
Import (FOB)	-745.7	-700.1	-767.9	-1052	-1163	-1026	-1006	-
Current account balance (excluding official transfers)	-447.9	-406.7	-418.1	-571.3	-599.2	-413.6	-261.8	-
in percent of GDP	-35.9	-14.1	-9.1	-16.0	-16.5	-14.8	-8.7	-
Gross official international reserves	41.4	157	157	173.3	118.4	132.4	109.4	-
in month of imports of goods and non-factor services	0.7	2.7	2.5	1.5	1.0	1.2	0.9	-
Foreign direct investment				242	265	81	132	-
Fiscal Sector (in percent of GDP)								
Consolidated Budget								
Total revenue and grants	7.7	7.1	9.4	10.4	15.6	15.4	15.3	-
Total expenditure and net lending	24.3	12.3	13.9	14.5	21.8	22.1	19.4	-

[5] Georgia: Recent Economic Development and Selected Issues. International Monetary Fund. Washington, DC,2001
Georgia: Recent Economic Development and Selected Issues. International Monetary Fund. Washington, D.C. 1998

Budget balance (accrual; deficit (-))	-16.5	-5.3	-4.5	-4.1	-6.1	-6.7	-4.1	-
Monetary Sector (in percentage change over previous year)								
Reserve Money (end of period growth rate, in percent)	-	274.9	35.9	32.6	-6.3	18.8	26.8	-
Broad Money (end of period growth rate, in percent)	1796.7	319.2	38.2	35.4	-11.5	9.6	33.5	-
Per capita GDP (US $)	583.6	597.5	659.9	777.6	786.6	615.3	659.1	696.5
External public debt (in % of GDP)	80.1	42.5	30.0	43.0	45.0	60.0	53.2	-
External debt service (in %of export)	-	7.3	9.7	8.6	17.4	22.0	16.2	-
GEL/US$ Exchange rate (end of period)	1.28	1.23	1.27	1.30	1.79	1.96	1.98	2.06
GEL/US$ Exchange rate (period average)	1.1	1.29	1.26	1.30	1.39	2.02	1.98	2.06

FSU Heritage

Industrialization policy implemented by Soviet Government caused a significant change in the whole structure of the Georgian economy. As a result of implemented industrialization policy Georgian economy moved from the lagging agricultural state to developed industrial state. During this period approximately 1200 industrial enterprises (equipped with advanced for that period technologies and facilities) were put into operation and new branches of industry (steel, aircraft, machine tools, electrical appliances, mining (manganese), chemicals, wood products, energy etc.) were developed. Totally, the industry share in GDP changed from 19% (before revolution) to almost 60% in 1990[6].

However, according to the principle of interregional division of labor Georgian economy heavily relied on other Soviet republics for inputs, particularly energy, and for export markets. The interstate trade of Georgia within FSU attributed approximately to 96 per cent of export and 72 per cent of import and totally was estimated of 43 per cent of GDP. As soon as the productive specialization of the economy was based not on its comparative advantage but rather on the decisions of central planning institutions the issue of compatibility of traditional domestic products on other than FSU markets was very questionable. After dissolution of the USSR enterprises whose production - often in the form of intermediate goods-was formally directed towards the rest of the FSU have suffered a sharp fall in output reflecting a steep decline in demand for these goods and lack of imported inputs. The technological processes common for domestic industry assumed heavy energy consumption, because of low price of this input. After liberalization of energy prices, Georgia has experienced a very severe terms-of-trade shock. In 1993 terms-of-trade were 72.9 in comparison with 105.9 in 1991[7]. Moreover, in new conditions most of the traditionally exported goods lost their competitiveness and became not suitable to competitive markets, because of lack of adequate technology to produce high quality goods for export markets, high cost of imported inputs, unavailability of

[6] Сантеладзе Н. Функционирование промышленного производства Грузии в рыночных условиях хозяйствования //Общество и экономика. -1988. №2. - с.85-100.
[7] Trade in the new independent states. The World Bank/UNDP, Washington, D.C.,1994

trade finance, poor infrastructure and inappropriate marketing activity. In response to this terms-of-trade shock the volume of energy imported declined and as a sequence real output diminished also. That's why negative effect of the disruptions in trade and payments relations following the break up of the Soviet Union was so severe for the Georgian economy. Also the closure in important transport routes and the deterioration of communications infrastructure have contributed to the economic decline.

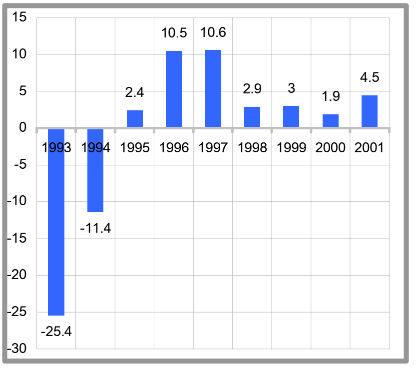
To summarize, despite the significant industrialization rate achieved in Georgia during Soviet Union period most part of its industrial capacity become irrelevant to new challenges due to outdated technologies, physical and moral deterioration of existing capital resources (both physical and human), very poor conditions for attracting foreign investments and low level of involvement in new global competition processes.

Economic recovery

During the period following independence and the break up of the former Soviet Union (FSU) in 1991, Georgia has faced severe shocks from disruptions in its trade and payments relations, and a large terms of trade shock for energy imports. This difficulties were compounded by civil conflicts, which created serious refugee problems, and closure or blockage of its trade routes. By 1994 these shocks has caused decline in real output to one third of its level in 1990. According to official data the output in 1994 declined to 30 percent of that in 1990. Monthly consumer price inflation in coupon terms averaged 60-70 percent per month in 1993- 1994. During 1990-1994, official data indicated that employment declined by one third, while output declined by more than half. The administrative capacity of the Government and its ability to conduct relevant economic policy also has ravaged.

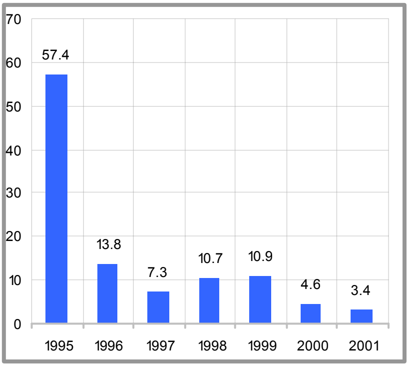
However, with improved political stability, in March 1994, the Georgian authorities began to cooperate closely with the IMF and the World Bank to address Georgia's massive economic problems implementing program of stabilization and structural reform. The main objective of this program was to reduce hyperinflation at an early stage through adoption of tight financial policies, removal of nearly all restrictions in the financial system, and substantive progress toward full liberalization of prices and domestic in external trade. As a result, following four years of output collapse, real GDP increased, led by agriculture, transport, trade, and construction. In 1995 rate of growth was 2.4 percent and a nearly 10 percent in 1996. A double-digit real output growth remained till the middle of 90s, when GDP growth have reduced to 3% in 1998 and 1999, and to less than 2% in 2000, caused by Russian crisis in 1998 and droughts in 1998 and 2000, and severe energy supply and underlying structural problems. Nevertheless, output growth in 2001 was over 5%, reflecting a rebound in agriculture and strong growth in some service (communication, transportation, hotels and restaurants).

Figure 20. Georgia: Real GDP Growth for 1993-2001



Progress in curbing inflation has been particularly impressive. Average monthly inflation fell from the hyperinflationary level of 57 percent in 1995 (end –period basis) to about 14 percent in 1996, and further to 7 percent in1997. However, the decline in inflation that started in 1995 was interrupted in late 1998 by the depreciation of the GEL due to the Russian crisis and the annual inflation rate rose to over 20 percent during much of 1999. By the end of 2000 inflation drop back to 4.6%, and remained at the level of 3.4% in 2001, reflecting restrictionary monetary policy, a more stable exchange rate, and the absence of demand-side pressures.

Figure 21. Consumer price index for 1993-2001 (%, end of period)



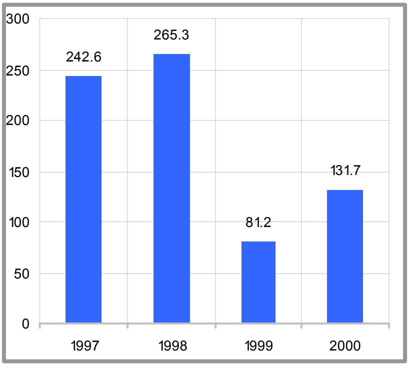
External policies

Available official data indicate that in the period of 1993-2000 Georgia had a huge **trade deficit**. Largely as a result of the sharp increase in the value of imports the trade deficit is estimated to have increased sharply to US$448 million in 1993. However, reflecting steep decline in gas consumption in response to this terms-of-trade shock, the trade deficit have declined to US$365 million in 1994 and further to US$337 million in 1995. This decline in trade deficit was concerned with imports decline by 50% from the previous year . At the same period exports declined by 40%. In period of 1996-1998 trade deficit widened from US$350 million to US$685 million, reflecting higher rates of import growth over export growth. However, in the period of 1999-2000 this tendency have reversed and trade balance deficit was shrinking.

The **current account of the balance of payments**, before transfers, has recorded a similar to the trade deficit pattern, with the estimated deficit rising to a peak of US$485 million or the equivalent of 42% of GDP in 1993. In line with the narrowing in the trade deficit, the current account deficit narrowed to US$448 million in 1994 (36% of GDP) and fell to US$261 million (5.4% of GDP) in 2000. However, such tendency in current account was supported also by increase in surplus in overall services.

The **capital account of the balance of payments**, indicated a significant increase in 1996-1998 period due to the surge in foreign direct investments related to the construction of the oil pipeline connecting Sanachal in Azerbaijan and Supsa in Georgia. In 1999-2000, however, capital account was weak reflecting lower loan disbursements offsetting foreign direct investment. As a result, despite strong current account developments, low loan disbursements and high debt service obligations led to a fall in official reserves and accumulation of external arrears.

Figure 22. Foreign direct investments 1997-2000 (million of US dollars)



Georgia's **overall balance of payments** moved into deficit in 1993 amounting to US$63 million. After reaching the peak of US$303 million in 1995 the deficit of the overall balance of payments continuously declined to US$63 million in 2000. During this period the deficit, was largely financed through the accumulation in arrears. However in 1996, 1998, and 2000 the deficit was financed also through decreases in net international reserves.

Table 7. Georgia: Balance of Payments (in millions of US$)[8]

	1993	1994	1995	1996	1997	1998	1999	2000
Current account (Excl. transfers)	**-485.1**	**-447.9**	**-406.7**	**-418.1**	**-571.3**	**-599.2**	**-413.6**	**-261.8**
Trade balance	-448.3	-365.0	-337.4	-350.9	-558.9	-685.4	-549.3	-361.0
Exports	457.0	380.7	362.6	417.0	493.5	478.3	477.0	645.5
Imports	-905.3	-745.7	-700.1	-767.9	-1052.4	-1163.7	-1026.3	-1006.5
Non-factor	-17.2	-47.5	17.0	-5.2	-148.0	-31.1	14.3	84.9

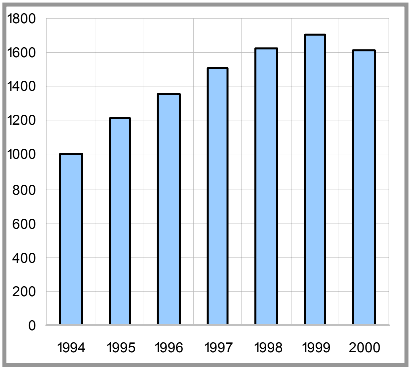
[8] Georgia: Recent Economic Development and Selected Issues. International Monetary Fund. Washington, D.C. 2001
Georgia: Recent Economic Development and Selected Issues. International Monetary Fund. Washington, D.C. 1998

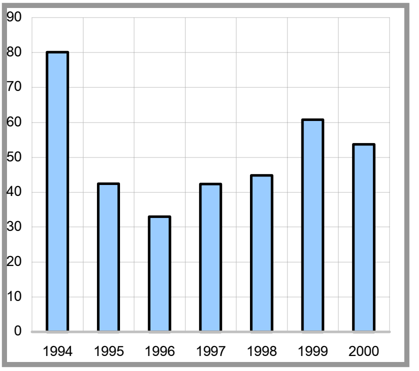
services								
Credits	72.7	102.0	121.8	93.9	167.9	242.1	261.6	490.4
Debits	-89.9	-149.5	-104.8	-99.1	-315.9	-273.2	-247.3	-405.5
Factor services	-19.7	-35.4	-86.3	-62.1	135.7	117.3	121.4	14.4
Credits	0.4	0.3	1.0	4.9	186.6	193.3	206.1	88.7
Debits	-20.1	-35.7	-87.3	-67.0	-50.9	-76.0	-84.7	-74.3
Transfers	**131.2**	**170.0**	**189.2**	**140.5**	**196.4**	**210.7**	**175.6**	**100.1**
Capital account	**305.6**	**-19.3**	**-86.6**	**66.4**	**267.1**	**247.9**	**79.2**	**90.0**
Medium- and – long term borrowing	381.7	-23.7	-171.3	19.0	52.4	30.0	1.5	-74.8
Other capital	-91.2	4.4	84.7	47.4	214.7	217.9	77.7	164.8
Errors and omissions	**--**	**--**	**0.5**	**42.5**	**-30.4**	**15.9**	**94.2**	**7.8**
Overall balance	**-63.4**	**-297.3**	**-303.6**	**-168.7**	**-138.2**	**-124.6**	**-64.6**	**-63.9**
Overall financing	**63.4**	**297.3**	**303.6**	**168.7**	**138.2**	**124.6**	**64.6**	**63.9**
Increase in net international reserves	-0.5	-0.9	-40.7	79.2	-15.3	54.9	-14.0	23.0
Exceptional financing (Arrears and debt relief)	64	298.2	344.3	89.5	153.5	69.7	78.6	41.0
Memorandum items								
Curr. account exc. transfers (in % of GDP)	-42.0	-35.9	-14.1	-9.1	-16.0	-16.5	-14.8	-8.7
Gross inter.res. (in month imports)	--	0.7	2.7	2.5	1.5	1.0	1.2	0.9

By the end of 1994 Georgia had incurred a huge **external debt** of almost US$1.0 billion or equivalent of 80 percent of GDP. More than 80 percent of this debt was accumulated to finance imports, including imports of wheat and energy. By that period Georgia's ability to pay its obligations was very low and thereby a big arrears have been accumulated. Georgia's external debt still remains very high though its percentage of GDP continuously declines. At the end of 2000 total stock of external debt reached US$1.6 billion (53% of GDP), of which about 90% was incurred prior to December 1994 and has been rescheduled previously[9]. In 1998, Georgia started to make principal repayments to Turkmenistan and in 2000 to China, Russia, and Ukraine. Most bilateral creditors have agreed to reschedule Georgia's debt on terms comparable with the 2001 Paris Club agreement. However, debt sustainability remains a serious concern, making Georgian authorities to request for additional debt rescheduling from the Paris Club for 2003 and beyond.

[9] Georgia signed rescheduling agreements on pre-December 1994 bilateral debt during 1996 to 1998 with Armenia, Austria, Azerbaijan, China, Iran, Kazakhstan, Russia, Turkmenistan, Turkey, Ukraine, and Uzbekistan.

Figure 23. External debt developments for 1994-2000 (millions of US dollars)
Figure 24. Debt to GDP ratio (%)

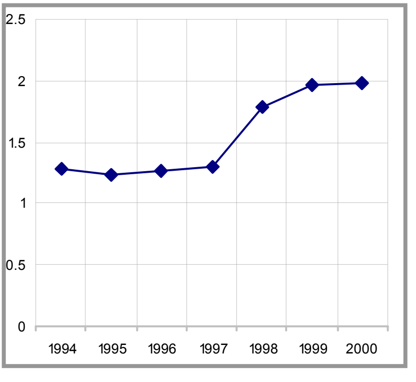




Financial sector

From September 1994, the monetary authorities began to take some decisive steps to tighten financial policies and to remove distortions arising from cash restrictions in the banking system and the foreign exchange market. Tight financial policies pursued by the National Bank of Georgia (NBG) allowed to halt hyperinflation, stabilize the exchange rate for the existing currency coupon, and prepare for the introduction of the new national currency, the Lari (GEL). The introduction of this new currency in September 1995 resulted in a reversal of the rampant currency substitution that had characterized the earlier coupon era. Following the severe hyperinflation of 1993-1994, the Lari exchange rate has had an important signaling effects in Georgia and its stability has been a key element in the government's reform strategy and the remonetization of economy. The nominal exchange rate during 1995-1997 remained stable at 1.3 Lari per US$ level, however, Russian crisis and weak fiscal position have caused its depreciation to 1.79 Lari per US$ in 1998 and further to 1.96 Lari per US$ in 1999. During 2000 nominal exchange rate was stable at 1.98 Lari per US$ level but depreciated moderately in early 2001, following the crisis in Turkey.

Figure 25. Exchange rates, 1994-2000 (Lari per US dollar)



Prudent monetary policy has contributed to low inflation and a stable exchange rate with a floating exchange rate regime. The NBG tends to maintain such regime with interventions solely to build up official reserves. Although the main instrument of monetary control is the central bank's intervention in the Tbilisi Interbank Currency Exchange (TICEX) NBG continues the strategy of indirect monetary instruments development. Other instruments available to the NBG to influence liquidity conditions include NBG interventions in the interbank credit auction and the use of bank's reserve requirements.

Banking sector reform is advanced, on the strength of revamped banking legislation and improved banking supervision, payments system, and bank accounting. Georgia has sharply reduced the number of its banks; confidence in the banking system is building and bank deposits have started to grow, albeit by small amounts. Nevertheless, much remains to be done to encourage financial intermediation, develop financial markets, and establish a sound banking system. The Russian crisis and the loss of confidence in financial markets put a significant strain on the banking system, but a full-scale crisis was averted.

Social indicators[10]**.**

Though official **unemployment rate** figures suggest optimistic conclusions, persisting underemployment and widespread hidden and disguised unemployment behind these figures worsen the overall picture, aggravated further by long-term unemployment and continuing decreases in the labor force. A vast proportion of those employed work substantially less than full-time and earn much less than a living subsistence. It is apparent from all the above that underemployment is a widespread phenomenon, hiding behind the encouragingly decreasing unemployment rate figures. The majority of the employed is engaged in low-paying and insecure segments of the labor market under poor working conditions. Most jobs are created in the informal sector that is a major provider of urban jobs, and in low-productive agriculture; many of these are part-time or temporary jobs, offering extremely low remuneration and insufficient to change the household budget situation. Informal activities, that are mostly a way of surviving, are largely unrecognized, unrecorded and unregulated small-scale activities, many of which are irregular self-employment.

Average salaries are still very low; education and healthcare are still the worst payers. According to the State Department for Statistics (SDS) household survey, the average monthly nominal salary of hired employees across the economy was GEL 91.2, and the share of the average monthly salary in the minimum subsistence level of a family of four was 42.3 per cent at the end of 2000. Employees in transport and telecommunication (over GEL 150 per month on average), and construction (over GEL 132) were the highest salaries earners in 2000, and those engaged in education and healthcare were earning the lowest salaries (around GEL 45 and GEL 58 respectively). The former two sectors accounted for 11.3 per cent of hired employees, while the latter two accounted for 31.2 per cent. The salaries of budgetary organization employees range between GEL 20 and GEL 66 since the concept of a minimum salary was re-introduced after a 4-year gap by a presidential decree in June 1999. Those employed in budgetary organizations accounted for 43.3 per cent of hired employees in 2000. Many public sector employees are paid only token salaries,

[10] These section is based on "GEORGIAN ECONOMIC TRENDS" – 2000, No.3-4, Tacis.

the cases of non-payment of salaries are widespread, arrears in the payment of budgetary employees' salaries persist and the growth in salaries is eroded by inflation.

The **subsistence minimum** levels published by the SDS, were: GEL 114.5 for a working man, GEL 100.4 for an average consumer and GEL 199.2 for a family of four – on average at the end of 2000, a 3.8 per cent year-on-year growth. As usual, the minimum subsistence level in Tbilisi was higher than the national average, this time by 4 per cent, reflecting the growing gap between the national level and the level in the capital.

The **State Social Allowance** is targeted now at households comprised exclusively of non-working pensioners without a legal breadwinner, and/or orphans. Actually, it represents a kind of topping-up of symbolic pensions of the poorest elderly and a modest child allowance for the most destitute children.

The payment of the standard monthly **Unemployment Benefit** payable for the first six months of registered unemployment is fixed at GEL 14 for the first two months of unemployment, GEL 12 for the next two, and GEL 11 for the final two months of payment. To become officially eligible, a person should be registered as unemployed, therefore, should have a certain working record in the official sector. As a result, the number of the unemployed who bother to register is several times lower than the actual one and the number of the benefit recipients is insignificant (on average, hardly 2 per cent of the registered unemployed).

2.3. Economic reforms and institutional developments

ARMENIA

Liberalization

The dram (AMD) is freely convertible currency. It may be converted through local banks with no restrictions. Companies may open hard currency accounts in Armenian or foreign banks.

Almost all prices have been liberalized, with some regulations remaining only on urban transport, electricity, hot water, gas, heating, sewerage, rubbish collection, state-owned housing, telephones and irrigation.

Armenia has a liberal foreign trade regime with a simple two-band import tariff (at 0 per cent and 10 per cent), no taxes on exports and no substantial quantitative trade restrictions. Import, export and domestic production licenses are required only for health, security and environmental reasons. There are no limits on hard currency imports. Tariff exemptions are extended to all goods originating from Russia, Turkmenistan, Moldova, Tajikistan, Kyrgyzstan, Georgia and Ukraine under the terms of free trade agreements. Excise taxes are charged at various rates on the import or production of some goods (including alcohol, tobacco, and petrol).

No foreign trade zones or free ports exist at present. The government and local business community are exploring the possibility of establishing several industrial parks that would involve Zvartnots international airport and some large electronics firms, and that might enjoy free trade zone status in the future.

Liberalization of trade system and floating exchange rate regime allowed Armenia to join the Article VIII of the IMF Agreements. The intention is to improve the country's external position through the reduction of current account and overall balance of payments deficits. That means that Armenia has pursued liberal trade policy, consisting of a simple and relatively open tariff -based import regime with a low uniform tariff; avoidance of quantitative restrictions on imports or exports. Armenia also eliminated all restrictions on capital flows both inwards and outwards. Parallel important steps have also been made to provide for convertibility of Armenian national currency.

In actual fact the overall target of the policy in foreign economic activity reforms appeal to its liberalization which significantly contributed Armenia's membership to the World Trade Organization (WTO) in 2002. It's momentous to indicate the negotiations a propos Armenia's membership to World Trade Organization had being started as far back as in 1992.

The following has been achieved as a consequence of foreign economic activity liberalization:

- Exclusion of state monopoly in the sphere of foreign economic activity;
- Exclusion of state regulation and administrative restrictions;
- Maximum reduction of non-tariff restrictions;
- Export tariff elimination and imposing of minimum tariffs on limited number of products;
- Domestic and international tariff rapprochement;
- Export promotion also elaboration and application of efficacious mechanisms re amplification of national products and services consumers' market.

The number of foreign economic activity partakers, particularly in the private sector, has rapidly grown as a consequence of the taken measures, hence fostering the competition that positively results chiefly on consumers' market.

Table 8. The growth of foreign economic activity participants and of transactions number

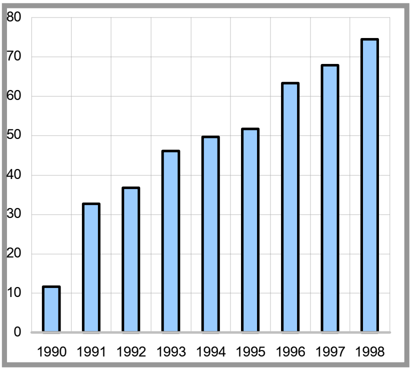
	1997	1998	1999	2000	2001
The number of importers' Increase rate in re 1997,%	1703	1988	2325	2219	2311
The number of import transactions	12399	14718	18104	20079	23165
Increase rate in re 1997,%	100.0	118.7	146.0	161.9	186.8

Armenia was one of the first amongst the former USSR republics that adopted rapid and liberal privatization strategy. Till the end of 1991 the privatization of about 90% of agricultural lands has been already realized. The first project re industrial enterprises privatization was adopted in 1994 along with the establishment and presentation of privatization procedures based on vouchers. Armenia has also set up quite liberal legislative environment and investment climate for FDI thus comprising tax privileges, foreign currency free repatriation and equal rights as well as guarantees for foreign investors.

In case the first phase of privatization in Armenia was chiefly emphasized with extensive development and guarantying the critical number of proprietors then now, when the society's transition to market economy becomes less effective, the assurance regarding post privatization efficiency pushed forward. In this very sense we'd rather prefer the privatization applications to be submitted with the participation of domestic and foreign private investment.

Nowadays a range of foreign investors acquired their property in Armenia particularly in hotel business, power engineering, good processing industry, cognac industry, communication and other spheres.

Figure 26. Share of Private Sector in GDP



Fiscal and customs polices' design

The Republic of Armenia has started the implementation of a sovereign tax policy since 1992, when after the breakdown of the Soviet Union the republics faced a severe need to secure fiscal revenues. Nevertheless, at that time Armenian tax policy lacked any specific aspects and was mainly duplicating the one in Russia. The situation in this respect was radically changed in 1997 when major tax reforms have resulted in a completely new tax system.

The starting point of the tax reform was the adoption of the new Law on Taxes, which went into effect on June 1st, 1997. The law has much strengthened the instruments of tax administration and reviewed fundamental principles of tax administration.

The Law on the Rates of Customs Duties, which went into effect at the same time, established a customs regime with absolutely no customs duty or whatsoever on exports from Armenia, and the imports being taxed by either 0 or 10 percent. The latter rate mostly covers consumption goods, whereas raw materials, equipment and other items usually used for production are generally zero-rated.

The Law on Taxes was followed by two new laws on indirect taxation - Law on Value Added Tax and the Law on Excise Tax. Both of them has included a shift to the destination principle vis-à-vis Former Soviet Union countries, thus making the export of goods from Armenia equally competitive in all countries. Parallel to that, the collection of VAT from imports has started to be implemented directly at Customs, which in order not to damage the import of raw materials to be used in production process, was extended only on consumption goods.

All this legislative improvements, together with frank administrative measures to cope with shadow economy, has resulted in an increase in tax revenues by some 57 percent in 1997 compared to that of 1996.

In late 1997 several laws has been approved to regulate direct taxation as well which have had major impact on the improvement of tax system and in particular – decrease of tax burden.

From 1998 to 2002 the level of taxation re GDP in comparison with 1997 has increased by 1.8 points as a result of 2002 via non-formal part (shadow) as well as the reduction of prevailing taxation conditions and therefore expansion of taxation factual basis. It was imperative for the tax rates to be constantly reduced throughout 1998-2002 for the purpose of investment and employment stimulation.

Tax reforms haven't been limited by merely tax rates reduction. Various incentives of investment stimulation have been established through the perfection of profit tax levying mechanisms. It was defined for the resident to enjoy the profit tax exemption privileges in the case the resident bylaw encompasses at least 500 million AMD of foreign investors factual investment.

Favourable taxation conditions are also imposed in dividends collected from investment. The drawn dividends mainly aren't liable to tax in Armenia (they aren't taxable re profit tax for individuals, as well as re some exemptions for legal entities).

According to the Law on Property Tax being put in force since 1998 tax-freed the major part of fixed assets; that is vehicles and equipment. Also this tax social direction was indicated hence inflicting growing high tariffs for individuals' higher value property.

Figure 27. Description of Tax Burden Reduction

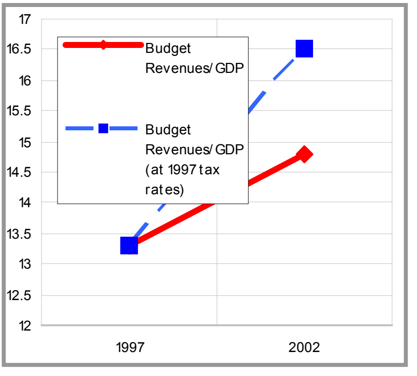


Table 9

Profit Tax	20%
Income Tax	
< 80,000 AMD	10 %
> 80,000 AMD	20% of income exceeding AMD 80,000, plus AMD 8,000
VAT	
Basic rate	20%

Since 1998 the customs policy tends to customs boundaries as well as the accomplishment of productive customs control re commodity turnover within customs territory; foundation of amalgamated and competitive conditions for business entities being engaged in foreign economic activity; protection of domestic market.

The law on customs duty was put in force in 1999 being apt to fostering the customs value determination rules in case of foreign economic transactions. The law readopted the tariff system for ultimate consumer goods' import customs duty of 10 percent counted via valuing method and for manufactured products as well as exported goods of 0 percent of customs duty.

In 2001 the new customs legislation was implemented. In accordance with the latter a number of significant issues were solved for the purpose of providing conditions to favourable economic activity a propos customs affair perfection and business entities welfare engaged in foreign economic activity

The method of customs payment has been changed in 1999. Therefore the new law on customs duty imposed the customs duty calculated via adopted method instead of the previously functioning 0,3 percent of customs duty of the goods customs value transported through customs boundary.

Table 10. State Budget Revenues by Major Source

% of GDP	1995	1996	1997	1998	1999	2000	2001
Tax Revenues	10.7	10.6	13.3	14.3	16.8	15.4	15.4
Non Tax Revenues	3.4	3	1.4	2.6	2.0	1.3	0.8
Grants	3.6	1.5	1.8	1.7	1.5	0.8	0.9
TOTAL	17.8	15.1	16.5	18.5	20.3	17.5	17.3

Table 11. State Budget Expenditures by Economic Category

Current Expenditures	**19.4**	**17.2**	**15.8**	**15.9**	**18.5**	**17.0**	**15.1**
Capital Expenditures	6.8	4.1	3.4	4.8	4.4	3.8	4.3
Net Lending	0.5	2.4	0.9	1.4	2.6	1.5	1.0
Settlement of Old Exp. Arrears	28.8	24.4	21.1	22.2	25.5	22.3	21.9

Fiscal performance in Armenia has been improved considerably over the last decade. The significant achievement in fiscal reform processes was proven by the fact that under every expenditure group of the state budget a specific government strategy was developed, making each budget line an instrument for relevant structural reform. Particularly, the "state order" concept has been implemented in financing of scientific, educational and cultural spheres. The policymaking in the health care system was separated from implementing procedures by establishing Health Care State Agency. The system of public procurement was put in action by adopting a Law on Procurement and by establishing the State Procurement Agency.

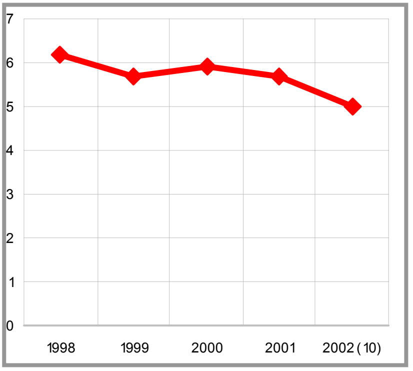
So, the main objective of the reforms in the fiscal sector was the introduction of market mechanisms i.e. free competition. To reach higher effectiveness in such a system the process of realization of expenditures has been centralized. As a result it was possible to have proper control and necessary information for each line of budget expenditure. The Treasury System created in 1996 was aimed to provide this centralization.

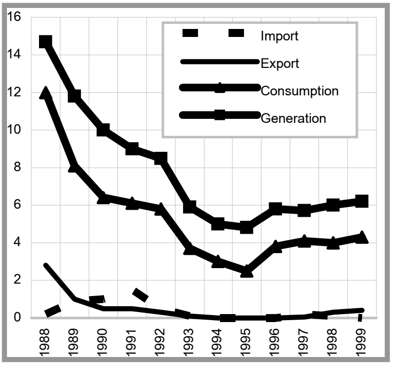
Economic infrastructures

Energy

Energy production as well as domestic consumption values has got reducing tendency for the period of the recent 3-4 years. Also the share of this sector decreases in the country's GDP. The aforementioned tendency in the growing economy definitely can be clarified both via the scope of other sources of energy that is gasification and heating expansion and application of energy saving technologies being invested in the industrial production.

Figure 28. Electricity Production Volumes (bln of KWt)
Figure 29. Energy Sector Balance (TWh)





The new law on Power Engineering adopted in 2001 is directed to fostering market relations; developing market liberalization and privatization process in this very sector as well. This also generates coinciding preconditions for domestic power engineering reservoirs to be initially exploited and utilized.

In the context of restructuring strategy started up in 1998 the project of compound measures was elaborated re retrieving the cash flow in energy system; the system privatization strategy was adopted as well as carried out for each company's development and financial recovery business plans within the period of 1999-2001.

Nowadays Armenian energy system is capable to satisfy not only the whole local demand but also in the case of necessity exports electric power to Georgia and Islamic Republic of Iran.

Recently the state policy in transport sector was directed to passengers and baggage guaranteed transportation, protection, environmental protection and establishing systems re setting other special requirements.

Some constructive reforms were carried out to resolution of the aforementioned issue. Consequently, the legislation regulating the sector has been improved; appropriate steps were taken a propos transport sector effective regulation. Some complex measures were taken for the purpose of this sector efficiency increase focussed on private sector expansion, investment stimulation and service quality improvement.

The considerable part of motor transport has been already privatized except of 9 companies. The privatization of the latter will be over in 2003. 31 road construction firms of 38 have been also privatized as for the rest to be done within 2003.

Telecommunication

The effected reforms in telecommunication tended to service acceptability and quality enhancement. Complex measures have been taken to expand TV and radio broadcasting throughout Armenia. "Armenian TV network" company is accomplishing TV programs transmit in the territory of Armenia and abroad through broadcasting network that encompasses more than 60 multiprogramming stations today; 50 and more rebroadcast stations with signal satellite acceptance; a satellite broadcasting station and 1600 km over-ground broadcasting connectors.

The above mentioned level of television to be equipped was owing to recently started reconstruction of broadcasting network as well as implemented compound activities regarding modernization and enlargement.

Hence the TV informative-broadcasting sector is of a high profile in accomplished programs via progressive technologies investment to modernization directions.

Since 1998 "Armentel", that is Greek-Armenian company, started the application of phone digital system in Republic's phone network in the framework of accepted responsibilities via privatization contract. In 2002 over 150.000 digital telephone lines have been established in the city of Yerevan and provinces. Card phones were set in Yerevan and provinces. In January 2002 completed the international phone connection providing connectors' digital set for Armenian public network.

AZERBAIJAN

Liberalization

In 1992 in Azerbaijan some 80% prices were liberalized. The prices of transport, having and communal services, phones communication, electric supply and gas remained under state control. The begun price liberalization had to be supported by fundamental transformation of property relations at the vase of privatization. And the government began to put into practice the first urgent measures in that direction. In 1992 there established the State Committee on Property. As the appropriate legislative aces came into force there started the privatization of state housing funds and also the fleet of taxi-cars. This committee prepared the program for expending the privatization scales. However, the political crisis and the Karabakh conflict almost transformed into the military resistance stopped the preparatory process of privatization on a large scale. The reform of property relations lost its priority against a background of the war, political disorganization and struggle with hyperinflation in the state.

After the government resignation and the agreement on cease-fire between Azerbaijan and Armenia the first contours of stability became to emerge in the country. In September 1995 there passed the Privatization state Program of state property in Azerbaijan Republic in 1995-1997 years, i.e. the privatization in Azerbaijan started too late. So official privatization could not block the spontaneities one. Its illegal and criminal forms which came into the propounding in the very serious way.

Moreover, the privatization delay played the main role in the state property squandering and lots of state enterprises were bankrupted and destroyed, and their activities were stopped. As a result of that Azerbaijan lost the substantial part of scientific-technical potential.

The privatization program became to correspond with the level of the fundamental property relations reforming in Azerbaijan. It was based on the principle of optimum combination of commercial, privileged and free forms of privatization, i.e. this program became the legal basis for the free transmission of 65% the state property to population of the country. For realization this aim all citizens of the country got vouchers – state privatization shares. The Azerbaijan voucher consists of four cheques and it hasn't the concrete face value. The face value of every cheque of state privatization share corresponds with the material equivalent of 1/132000000 (one thirty two million) part of Azerbaijan state property that subjects to cheque privatization.

The privatization cheques are used in the privatization process of 15% funds of small and almost 70% share of medium and large enterprises. 15% of authorized capital of a small enterprises subscription and 85% with financial auction. At the same time and the other measures of privileged types were used in the privatization process of small enterprises. Medium and large enterprises are privatized with their transformation into the stock companies. 15% shares are assigned for the privileged sale to the members of collective, not less than 50% are done for the cheque auction and all the rest – for financial one. Foreign investors take part in the privatization with acquiring the privatization's options. An option gives the right for acquiring one privatization cheque for the participation in cheque auctions. An option can be used for getting the certain quantity of shares to take part in financial auctions, investment or commercial tenders. On all the stages of privatization the Azerbaijan government held the policy of "open doors" for increasing the interest and stimulating the activity of foreign investors. There created the most favorable investment conditions such as custom, tax, trade privileges, freezing debts of enterprises to the state and the others assigned for the incentive of participation foreigners in the privatization.

The privatization of state property in Azerbaijan will be completed in 2005. It is divided on 4 stages. At the first one (1996-1998) there conducted the privatization of the small, medium and large enterprises with cheque and financial auction, closed subscription and auction sale of small enterprises. At the following stage (1998-2000) there partly implemented the privatization of the strategically objects with investment and commercial tenders. At the third stage (2001-2003) there continues the privatization of the strategically object and tenders the state help for the rehabilitation of earlier privatization's enterprises. At that stage, three departments are established under the State Committee on Property. They specialize in privatization, managing the state property and keeping the property register. At the final stage, there will fully complete the formation of the securities market and begin the process of selling the state share at the several privatization's enterprises.

The first program of privatization was carries out only partly. It encountered with numerous difficulties of political, financial, economic, social, management types. One of the privatization main directions such as the creation of the securities market was not also developed completely. The investors could not sell their shares with the profit and the government could not use the machinery of bankruptcy against them.

For the effective solution of these problems the President signed the order about the liquidation of state Committee on Property and the establishment the Ministry of State Property. Moreover, the state promoted the status of authority executing the policy of privatization.

At exception of the second stage of privatization the leadership of republic established the necessary structures for the normal, civilized function of the securities market. The State Committee on Securities of Azerbaijan and Baku Stock Exchange were established according to the President orders in the end of 1998 and in the beginning of 2000. Soon after establishing the Ministry of State Property completed the project of the Law and the Program of Privatization of State Property. The similar positions of the new program comparable with the old privatization's program are distinct form each other. The new program -

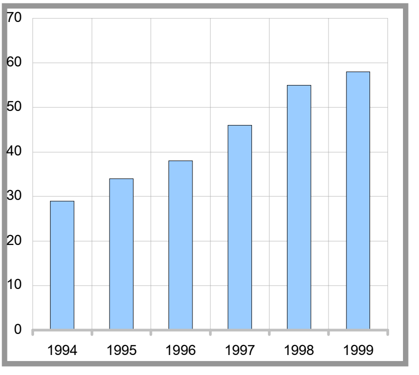
- Provided for the privatization of enterprises and strategically important objects.

- Projected the sale of not less 25% shares of the similar enterprises with united block.
- Provided for privileges during the purchase of the shares at financial auctions.
- Put into effect the organization of state property management
- Put into force the experimental privatization (based on the individual projects) of enterprises having the peculiar importance in the economy of country
- Put into effect the new method of enterprises sale (direct sale of shares to strategic investors)
- Developed the bill on writing off the several debts category of privatization's enterprises
- Provided for the liquidation and sale on parts of the several enterprises on the auctions with bankruptcy machinery.

In 2001 the action term of azerbaijanian vouchers was prolonged till the end of 2002. It's the consequence of situation when the most attractive enterprises for investors are the part of state property. In the first months of 2002 the large liquid enterprises were displayed for privatization. All of them were of strategic interest within the frames of the different branches of country economy. 11 enterprises of State oil Company of Azerbaijan Republic had to be given to the private organizations. The government refused of the non-statehood of the very State Oil Company. Among the enterprises that had to be privatized were oil-processing production associations of "Azerneftyag" and PA of "Azerneftejangejag" whose general potential was 22 mil. tons of oil initial process. There were 17 enterprises of state company "Azerchimia"; 8 of JSC "Azerigas" distributing the natural gas on the Azerbaijan territory: 3 of JSC "Azerienerjy" (energy distribution); 6 of Ministry of communication; 5 of state concern "Azerbaijan airlines". It was the services enterprises because the international airport Bina in Baku and other 67 passenger and cargo planes of company "Azal" remained in the state property. There will privatize also 35 enterprises of state concern "Azerbalug" (pisciculture), 16 companies of engineering sector. The tender of investment become mainly the machinery of the privatization's process. Unlike cheque and financial auctions, conducted at the first stages of privatization a new owner undertakes restoring the production for a short time, i.e. beginning the privatization in the middle of 90s Azerbaijan found one of possible way for private sector development. It was a non-statehood of small and medium enterprises. This policy had the similar results. At present the private sector, in fact ,possesses all the trade branches, services, petty production. The situation with the medium enterprises is a little worse, but they are privatized stably. The situation with large enterprises is much worse. The privatization of the latter noticeably reduced because of in general the clear reason such as the material and technical conditions of objects, absence of potential markets, difficulties of production creation and so on.

From 1996 to November of 2002 27 thsd. small enterprises became the private property. It ensured 340 billion manats receipts. 40.9% of all the privatization's enterprises are services departments; 8% - trade; 3% - industry; 2.2% - public catering, 25% - bakeries and bread trading, 2% - fuel tanking; 28-transopt; 8% - renting property and so on. At that period more 1500 medium and large enterprises became joint-stock. It provided 157 billion manats budget receipts. 28.49% of the created stock companies are the enterprises of agricultural sector, 17.5 – industry, 15.55% - services, 14.37% - transport, 14.12% - construction, 9.97% - trade. The shares of 22.6 stock companies are sold on the financial auctions, 1075 – on the cheque auctions. 367 land areas were privatized what accumulated 12 billion manats in budget. 1397 mil. ha or 99% of all the land areas, that would have to be privatized, transited in private property after privatization. One to renting state property there signed 22 thsd. rent contracts. Their receptions constituted 68.5 billion manats. For privatization with the sale for special purpose (investment tenders) some 20 large enterprises were realized. The obligations of these tenders constituted 300 mil. USD from which 100 mil. is already invested.

Figure 30. Share of Private Sector in GDP (%)



By the beginning of 2002 in Azerbaijan the small proprietors class had already been formed. 140 thsd. citizens became the owners of the state property and 100 thsd. did the shareholder of different enterprises.

In Azerbaijan leadership's opinion the open trade regime attracts the foreign investors, promotes the economy growth and industry development. This position determinates the process of foreign trade liberalization. In accordance with the Azerbaijan legislation regulating the problems of foreign trade, the right of conducting import and export operation belongs to all the legal and natural persons having the registration in the judiciary. They go on taking drastic measures for improving the foreign trade system and ensuring more transparency. All the quantitative restrictions are abolished about import. The main instruments of Azerbaijan policy in the foreign trade field are the custom duties. The government set the common structure of tariffs. In accordance with it the imported goods of final consumption are imposed penalty in the range of 0-15%. All duties on export are abolished.

In fact, there are no restrictions for repatriating the profit of foreign investors. The imports (declared in the custom authorities) and the transfer of foreign currency on the Azerbaijan territory as well as the convertation of foreign currency are executed without limitations. The currency account's regime of non-credit organization and natural persons are characterized by the permitting tendencies. However, there are certain indicative limits for advance payment and transfers of natural person abroad exceeding the earlier imported or transferred sum of money. But the operations exceeding the indicative limit and having a sound nature can be conducted with the National Bank permeation. On the whole all the remaining currency operations if they have a sound nature and the confirming documents can be executed without any limitations. The imported or transferred currency means and the profit can be convertated into the foreign currency and repatriated after paying taxes.

In 1997 the investment program of Azerbaijan was developed and passed. Two principles were set in its basis that mean to reduce the borrowings from the side of state and attract the private capital for the development of infrastructure and main sectors of economy. In 2002 there established Agency Foreign Investments (AFI) becoming the department of Ministry of Economic Development after. Its functions are the attraction of foreign means, the regulations of capital flows and coordination of state structures activity in that field.

Table 12. Functional structure of foreign capital flow into Azerbaijan

	2000		2001		2001 Compared to 2000,%
	$ Mil.	Share, in %	$ Mil.	Share, in %	
Direct investments	588,3	47,7	813,2	67,9	138,2
-oil sector	452,6	36,7	712,0	59,5	157,3
-other sectors	135,7	11,0	101,2	8,4	74,6
Loans and other investments	546,3	44,2	377,8	31,6	69,2
government guarantee loans	265,6	21,5	195,4	163	73,6
-other credits and investments	280,7	22,7	182,4	15,3	65,0
Oil bonus	100,0	8,1	6,4	0,5	6,4
TOTAL	1234,6	100,0	1197,4	100,0	97,0

Fiscal and customs polices' design

Table 13. Tax policy, 1999-2001

Reform tax system	Obtain parliamentary approval of the new tax code
	Move to destination principle of VAT for CIS trade
	Eliminate most remaining exemptions in profit and personal income taxation and introduce international accounting standards to switch VAT and the profit tax to an accrual basis
Improve tax administration	Improve VAT refunding mechanism by ministry of finance; computerize revenue collection in STI; and, increase training for staff in Large Tax Payer's Unit
	Approve legislation to allow the tax inspectorate and the social protection fund to enforce notices of levy and to seize and sell property of tax delinquents

The State Customs Committee of the Azerbaijan Republic was created in January 30, 1992. In 17 June, 1992 the State Customs Committee became a member of the World Customs Organization. In 1999 it became a member of the Finance Committee and since 2000 it is a member of the Policy Commission of the WCO. The State Customs Committee of the Azerbaijan Republic, being the law-enforcement agency, realizes the uniform customs tariff policy which is the constituent internal and foreign policy of the Azerbaijan Republic; protects a home market; stimulates the development of the national economy; adjusts commodity exchange on customs territory of the Azerbaijan Republic; creates the appropriate conditions to participants of the foreign trade activities who realize import - export operations; ensures economic interests and economic safety of the country.

Fiscal issues are focused on revenue projections and planned tax policy changes, utility consumption by budgetary organizations, the explicit incorporation into the budget of subsidies for utility consumers (to replace abolished preferential tariffs), and the incorporation into the budget of the implicit subsidies previously provided to the utility companies (Azerenergy and Azerigas) by the SOCAR. The major source of financing for the general government deficit (almost two-thirds of the total) will be external loans. Other major sources of financing will be a planned disbursement from the World Bank's SAC and privatization proceeds (each about 0.5 percent of GDP), with modest treasury bill financing anticipated.

Revenues

The authorities conducted a wide range of tax policy changes in 2002. The authorities reduced the payroll tax rate from 33 to 29 percent (previously, the combined tax on wages, including the income tax, could reach as high as 63 percent). Also the number of brackets and the rates for the income tax, paid for by the elimination of a deduction for large families, were reduced. Some changes were conducted in the area of the elimination of the opportunity to deduct investments from company profits twice. Prior to this, all investments were eligible for 100 percent expensing, and some were also eligible for depreciation (despite the feet that they had already been expensed). The new system eliminates expensing, while allowing accelerated depreciation for some investments.

The government had provided reduction in income tax rates, as well as a reduction in the enterprise profit tax. The VAT threshold was reduced by about two thirds, as the government was losing substantial revenue due to the high threshold. Also the authorities are going to consider careful reductions of additional tax in 2003.

With regard to taxes from SOCAR (oil revenues), a careful evaluation of company's cash flow prospects, in light of the new oil price projections, shows that the company will not be in a position to pay its tax liabilities in full in cash. Nonetheless, a reduction in non-essential expenditures (in part related to the privatization of selected non-core activities), as well as the full-year effects of the scheme to replace fuel oil with natural gas in electricity production—thereby freeing up oil for exports—means SOCAR should be able to pay more in taxes.

Non-oil revenue is expected to increase by 1.4 percent of GDP, as the combination of GDP growth (nominal non-oil GDP is projected to grow 9 percent), the revenue impact of the energy sector investments, the full-year effect of imposing VAT on the destination basis, and the revised depreciation rules are expected to lead to a significant increase in revenues.

Table 14. Fiscal revenue trends (% of GDP)

	1993	1994	1995	1996	1997	1998	1999
Total revenues of which:	40.6	33.8	17.6	17.6	19.1	17.0	19.4
Individual income tax	2.4	1.5	1.1	1.6	2.1	2.5	2.7
Enterprise profits tax	8.5	5.2	3.8	4.3	2.8	2.0	2.2
Social security contributions	9.6	4.2	2.3	2.3	2.5	2.5	2.6
Value-added tax	8.1	3.3	1.7	3.4	4.1	4.4	4.8
Excise tax	4.0	2.0	0.8	1.5	1.4	0.6	0.7
Land tax	0.0	0.0	0.0	0.0	0.1	0.2	0.3
Property tax	0.0	0.0	0.0	0.0	0.2	0.1	0.3
Royalties	0.0	0.0	0.0	0.3	2.2	1.1	1.1
Customs revenue	0.8	0.7	0.6	0.8	1.5	1.8	1.9
0ther revenues of which:	7.3	16.9	7.1	3.4	2.3	1.8	2.9
Strategic export tax	0.0	0.0	1.8	0.9	0.4	0.0	0.0
Foreign exchange revenue	4.6	13.4	3.0	0.0	0.0	0.0	0.0
Oil revenue				1.8	3.3	1.7	2.1

Road fund	0.0	0.0	0.0	0.2	0.3	0.3	0.6
State duties	0.0	0.0	0.0	0.0	0.2	0.3	0.4
NBA profits	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Grants	0.0	0.0	0.0	0.0	0.0	0.1	0.4

Expenditures

Expenditure policy in 2002 have been largely driven by four factors: there need to ensure that budgetary organizations pay in full for their utility consumption; the incorporation into the budget of some of the previously implicit subsidies related to preferential utility, gas and transport tariffs; the desire to increase expenditures on health, education and social protection; and continuation of the policy of decompressing the government wage scale.

Prior to 2002, budgetary organizations have routinely run arrears on utility consumption. In the 2002 budget, a substantial (manat $3 billion) increase was made in allocations for utility consumption by budgetary organizations. This new allocation fully covered utility consumption in 2001. In addition, a presidential decree calls for the termination of service to budgetary organizations that attempt to consume beyond approved limits, and holds heads of such organizations responsible for any over-consumption.

Also prior to 2002, many consumers benefited from half-price or free gas, electricity and transport Effective January 1,2002, all such preferential tariffs have been eliminated. For needy consumers (orphans, refugees, internally displaced persons (IDPs), and pensioners), the equivalent subsidy will be provided explicitly through the budget; this measure will cost 144 billion manat. In addition, as all uniformed personnel had previously been entitled to free transport throughout the country. The government has increased expenditures on education, health and social protection. Combined budgeted expenditures in these three categories have increased by roughly 0.7 percent of GDP relative to 2001. Finally, the continuation of the policy of decompressing the civil service wage scale, plus the effect of the increased wages for uniformed personnel discussed above, will result in wage increases in 2002 totaling some manat 354 billion.

In addition to these state budget expenditures, the oil fund began significant capital expenditures in 2002. (In 2001, oil fond expenditures were limited to operational expenditures and a very modest amount—less than O.I percent of GDP—of capital expenditures.) Roughly manat 150 billion was spent by the oil fund to construct houses and improve agricultural and other infrastructure facilities for refugees and IDPs.

Table 15. Fiscal expenditure trends (% of GDP)

	1993	1994	1995	1996	1997	1998	1999
Total expenditures of which:	55.9	45.9	22.5	20.3	20.8	21.2	24.9
Wages and salaries	0.0	4.6	3.7	3.5	4.4	5.0	5.8
Purchases of goods and services	10.4	6.4	6.9	6.9	7.4	5.8	6.3
Interest payments	0.0	0.0	0.1	0.3	0.1	0.1	0.1
Transfers to households	16.6	8.6	5.1	6.4	6.2	6.8	8.1
Subsidies	4.6	5.4	2.2	2.1	0.7	0.1	0.1
Other current expenditures	21.0	20.0	0.1	0.0	0.1	0.1	0.2
Capital investment	3.1	0.9	0.7	1.3	1.3	1.1	1.6
Other			0.0	0.0	0.0	1.3	0.0
Foreign financed project spending			3.8	0.6	0.6	0.8	2.7

Financial infrastructures and payment systems

The transition to the economical methods of management and production in the second half of 80-th, the orientation for the formation of market structures exposed the weak spots and shortages of one-level banking system. The transition to the market economy foresaw the establishment of two-level banking system. In that way there took place the separation of issuing activity from the activity on crediting. The first level included the state Bank and its local departments and the second level was introduced with the special banks: Industry and Construction Bank, Agriculture and Industry bank, Bank of housing and communal Economy and Social Development, Bank of External Economic activity. The main push to the establishment namely that system was explained with the wish to bring closer together the interests of banks and economic subjects. The elements of this system were kept in the present banking system of Azerbaijan. But they are transformed. There are International Bank, Prominvest bank, Agrobank, Sberbank.

The modern credit and financial structure of country experiences the serious structure changes. There reorganizes the credit and financial system, appears the new kind of credit and financial institutions and operations, modifies the system of relations among National Bank of Azerbaijan and financial and credit institutions, creates other proportions of state and private sectors.

The main aim of National Bank is an organization of process of banks operation management on the macro-economic level, coordination of banks activity and other credit and financial institution on the large economic scale, support the stable of banking and monetary system function. NBA develops the aims and priorities of banking and also monetary activity, its strategy and tactic. The principle of construction of inter-banking relation is fixed in the banking legislation. However, the concrete forms of interaction can alter and clarify on every concrete stage. In the different periods depended on the financial market condition NBA fixes the having changes in the management of payment transaction and regulation of credit institutions operations, issues the appropriate official documents having either finding or recommending nature. The commercial banks are informed of occurring changes in the regulating documents of NBA on the basis of these instructing and methodical materials.

The banking system of Azerbaijan got its own real development beginning since 1995 year. Before that time banks with together quasi-banking structures were like the extremely unhealthy organism, dysfunctional as the united system. By the beginning of 1996 in Azerbaijan there had worked 200 banks with the total ownership capital 18.4 billion manats, by the first August of 2002 year only 46 banks in fact had functioned in Azerbaijan. Their total ownership capital constituted 600 billion manats. The tendency of banking system is altogether clear demonstrated with two indexes. Quantity of functional banks is steadily reduced but the amount of their total ownership capital increased. This index has been strictly increasing during last years and it reached the present level 2.5 mil. USD. It said about the striving of National Bank seriously changed the determination positions of banks "soundness" and banking system on the whole. Earlier this opinion was created on the basis of ownership capital amount at present the priorities of Azerbaijan government altered and became closer to world standards. In present conditions National Bank became orientating itself on the banking indexes and coefficients that are accepted in the international account system and world banking practice. Already operating with these indexes National Bank has been continuing its policies of enlargement of banking system and it is going to remain only some quantity of banks on the market. In opinion of National Bank only such banks can be stable and viable. But National Bank at the same time, as an authority of regulation and control, conducts the policy of increasing quantity rendered banking services. In such a way NBA realizes the long-term project on the transition of banks on the international accounting, introduces the new electronic system of interbanking payments, supports introducing the new banking tools. They are money transfers, plastic cards, internet banking and so on.

In such a way the state policy of banking field regulation concentrates itself in following directions: banks enlargement with eliminations of small banks, their parallel consolidation and increasing of banks qualitative level. The reorganizations are done both for developing the very banking system and for increasing the trust level of population. Both these factors are priorities of state policy on the banking market.

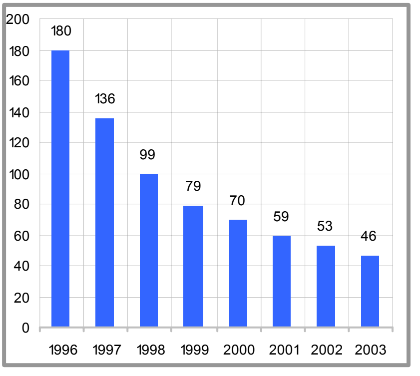
The united payment system was established in 2002. It amalgamates more 40 banks. In store they foresee establishing the united system of electronic settlement. It will allow fixing all the payments and create the might stimuli for the development of mortgage relations.

By the end of 2002 the general quality of banks had been 46. 2 banks of them with state controlling block of shares, 15 – with full or partial foreign capital and 29 are joint-stock, commercial banks. In 2002, the common growth of banking assets constituted 19268.6 billion manats in December 2002. In 2002, saving from population in the banking system of Azerbaijan increased compared with 2001 on 36% and by 1 January 2002 had constituted 763.3 billion manats. The amount of legal persons deposits had done 1861.9 billion manats. In 2002 the banks credit to private sector increased on 18% and their share in general amount reached 70%.

State Committee on securities of Azerbaijan (SCSA) was established by the head of state in 30 December, 1998. In February 2002, Baku Stock-exchange was also formatted. The State Committee began its real activity only in September 1999 and Baku stock-exchange that had to become the "pumping" securities "heart" of Azerbaijan share market did in October, 2002. The founders of Baku stock-exchange are shareholders: 16 banks of Azerbaijan, Stambul stock-exchange and one of British serves company. The constituent fee of each founder was 300 mil. manats. So the ownership capital Baku stock-exchange is estimated in 1.134 mil. USD. Only 12 of 18 founders take part in its activity. The main kinds of Azerbaijan securities are government treasure obligations (GTO), shares of private and state company and privatization vouchers. Till the main field activity of Baku stock-exchange is the placing of Government treasurer obligations are issued by Ministry of Finance. In 2001, it is issued GTO in the sum of 417.4 billion manats (105 mil. USD) under 15-17% annual. GTO were placed in the sum of 417.4 billion manats (87.7 mil. USD). Since the term of GTO circulation constitutes about three month quarterly on average GTO in the sum of about 105 billon manats (22 mil. USD) are in circulation. The means getting from the GOT placing are spent by the state for the settlement costs of the state budget without realizing any investment projects. So budget deficit – 2001 constituted 320 billion manats and the state made good the deficit with only the placing of GTO.

As for the main element of functioning share market – shares of different company – their circulation on the space of Baku stock-exchange was very modest and it was estimated in 4 billion manats (0.85 mil. USD) in 2001. However, there is a circulation of shares outside the stock-exchange. The similar transactions are more dynamic than on the space of stock-exchange. They are officially registered in National Depositary Center (NDC). In such tenders the shares on the common sum (accounting on nominal) in 115 billion manats were realized in January – September 2001. But since the cost of insurance are not higher 20-25% from their nominal the real circulation of republic capital stock constituted not more 22-29 billion manats (4.6-6 mil. USD) in 2001. The reason of such a sluggish life of corporational securities is plain. The most attractive republic enterprises for investors are in the stare property. However, taking into account the beginning privatization of large strategic enterprises one can suppose that in Azerbaijan the compact but liquid securities market will be formatted in some years.

Figure 31. Number of banks at the beginning of year



Economic infrastructures

The priorities of Azerbaijan transport policy are acceleration of integration in the international world system, ensuring and admission the international transportations of goods and passengers traffic, development of international net, control and trace system of goods transportation.

During the first half of 2002 the cargo transportation turnover was 47,6 mil. ton and for 15,9% exceeded the analogical indicators of last year. 56,5% cargo was transported by motor transport, 15,9% by pipelines, 16,7%- railways (transportation was reduced for 2%), 10,4% - naval. More than a half of cargo transportation is share of private sector transport (27,1 mil. ton).

Table 16. Privatization of small enterprises in transport sector

1995	1996	1997	1998	1999	2000	2001	1st January 2002 total
872	384	1729	3546	860	700	695	15071

Table 17. Activities of foreign and joint ventures in transport and communication sectors

	1999	2000	2001	1st January 2002 total
Number of operated small enterprises and cooperatives	78	49	66	193
Number of employees	2773	4118	3667	10558

Azerbaijan telecommunication sector is one of the most perspective and profitable branch of economy and it is an area of high investment attraction. By the beginning of 2002 364,7 mil. USD had been invested in the telecommunication system. The development of national telecommunications till 2006 is defined with correspondent conception, developed by Ministry of Communications.

By the end of 2003 the national digital net of data transmission will be created. In experts' opinion the total transition of telecommunication system from analog communication to digital will be completed till 2007. By the beginning of 2002 year 37,3% active ATS had belonged to the digital type. By 2001 the quantity of direct satellite channels put into operation had been 884.

In 1994, the joint venture "Bakcell" first time put in operation the cellular communication system of analog type. The second joint venture "Azercell" appeared on telecommunication market in 1996. And at present Azerbaijan took the first place among CIS on quantity of mobile phones per 1000 citizens.

TV and radio programs are transmitted with microwave-link, satellite and cable communication. Since 2000 the parting transition on analog regime of satellite transmission is carried out, they propose to construct and put into operation 25 satellite reception stations and foresee the extension of air-cable net.

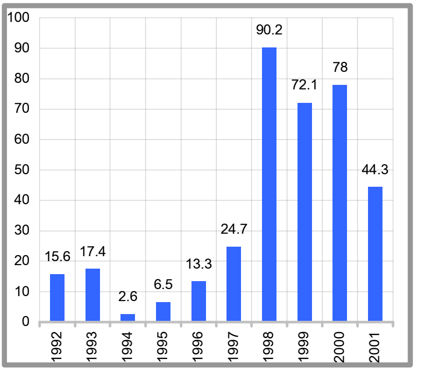
At present the exit in Internet is real, in fact, from any even the farthest places of Azerbaijan. Besides the state provider "Bakinternet", 11 private companies-providers have been working in Azerbaijan.

The realization of global project of international fiber-optic line of communication is being conducted. The fiber-optic main Trans-Asia-Europe [TAE] is set in the route of Great Silk Way. There are twenty states of Europe and Asia in this project. The Turkish company "Hestibel" is a contractor of this project in Azerbaijan. At present the fiber-optical cable is set in the western direction (Baku-Georgia border, 576 km.) and the other runs in the South (Baku-Iran border, 345 km.). Very soon the cable will be set along the Caspian bottom. It'll connect Azerbaijan (Siazian) with Kazakhstan (Aktau) – 400 km.

In 29 March 2001 the "giants" of telecommunication sector of Azerbaijan was admitted ready to the privatization – PA "Azertelecom" and "Teleradio". Baku urban telephone net, land satellite stations and also state share in the ownership capital of joint venture whose co-founder is Ministry of Communication appearing at name of state. The process of privatization of "Baku Telegraff ltd" is also started.

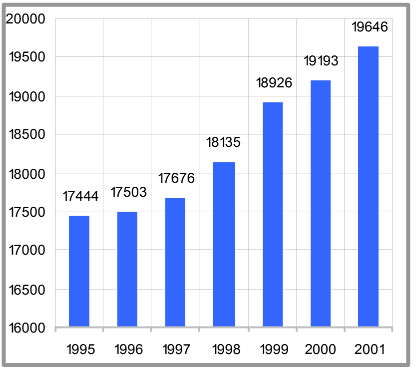
Analyzing the present condition of telecommunication sector of Azerbaijan one can come to a conclusion that the further development is possible thanks to the attraction of direct foreign investments and the fastest privatization of communication branches.

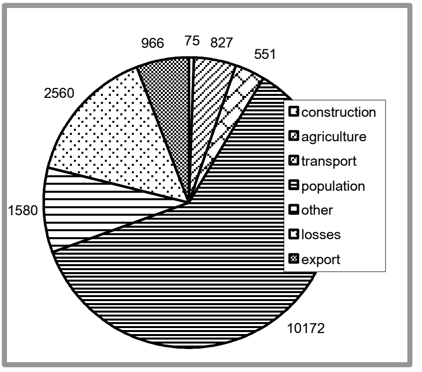
Figure 32. Investments directed to telecommunication sector (mil. USD)



The development of electricity energy of Azerbaijan is partly financed with the state budget and also it's own means formed with payments and tariffs for energy and profits. However, in the second half of 90-s the budget assignments had been reducing and payment delay had been impeding to the supply of the proper means. Subsequently, the conditions of energy nets got in the critical situation. Moreover, the main priority is become no increasing the energy production and radical improving it's consumption and conducting active policy of energy supplying. When the burning necessity of branches reformation appeared Azerbaijan government preferred to get carefully down to the improvement of energy management on the whole. At first all the systems were united. On that basis five independent associations were established for the production and transmission of energy, its distribution and sale, construction, scientific-research and project works. In 1996 the state company "Azenergy" was transformed into the stock company of open type for attracting the foreign investments. European Bank of Reconstruction and Development became the investor. 100% shares of stock-company belong to the state, but in time it will keep only not less 51% shares, the rest will be bought. The stock-company concentrated down the production, transmission and distribution of energy. Four cities, Baku, Sumgait, Ali-Bayramli, Gandja (through the net specially created) were carried out the distribution of energy. On the basis of these largest distributing nets was established the limited company.

Figure 33. Electricity consumption (mil. kwh)
Figure 34. Structure of electricity consumption in 2001 (mil. kwh)





In January 2002 the "Baku energy distributing net" was passed into the long-term management (25 years) to Turkish company "Barmek Holding". In august 2002 "Barmek Holding" got for the management and three more the distributing net. At present Privatization Department of Ministry of Economic Development with conducting the investment tenders is realizing the non-statehood program of small electric powers. Since December of 2001 the privatization of hydroelectric power stations has already been continuing. There are negotiations with Japan company OECF about the construction of small HPS in Nakhichevan which has large energy difficulties because of the blockade. The reconstruction of electric power "Severnaya" is begun. It is a main supplier of energy on Absheron. The cost of this reconstruction constituted 200 mil. USD. This reconstruction is financed with the means of Japan state credit. Some group of ten credit agreements in energy sector are signed under the government garanties in the sum of some hundred million USD for rehabilitation of energy system and support it on the high level.

GEORGIA

Liberalization

The initial economic reforms throughout the Former Soviet Union were designed to lead the economies away from central planning and toward a free market model. Price liberalization in Georgia is essentially complete. The only prices remaining under control are: gas, electricity, some transportation services, municipal and communication services, and pharmaceutical products. In 1996 the government liberalized bread prices, following a series of administrative increases beginning in 1992, and also doubled the tariffs on communication services, commuter trains, and urban transportation. In early 1997 electricity tariffs rose by 30 percent, with further adjustments expected throughout the year.

Georgia has made considerable progress in liberalizing its exchange rate system and, as a result, there are no current and capital account restrictions. It is among the most liberal of the states of the FSU. In late 1994, export taxes were abolished and a simple import structure was introduced with a basic rate of 12 percent on imports and 20 percent on barter imports. In early 1996, all imports tariff rates were unified at 12 percent, however, the government introduced a second tariff band of 5 percent in 1997. It applies to certain capital goods, some medical goods, and a limited number of raw materials There are no quantitative restrictions on imports and import licenses are not required, generally. The government also eliminated the remaining export prohibitions and licensing requirements in 1996, with a few exceptions.

The Government also focused on privatization of state property. The mass privatization methods used to privatize medium- and large-scale state owned enterprises (SOE) included voucher auctions and management/employee buy-outs. Voucher auctions were the main method during the initial privatization phase of the medium-and large-scale SOEs with 60 percent of the privatizations conducted using this method. By June 30, 1996, about 95 percent of total vouchers issued had been used. The Government also granted to the managers and employees of the SOEs the right to buy 51 percent of the shares of their enterprises.

The privatization of small enterprises successfully continues. As of 1st January 2001, 13,527 small enterprises had been approved for privatization and 15,376 had actually been privatized. In 2000, 882 small enterprises were transferred into private ownership. Most of the small enterprises are in the trade and service sectors - 34 and 44 per cent respectively. According to the regional breakdown 31 per cent of privatized small enterprises are in Tbilisi. As of 1st January 2001, 1,312 medium and large enterprises have been established as joint stock companies, while the number of the medium and large enterprises approved for establishment as JSCs remains the same at 1,334. Data in terms of number of employees are unfortunately not available. During the second half of 2000 the number of JSCs (joint stock company) established increased by 92. Eight JSCs were established in manufacturing sector, 10 in agriculture and food, 6 in architecture and construction, 2 in trade, 1 in oil products, 3 in gas, 3 in transport, 9 in social sphere, 16 in energy sector, and 34 in the healthcare system. Manufacturing still remains the most privatized sector followed by service and trade sectors.

Although the privatized firms have shown more success than those that remain under state control, many are still facing financial difficulties and have failed to restructure beyond shedding labor. Only the construction, transport and social sphere sectors have evolved to the extent that there are now more firms than before privatization. The limited number of firms created and there hesitance to declare bankruptcy indicate that the manufacturing sector does not yet reflect a competitive structure and the low exports of agricultural products indicate that productivity, distribution systems, standards, marketing, or foreign trade restrictions or some combination of all these factors are hampering the development of the sector.

Fiscal policy

Georgia’s tax system conforms to international standards with a relatively limited number of taxes, uniform tax rates and few exemptions. Georgia introduced a personal income tax, value added tax, enterprise profits tax, and excise taxes in 1992. These taxes were enacted in an attempt to broaden the tax base—although Georgia’s tax rates were broadly in line with those of its neighbors’ the tax revenue was significantly lower—11.9 percent of GDP in 2000 while the rest of the FSU averaged 27 percent. However, considerable strengthening of tax administration is necessary, especially to cover private business (including informal activity, insofar as is possible), which should be the primary growth sector of the economy. The tax code itself in Georgia is well designed with uniform tax rates and relatively few exemptions. VAT is generally 20 percent while business income taxes have been unified at 20 percent with three specific exceptions: 10 percent for interest from enterprise securities, 60 percent for large concerts, and 70 percent for gambling proceeds. Customs and excise taxes are equally straightforward. However, its administration appears to be extremely weak, incompetent, inefficient and corrupt, resulting in very poor collection performance, while engendering widespread dissatisfaction in the public.

According to main developments in fiscal sector, the latter's performance improved significantly in 2000. Increase in tax revenues allowed to offset decrease in grants, so the total revenue remained unchanged. In this situation along with decrease in total expenditures overall budget deficit fell by 3 % of GDP. The improvement in the fiscal stance reflects both a strengthening of the tax and customs administration and reducing expenditure commitments.

Table 18. Summary of General Government operations, 1993-2000 (in % of GDP)11

	1995	1996	1997	1998	1999	2000
Total revenues and grants	7.1	9.4	14.4	15.6	15.4	15.3
Total revenue	5.1	8.1	14.1	14.7	14.6	15.1
Tax revenue (excluding extra-budgetary)	3.6	5.3	7.1	10.4	11.5	11.9
Total expenditures and net lending	12.3	13.9	21.2	21.8	22.1	19.4
Current expenditure	8.6	12.9	13.3	19.8	20.0	18.4
Total revenue minus current expenditure	-3.5	-4.7	-6.8	-5.1	-5.4	-3.3
Overall Balance (commitments)	-5.3	-4.5	-6.8	-6.1	-6.7	-4.1
Overall Balance (cash)	-4.5	-4.4	-3.8	-4.9	-5.0	-2.6

Financial infrastructures

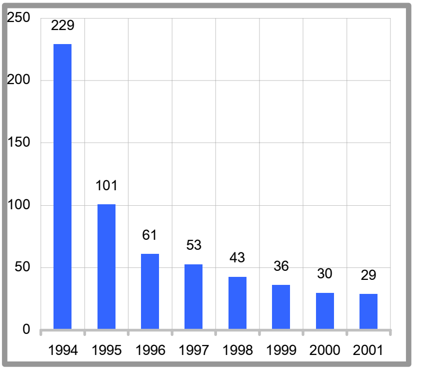
Georgia has advanced in developing its financial system- introducing a two-tier banking system, divesting its state-owned banks, and developing the legal framework for bank regulation. The restructuring and consolidation program initiated by the Government for the financial sector, which has resulted in a 40 percent decline on the number of banks from 1997 to 2000, accompanied by a decline in interest rates on loanable funds from almost 200 percent to less than 70 over the same period. The laws governing the banking sector appear conducive to private sector development. However, the sector suffers from low level of financial intermediation. The limited financial intermediation is due to high perceived risks and tighter regulations, which constrain banks' activities. Although credit to the private sector more than tripled from 1997 to 2000, it still represented only 2.2 percent of GDP, equivalent to that which typically exists in countries in the throes of hyperinflation. As a comparison, most industrialized countries have a ratio of 80-100 percent (or more) while other developing regions like Latin America, average between 20 and 30 percent. The low ratio of private sector credit to GDP can be explained by a combination of factors including the low savings rate and the small size of the economy. However, it seems clear that there must also be institutional factors that limit the ability of businesses to obtain credit. Certainly cash (both foreign and domestic) plays a central role in many transactions, as indicated by the size of the informal sector.

[11] Georgia: Recent Economic Development and Selected Issues. International Monetary Fund. Washington, D.C. 2001
Georgia: Recent Economic Development and Selected Issues. International Monetary Fund. Washington, D.C. 1998

The capital market remains very thin, thereby limiting the development of indirect monetary instruments. A secondary market for treasury bills exists but the small size of the primary market limits its development.

To encourage financial development, it will be necessary to continue with efforts to strengthen bank regulation and supervise on, in order to improve confidence in the sector, attract strategic investors, and develop capital markets. Broader structural reforms will be also needed, including improved collateral and bankruptcy laws, licensing reforms, privatization, and other measures to improve the business climate.

Figure 35. Number of registered commercial banks, 1994-2001



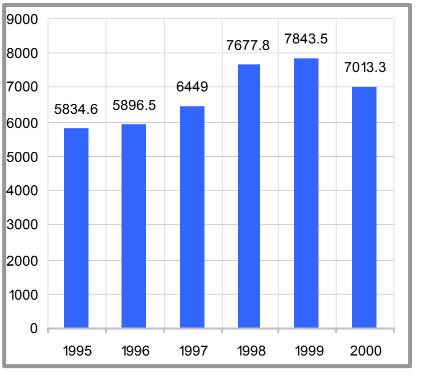
Economic infrastructure

Transportation is of particular importance to economies such as Georgia, where agricultural exports contributed significantly in the past. Although the Soviet Union collapsed some years ago, Georgia still retains a Soviet-style transport system, in terms of institutions and procedures, but without the funding that it enjoyed in the Soviet era. The transport sector shows significantly reduced traffic flows in all modes—about one fourth of 1990 levels were observed in 1993. Little, if any, maintenance has been done. The asset base is eroding and may, within the next five years, deteriorate to the point at which maintenance and rehabilitation are no longer possible. The Ministry of Transport (MOT) was created in 1996. It comprises four departments: maritime administration, road transport, civil aviation, and railway. Although the MOT is newly created, it has already shown a trend for reforms. For example, the ongoing process of restructuring itself has resulted in a staff reduction from 1249 to 878. However, the transition process towards a market economy is very slow for all departments. For example, the railway department operates under the same Soviet system as previously and the ongoing privatization drive in the country has not touched this sector. The privatization process in the remaining three departments is moving, but extremely slowly.

The main issues are: financial management; sector management; physical deterioration of the asset base; and staffing and manpower development. Financial management includes lack of investment budgets, insufficient cost recovery, price regulations, and lack of generally accepted accounting standards. Sector management problems relate to organization of ministerial functions, unclear reporting and lines of responsibility, and the need to develop requisite policy making skills.

The provision of adequate power services is key to the competitiveness of the economy and the welfare of the population. Perhaps the most damaging failure of Government service provision has been the inability to guarantee electricity supply with any degree of confidence. Power failures plague the country, particularly in winter. Georgia's economy is an energy intensive one, which relies heavily on imports. The main domestic energy source is hydropower, but it is insufficient to meet energy demands during the cold winter months. Historically, Turkmenistan has been the primary supplier of gas and Russia of oil. The economic decline has been closely related to, and in large part caused by, inadequate energy supply. Primary energy consumption peaked in late 1980s at 14-15 million tons of oil equivalent, of which more than 85 percent was imported from other FSU republics. Oil and oil products accounted for more than a half, natural gas for about one third, electricity for 8-9 percent, and coal for the balance of several percent of the imports. As energy import prices rose to world levels and domestic economic activity declined, Georgia's ability to import energy became progressively limited. In 1994, only 38 percent of the 1990 level was imported, while total energy consumption fell to 54 percent of the 1990 level.

Figure 36. Georgia: Electricity consumption, 1995-2000



Domestic production of hydropower, coal and oil in the same period significantly declined as a result of accelerated deterioration of production facilities. The energy shortages almost paralyzed the economy in some periods. The Government estimated that industry operated at 15 percent of its capacity during the winter of 1994-95, largely due to the lack of energy. These problems were exacerbated by the government's energy rationing policy which was heavily skewed toward non-productive sectors of the economy. The inflexible structure of energy enterprises and lack of a coherent policy to deal with the developing crisis contributed to its deepening.

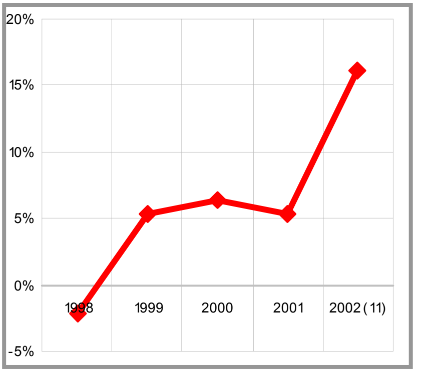
ARMENIA

Industry

Since USSR epoch Armenia inherited a variety of industrial potential. Yet, these days market requirements dictate a sort of super-estimation of prioritising and possibilities. Light industry, diamond production and jewellery industry, machinery production, agriculture and food processing have traditionally occupied steady positions in Armenian economy. Those branches have been successfully operated anew in compliance with nowadays requirements and conditions. Molybdenum, copper and gold mines utilization is considered to acquire long-range outlook opportunities. Armenian chemical industry still maintains the potential to be seriously developed henceforth. Also an amplification tendency of service and tourism sector exists. Armenia holds substantial advantages in IT sector development. Therefore, some brightest examples of this very sphere obvious progress already subsist.

As a consequence of data collected in 11 months within 2002 the real growth in industrial sector made up 16.1 in compliance with the same period of previous year.

Figure 37. Growth Rate in Industry



It's expected the industrial goods cumulative growth to make up 33 percent according to 2002 results in comparison with 1997. Moreover, the industrial sub-branches that provide considerable growth rates are food and light industries, diamond and jewellery production, metal and contraction materials production. These are the sectors the development of latter would grant Armenia an opportunity to transform from raw material and semi-finished goods producing country to industrial one.

The structural change dynamics of industrial goods can be also defined positively. The share of processed industry within the whole industrial production has increased and made up 67.2 percent during 11 months of datum through 2002. Hence, today all the preconditions exist for these interconnections further maintenance and fulfilment.

Agriculture

Agriculture and food processing sector holds a key place in Armenian economy that provides more than the half of the country's GDP comprising one third of agriculture.

Taking into consideration the agrarian sector's significant role in the country's economy the drastic economic reforms first started here. The land, other means of agricultural production as well as the major part of service sector, food and processing industry enterprises are privatized nowadays.

In 2001, the agricultural sector provided 28 percent of the Republic's economic growth. About 335 thousand rural economies and 100 trade organizations has been founded at present that produce the 98 percent of agricultural goods. At present, the private sector share in agriculture is 97-98 percent. Despite the drought of 2000 and about 2.5 percent decrease recorded as a consequence of latter, through 1998-2001 the agricultural growth rate annually made up on average 8.5 percent, and about 111.6 percent only in 2001. Given the indicated growth in agricultural sector Armenia noticeably exceeded CIS countries, owing to the volume of the produced goods in 2001 provided the 125 percent of 1991 level while the majority of CIS countries haven't obtained the level of 1991.

Figure 38. Real Growth Rate in Agricultural Sector (%)

	1998	1999	2000	2001	2002 (11)
Gross Output	13.1	1.3	-2.5	11.6	4.1
Plant Growing Production	18.8	-0.8	-8.4	19.0	4.0
Animal Husbandry Production	3.4	4.9	8.7	2.3	4.3

Currently processing companies store fruit, vegetables, tobacco, dairy produces, etc. Meanwhile the 2/3 of inhabitants' food demand is met on account of local production. Armenia exports the 70-75 percent of diverse alcohol drinks and 55-60 percent of canned goods presently. Also the export volume of fresh fruit, cheese, beer, mineral water, tobacco, fish and other types of goods is increased year in year out.

Construction

Armenia is rich in natural stone, clay, and limestone materials. There are 330 mines throughout the country with total estimated reserves of three billion cubic metres of volcanic tufa, basalt, andesite, cienite, colored marble and perlite. Domestic reserves of limestone provide an annual production of two million tons of cement and 1.4 million cubic meters of reinforced concrete structures.

Armenian volcanic and segmentary rocks are a useful building material. Particularly exceptional is the white, pink, orange and black tufa, all of which are light, durable and easily processed. They are used as a main construction and decoration material. The estimated reserve of the felzite tufa in Armenia is three billion cubic meters.

The country has abundant deposits of marble, granite, high quality travertine and limestone and small deposits of clay gypsum (the raw material for gypsum). The Parakar deposit has a relatively large content of bihydrous gypsum (50 to 80 percent or more).

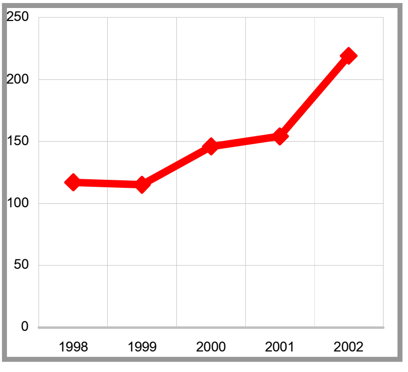
In-depth calculations showed about 80 cent of the single dollar spent on construction works is used in the local market within the first and second phases of the activity. In actual fact, this is one of the most self-sufficient branches of our economy. Armenia also possesses a huge export potential of construction materials.

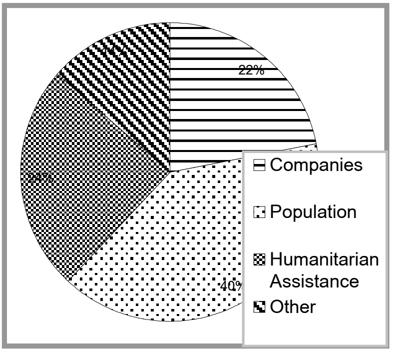
Construction played a vital role in recently formed tendencies of economic growth. The share of construction in the country's GDP made up about 14.1 percent according to 2002 first 11 months' result in comparison with 8.3 percent of 1999. The recent two and a half years of extensively accomplished contraction activities were significant enough to ensure the aforementioned results.

The rates of capital construction growth through 1998-2001 were annually on average 11.5 percent, while it was already 42.8 percent in January-November of 2002. Owing to financial resources expansion as well as granted extra financial assets it became possible to double financial volumes during the previous 2-3 years in comparison with those of through 1994-1997. Furthermore, the construction volumes of 127.6 billion AMD within January-November exceeded annual volumes of 2001 by about 17 billion AMD.

It's noteworthy for the money granted from individuals and organizations to become imperative in the structure of capital construction volumes financing issues that made coincidently 34.2 and 32.6 percent of the total volume of the Republic's capital construction financing during 2001.

Figure 39. Cummulative Real Growth in Construction (%)
Figure 40. The Structure of Capital Construction by Sources of Financing





Tourism

Nature, history and geography of Armenia create broad prospective for tourism development on the whole. Since USSR period Armenia inherited quite tangible tourism sub-sectors that partly lost their modernity in the course of years. Nowadays the old ones are being reconstructed, on the one hand, and modern tourism sub-sectors founded, on the other.

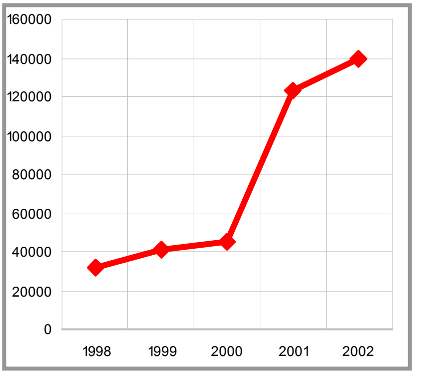
In 1998, the number of foreign citizens' visits to Armenia reached up to 31.800 subsequent to which the rate of visits' number growth carried a rapid character.

Private sector being encompassed in tourism immediately responded to tourists' visits growth thus developing infrastructures, expanding the scope of services therefore increasing its level. Along with huge hotels' privatization, reconstruction and modernization processes simultaneously started up new hotel complexes construction activity in the city of Yerevan. Particularly, following 2001 a rapid growth of hotel service alternatives: that is private housing fond and motels, has been recorded (the stay of tourists in the stated segment was equal to those of previous years yet quite increased within the last two years).

Also private visits by travel agencies mediation became more active. Through foundation of vigorous competitive environment the hotels started conducting quite flexible price policy via undercutting the price proposed to travel operators. Consequently, the cost of travel package re visiting Armenia reduced hence supporting the ascent of the image of Armenia as a tourism country. As a result, the number of foreigners' visits to Armenia in 2002 first-half interim raised up to 24 percent making about 57.9 thousand in comparison with 2001 same period outcome (approximately 46.6 thousand visits)

Tourism statistics based calculations reveal that merely for the duration of 2001 this sector total profit was about 124 million US dollars, particularly re tourism main services by 104.55 million, air communication about 16.22 million; visa issue-1.38 million and Air Passengers Exit Duty tax-2.0 million US dollars. Local tourism rates should be also taken into account to present the more precise picture of tourism sector financial flow that compose about 10 million US dollars made by extra modest calculations.

Figure 41. Number of Tourists visiting Armenia



Accordingly, tourism share in GDP of Armenia in accordance with 2001 datum made up approximately 7 percent.

In 1998, the total number of hotel beds in the city of Yerevan was calculated about 1612. In 2002, the number of hotel beds in Armenia meeting international standards increased up to 2272 (40 percent growth), 1204 of which high level ones. Catering and transportation sectors that serve tourists enhanced as well. Due to the aforesaid the number of high quality microbus, cars and caterings comprised in the sector also increased.

Figure 42. Structure of GDP in 2001

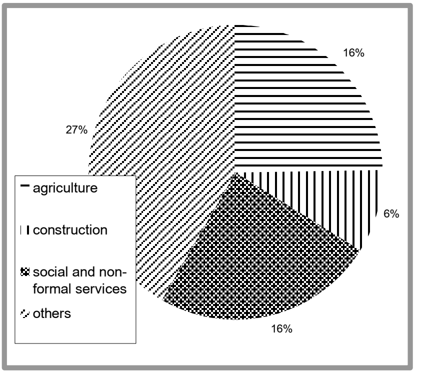


Table 19

Structure of GDP		2000	2001	2002
Industry	*billion manat*	*8494,5*	*9257,1*	*9705,6*
real growth rate	%	106,9	107,7	105,9
price index	%	124,6	102,6	99,0
Agriculture	*billion manat*	*3755,3*	*4173,3*	*4480,0*
real growth rate	%	112,1	111,1	107,3
price index	%	100,0	100,0	100,0
Construction	*billion manat*	*1539,6*	*1632,3*	*2334,2*
real growth rate	%	102,6	106,0	143,6
price index	%	100,0	100,0	100,0
Trade	*billion manat*	*1574,9*	*1777,8*	*1985,5*
real growth rate	%	109,8	110,6	109,0
price index	%	102,9	102,1	102,5
Transport	*billion manat*	*2266,5*	*2513,7*	*2732,8*
real growth rate	%	112,3	110,9	108,7
price index	%	109,3	100,0	100,0
Communication	*billion manat*	*569,1*	*648,0*	*754,8*
real growth rate	%	133,9	113,9	116,5
price index	%	100,0	100,0	100,0
Social and non-formal services	*billion manat*	*3934,4*	*4277,0*	*4587,0*
real growth rate	%	105,8	106,6	105,1
price index	%	100,0	102,0	102,0
Net taxes on product and import	*billion manat*	*1456,0*	*2062,6*	*2208,2*
Structure of GDP (at current prices)	%	2000	2001	2002
- industry	%	36,0	35,1	33,7
- agriculture	%	15,9	15,8	15,6
- construction	%	6,5	6,2	8,1
-services, total	%	41,5	42,8	42,6
of which:				
Trade	%	6,7	6,7	6,9
Transport	%	9,6	9,5	9,5
Communication	%	2,4	2,5	2,6

Other sectors (supplement, community, health, education, science, VAT)	%	22,9	24,1	23,6

Industry

The oil refining, oils pipelining, chemical, mechanical engineering, mining industry and non-ferrous metallurgy industries take up the most important in the industrial structure of Azerbaijan.

The light industry of the republic is distinguished with the various structures; it is that cotton cleaning textiles, garment and silk producing in Barda, Shirvan, Sheki, which are the ancient centers of silkworm breeding. There is a knitted and leather goods and wool washing (Evlach) productions. Considering skill and national traditions of Azerbaijan the carpets, jewelers and silk articles, copper plates and dishes productions had been developed since the most ancient time.

The food industry of Azerbaijan is placed almost everywhere and it outputs practically all the products assortment. One can distinguish together traditional flour grinding, butter and cheese producing, tinned goods and such branches as wine-making (some dozens kinds of wines, cognacs and champagne are produced in republic) tea and tobacco productions that always have an international acknowledgment. The fish re-making (caviar of sturgeon) as well known in all the world. There are four fish-factories in Azerbaijan.

The wood industry is introduced with timber-industry cardboard and parquet productions.

Azerbaijan exports the production of chemical, fuel power, non-ferrous and black metallurgy, mechanical engineering and light industries.

Azerbaijan is rich of industrial recourses and Caspian oil is head one of them. The more famous deposits are situated on the Absheron peninsular and Caspian shelf. To the North of Absheron peninsular there is a perspective region of Siazan deposit. To the west and south-west directions of Absheron the oil deposits are situated in Gobustan, Shirvan, on Salian plain. At present the largest oil deposits are prospected in the sea area toward the north from Absheron. 67% oil and 98% gas belong to oil deposits. And marsh gas also has the large importance.

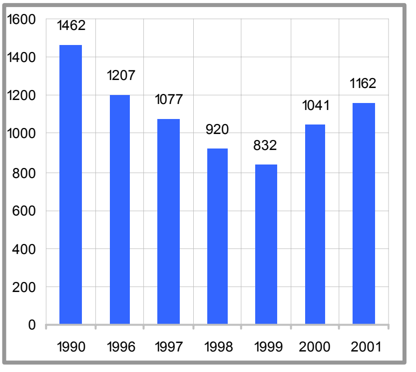
Azerbaijan is rich of iron-ore and alunitums, among of them one can call pyritum, molibdenum, argentic. The deposits of non-ferrous ores are very important. The most famous of iron-ore deposits are situated in the Small Caucasian Mountains, in the region of Zaglic having alunitum deposit which is one of the largest in the world. Beside it, in Dashkesan-Guanga region, there are large stores of cobalt and pyritum ores. The stone salt is mined within Nachichevan (Negram deposit having stores of 2-2.5 billion tons), ores of argentic and molibdenum (Paragehai).

In 2002 the industrial goods were produced for 19.7 trillion manats. That is for 3.6% better than previous year. The growth of industrial production of non-government sector made 7.8% and in total volume of that country production reached 53.7%.

Agriculture

Agriculture of Azerbaijan, using the favorable climatic efforts (plenty of warmth, daylight, duration of vegetation period) specializes in growing of a lot of valuable agricultural products. The total cultivation area is 46% (about 4 mil. hectares) of all the country square. Moreover, the half of this ground makes the pastures. The arable farming of Azerbaijan are based on irrigating on the whole. The soil improvement works are conducted on 70% agricultural area. So the central part of republic is pierced with some large, main channels ensuring the irrigation of more 100 mil. ha of ground. There grow cereals, technical and subtropical cultures (persimmon, pomegranate, olives, feijoa). The main technical cultures are raw, cotton, tobacco, tea, sunflower. There produced the natural silk. Vegetable-growing and fertile horticulture are developed rather well. The nut fertile plantations and mulberry trees ones are unique. More 200 kinds of technical table and dry sorts of grapes are known in Azerbaijan. The main branches of stock-raising are sheep-breeding, milk and meat cattle-breeding and poultry forming.

Figure 43. Total area sown for agriculture products (thsd hectare)



In 2002, total export of agricultural production constituted the sum in 24 mil. USD (in 1994 this sum constituted 15.9 mil). In 1996, the cotton exports made a lion's share but because of prices falling its cultivation was reduced. Vegetables, juice, milk production are being exported now. At present, Russia is the main importer of Azerbaijan agricultural production. This country bought up 137 thsd. tons of its. The record crop of cereals was set – 2200 thsd. tons. However, it is in sufficiently since annual requirement of cereals reaches 3.5 mil. tons. More 4 thsd. tons of vegetable was carried abroad, potatoes exports increased some times bigger, the milk production made 1062000 tons. This indication never reached even 1 mil. tons before.

In 2002, GDP volumes in the agriculture constituted 6 trillion 70 billion manats. Owing to that fact agriculture reached 8% growth of its production.

Construction

The production of construction materials are based on the rich stores the natural stone, marble, china clay, dolomitum, tuffa, clay. The industry of construction materials is introduced with the production of cement, bricks, faced bars, panes, keramzitum and so on. Moreover, the quality of cement outputs in the Garadag cement plant and keramzitum (Massali plant) doesn't absolutely give up the foreign production. The development and support of construction materials, reconstruction of enterprises, attraction of investments in that area are the main conditions of import construction materials reduction in republic.

In 2001 year the share of construction sector in GDP in Azerbaijan was 6% and in 2002 its real growth in the GDP structure reached 47.6%.

Table 20. Main indicators of construction (mil. manat, by prices correspondiny years)

Years	Basic fixed assets submitted to use	Investments		Volume of contract works
		Production oriented	Non-production oriented	
1998	1779071	4615912	896216	1606304
1999	2651082	4074811	567929	1338597
2000	3334284	3956792	882314	1622496
2001	3238065	5152415	701687	1600882

Services & tourism

Azerbaijan has got the serious potential in tourism area. So there are 9 climatic zones, 12 natural and cultural reserves, 6 thsd. cultural and architectural relics, 17 areas of rest on the Caspian seaside, Absheron zone of sanatoriums and resorts, unique mud-medicated resort Naftalan, water-medicated ones. In the first years of independence the conditions of tourism in Azerbaijan was extreme negative. From beginning of privatization the situation became improving slowly. However, these improvements touched almost only the internal tourism area. The problems of external tourism as usual became stained. In August 28 2002 the President signed the Sate program of tourism development for 2002-2005 years. It demands the standardization and certification of tourism services, protection of rights customers in the tourism services, protection of rights customers in the tourism area, preparation of investment projects. One of head clause of program is the problems settlement of custom visas and other aspects of tourists' reception.

In January of 2002 93 hotels and motels more half of them belonged to the non-government sector, 88 sanatoriums with common quality of beds 14609, 44 medical centers, (11022 beds), 18 children's sanatoriums, 13 holiday and 27 tourist centers.

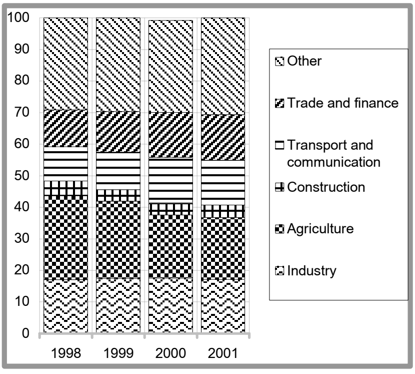
Table 21. International tourist flows (thsd. person)

	1996	1997	1998	1999	2000	2001
Number of arrived foreign citizens	210	306	483	602	681	767
by purpose of travel:						
private	28	74	28	53	61	42.5
business	167	210	438	538	606	718
tourism	15	22	17	11	14	6.5

GEORGIA

By the end of 2001 there was the rise of national product in almost all sectors of the economy (agriculture, transport, telecommunication, services, construction), excluding the industry. The events of the years 2000 and 1998 have indicated a high vulnerability of agriculture to climatic shocks. The comparative dynamics of GDP structure (1998-2001) reflects relative growth of shares of transport and communication, and trade and financial intermediation in total output. The share of agriculture declined by 7%, while industry's share remained practically unchanged.

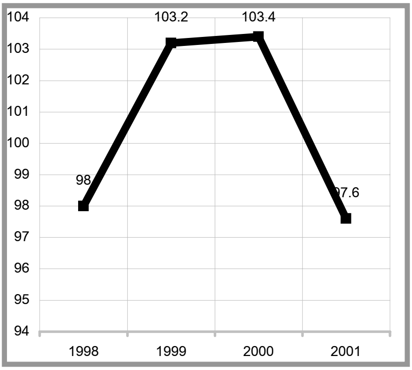
Figure 44. Structure of GDP, 1998-2001



Industry

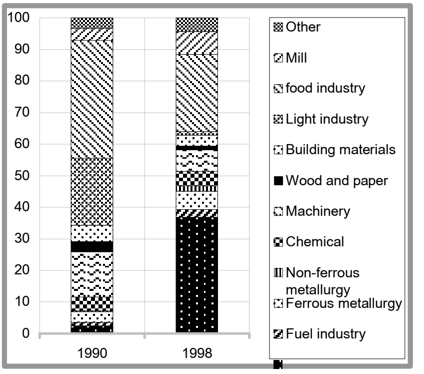
In 2000, the value added of industry grew by 3 %, and the registered industrial output amounted to GEL 1,051 million or 17.5 % of GDP. However, in 2001, industrial output declined by 2.8%.

Figure 45 Real annual industry growth rate, 1998-2001



Extraction of minerals (oil, gas and manganese ore) has substantially increased (by 75.6 per cent); production of alcoholic and nonalcoholic beverages, sugar, chemical products, electrical appliances have grown as well. Manufacturing has grown by 10.7 per cent. The structure of industry has significantly changed with respect to 1990, reflecting increase of electric power industry share in total industrial output and decreasing of shares of such traditional branches as are light and food industries. Currently, the most important branches of Georgian industry are electric power industry; food industry; mill and animal food industry; machinery and metal working; and ferrous metallurgy. Another positive trend in 2000 was the expansion of the share of the non-state sector from 48.7 per cent to 51.3 per cent of total industrial production. The share of industrial products produced by small enterprises has grown from 12.9 to 15.3 per cent.

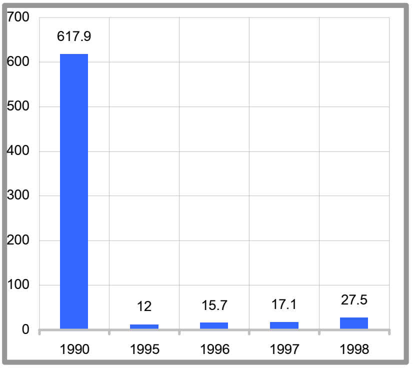
Figure 46 Share of selected branches in total industrial output



Construction

Constructions keep on being a very vital sector of the economy with a growth of 8 per cent, and 3.9% share in GDP in 2001. Total volume of contract works performed by construction organization amounted to GEL 174.2 million in 2000. Also in that period 213000 sq. m of total floor space were put in place. The shadow economy is widely present in this activity. A stronger restructuring of industry can only take place if the bankruptcy mechanism becomes effective and if industrial investments find a better tax treatment. Construction material production dynamics shows that despite recent increase in output only small fraction of production capacity is currently in use.

Figure 47. Construction material production dynamics (Output GEL million)



Agriculture

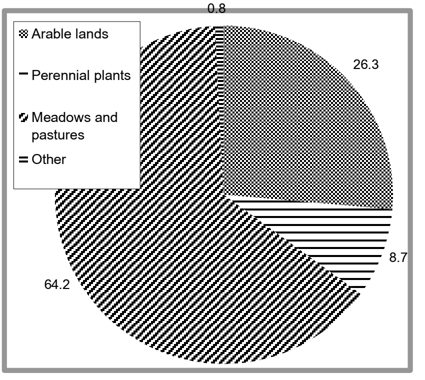
Hard climatic conditions adversely affected agricultural production, especially in the regions of Eastern and South Georgia. The value added created in agricultural sector in 2000 was 12.6 per cent less than in the relatively successful 1999. The total loss exceeded GEL 400 million. A downward trend was observed in almost all the branches of plant-growing. The lasting drought heavily damaged the production of cereals (wheat, barley, maize), sunflower and haricot beans. The lack of forage induced farmers to slaughter their cattle. However, agriculture's share in GDP is still relatively high-19.7%.

Table 22. Agricultural output, 1990-2000 (GEL million)

	1990	1995	1996	1997	1998	1999	2000
Total agricultural output	5198.6	1570.0	1671.8	1651.3	1671.9	1850.9	1537.6
Plant growing	3571.4	917.0	818.4	910.2	896.0	1055.8	744.8
Animal husbandry	1627.2	653.0	753.4	741.1	775.9	795.2	792.8

Total cultivation area was 3019,7 thousand hectares in 2000. The largest share agricultural land of almost 64. 2% goes to meadows and pastures, while arable lands and perennial plants have correspondingly 26.3% and 8.7%.

Figure 48 Distribution of agricultural land by type



Agriculture has a labor productivity much lower (about 4 times) than in other industries. Most households are too small and rely on manual work, agricultural techniques are commonly obsolete, the fertility of soil is decreasing and the irrigation and drainage system needs restoration. Solving these problems is related to the creation of favorable conditions for investment in agriculture. This requires the creation of a market for agricultural land; a necessary step in this direction is the complete introduction of a land registration system. The formation of a land market can promote credits to agricultural producers, because land could become collateral for loans. The capitalization and consolidation of farms could follow. An alleviation of the tax burden on agricultural producers would be probably necessary as well.

Tourism & services

Georgia was one of the strongest tourism destinations within FSU, with over 600 tourist facilities offering a total capacity of over 150,000 beds, and receiving 4 million visitors. Today, according to official statistics estimates the total accommodation capacity at 71,000 beds, and the available capacity at 56, 000. The country received 317,000 frontier arrivals in 1998, and 384,000 in 1999 (out of which 219,000 CIS and 165,000 from other countries), an increase of 21%. By estimation 10% of these arrivals came for leisure tourism with an average length of stay of 10 days, representing a total volume of 385,000 bednights in 1999. According to main tour operators, who has established relationship with western partners the cultural discovery and adventure tourism business is increasing.

To summarize, although the reform program has been extremely successful in macroeconomic terms, its effect on the business environment has so far been less demonstrably beneficial. Agriculture and services dominate the economy while industry and manufacturing have not responded to reforms the way that the Government had hoped. As has happened across the globe, the first generation of reforms stabilized the economy and spurred growth but further structural and institutional reforms—second generation reforms—are needed to bolster the stabilization programs and complete the process. Without second generation reforms, the economy may improve but the private sector will not be able to maintain this progress.

ARMENIA

The implemented foreign economic policy had quite favourable impact upon foreign trade. The foreign trade turnover made up about 1.5 billion US dollars in 2002 growing by more than 30% in comparison with 1997. Moreover, export volume increased more than twice and import volume by about 11% that gave an opportunity to maintain the tendency of foreign trade balance improvement starting from in 1999.

Table 23. Foreign trade turnover, import and export volume dynamics

	1995	1996	1997	1998	1999	2000	2001	2002
Total External Trade Turnover	944.80	1146.10	1125.00	1122.90	1042.97	1185.16	1219.27	1498.21
Imports	673.90	855.80	892.40	902.40	811.27	884.67	877.43	991.05
Exports	270.90	290.30	232.60	220.50	231.70	300.49	341.84	507.16
Balance	-403.00	-565.50	-659.80	-681.90	-579.57	-584.19	-535.60	-483.89
Balance/GDP	**31.02%**	**37.21%**	**40.26%**	**36.04%**	**31.40%**	**30.56%**	**25.29%**	**20.44%**

The tendencies recorded in foreign trade caused the negative balance reduction by about 200 million US dollars for the duration of the recent 4-5 years that is meanwhile considered to be quite a huge amount for Armenian economy. In 1997 the trade negative balance made up over 40 percent of the country's annual GDP while according to 2002 data that rate was about 20.5 percent. Consequently, the rate of Armenian economy growth has recently exceeded the consumption total growth.

Throughout 1998-2002 some qualitative changes occurred in foreign economic sector that first of all became apparent via trade turnover expansion with developed countries. Particularly, the turnover with EU countries was 21.5% in 1997 whilst according to 2002 data it already made up 31.4%. It identically comes to be the success of domestic businessmen and the evidence of being able to adhere to European standards in terms of the quality of goods they produce and also acquired skills to act in already formed and developed market.

In 2002, Armenian trade possessed positive balance with Belgium, Netherlands, Great Britain, Israel, and since 1997, with Spain and Lebanon. The formed tendencies in the trade balance enhancement assert the circle of those countries to be broadened.

Exports

All through 12 years of post independent stage the dynamics of Armenian export volume had variable nature explained by the economic development and other objective factors as well. During 1993-1996, the recorded substantial growth of export and import volume followed by to rapid decrease of export volume that was conditioned both with economy and particularly industry crisis and consumption of basic sources providing export growth in 1993-1996. It's momentous to indicate the share of scrap-metal and equipment to be tangible enough in the Republic's export structure through the first 5-6 years of post independent period, which was the USSR time left outcome of machinery-equipment export procedure. Hence, that was unambiguously not-acceptable phenomenon to be frequently identified as an existing industrial potential pillage, and many directly referred to mass privatization process run that period.

Since 1998 the recorded growth of export values was totally comprised in the sense of Armenian economic strategy development directions. Such sectors as food and light industry, diamond and jewellery production, machine industry and metallurgy, etc, demonstrated indispensable rates of advance in Armenia. These very sectors provide the core potential of export value enduring growth.

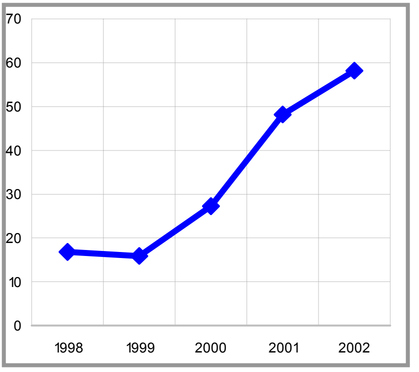
Export promotion became one of the most significant directions of state economic policy. The survey made on Armenian enterprises displayed the overwhelming majority being shortage of marketing and export promotion apt services. The enterprises aren't able to solve such pending issues as need for equipment, technical and financial resources by own strength. In line with aforesaid a number of important steps were taken by the government.

Meanwhile, constructive advancements are obvious enough in export structure. The key qualitative change comprises the dynamics of raw stuff and material growth in Armenian export structure that started to fundamentally yield to finished goods export growth. In point of fact, Armenia bit by bit turns into a country producing finished goods even upon condition of mining resuscitation actual rates.

Survey made in Armenian export structure reveals precious and semi-precious stones, metals and products made from the latter to be considered the group of products that are predominantly exported from Armenia nowadays. In 2002 the export volumes of that group was about 260 million US dollars or 51 percent of total export. Furthermore, the export of this group of products gains year in year out stable growth rates (in 2002 the growth made 223 percent in comparison with 1997 data). This is principally explicated by diamond and jewellery industry stable expansion in real sector. Incidentally, these sectors further stable development guaranties have been provided today that allows stating these sectors to keep on guaranteed enhancement within coming years as well. Therefore, development tendencies will be also recorded in this sector products export.

Finished foodstuff export also displays constant tendencies of growth. Around 55 million US dollars of foodstuff has been exported merely in 2002 that make about 11 percent of total export. Beverage, spirits, preparations of vegetables, fruit, tobacco, etc presently occupy a fitting place in Armenian export. Fresh fruit export from the Republic exceeds from year to year. Thus, 2316 ton of fresh fruit (apricot, grape, peach, cornelian cherry, etc) has been exported in 1998 while in 2000 and 2001 roughly 4500 ton and more than 5000 ton exported in 2002.

Figure 49. Exports of Prepared Food Production (mln of USD)



Mining raw material export keeps on possessing core place in the country's general export structure. The reopening of huge mining complexes through recent 3-4 years played significant role in the aforementioned. Quite crucial capital investments are made in copper, molybdenum and iron mining and processing industries. Consequently, the volumes of this type of goods export reached up to 42.4 million US dollars constituting 8.4 percent of total export. Iran is considered to be the main destination of mining raw material export.

Armenian light industry products find new consumer markets in various parts of world community. Foreign investments made in this sector have very much favoured it. Along with traditional CIS market, Armenian light industry products are being consumed also in Europe and the USA. According to this line the export of 2002 was 28.7 million US dollars (increasing by 230 percent in comparison with 1997) and made up 5.65 percent of total export.

The export of diverse machines, equipment, instruments already exceeds the annual level of 50 million US dollars. Export of watches and parts thereof from Armenia especially came apart along with a range of new products also being the outcome of newly set foreign investment productions.

The changes in export geography are rather absorbing. Thus, the predominant part - 126.6 million US dollars, (either 81% or export total value) belonged to the CIS countries in 1993, encompassing Russian Federation – 37.4 percent, Turkmenistan – 36.5 percent, the Ukraine – 2.6 percent. Correspondingly, EU countries held a small share (10.6%), comprising Belgium (9.5%) and Iran (3.5%). Export geography of 2002 completely differs. Nowadays, the export to the CIS countries makes up 98.2 million US dollars or 19.37 percent of the total export, including Russian Federation – 12.79%, Turkmenistan – 0.55%, the Ukraine – 1.6%. At present, solely food (cognac, vodka, apricot, cornelian cherry, etc), chemical (latex, artificial rubber), light (gloves, suits, etc) and machinery (isolated wires, electric generator, engine, etc) industry products as well as diamond are exported to the CIS countries.

Export to Georgia trends to stable growth. Through 1993-1995 those volumes were swaying at the limit of annually 2.3 million US dollars while it rose 5-6 times in 2002 thus making up 16.9 million dollars or 3.34 percent of total export. In general, milk and dairy products, alcohol and soft drinks, oil products, medicine products, glass and glassware, equipment are being exported to Georgia by Armenia.

Export volumes to the non CIS countries have increased rates. In 2002, the export to those countries was 408.9 million US dollars or 80.63 percent of the total export, accordingly, the export to EU countries made up 197.7 million US dollars or about 39 percent of the total export. Regarding the export volumes the following countries are of great importance to Armenia: Belgium (18.20 percent) - mainly cut diamond is exported; Great Britain (10.08 percent) - diamond, watches and watch wares; USA (9.16 percent) - textile, diamond, mineral, tobacco, alcohol; Iran (6.17) -aluminium, mining raw material, etc.

Table 24. Exports Structure

(in 000 USD)	1999	2000	2001
TOTAL	213683.1	290801.5	332194
live animals	11.5	3.6	109.7
meat and edible meat products	6.7	14.6	7.7
fish and crustaceans, mollusks and other aquatic invertebrates	494.4	477.1	679.8
milk and dairy produce; birds' eggs; natural honey; edible products of animal origin	25.6	194.9	439.7
live trees and other plants; bulbs, roots and the like	74	128.2	20.6
edible vegetables and certain roots and tubers	156.2	139.9	129.5
edible fruit and nuts; peel of citrus fruit or water-melons	906.8	1268.8	884.3
coffee, tea and other spices	163.5	117.7	192.1
cereals	35.4	12	2.3
products of the milling industry; malt; starches; inulin and other	3.5	0.2	19.2
oil seeds and fruits; medical plants for technical purposes; straw	66.2	54.4	12.7
lacs, gums, resins and other vegetable saps and extracts	2.1	0	0
vegetable plaiting materials; vegetable products not elsewhere specified or included	0.6	0	0
animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes	10.2	0.3	60.4
preparations of meat, of fish or of crustaceans, mollusks or other aquatic invertebrates	0.4	3.6	146.2
sugar and sugar confectionery	24.1	45.5	35
cocoa and cocoa preparations	11.9	12.1	10.7
preparations of cereals, flour starch or milk; pastry cooks products	6.8	4.4	3.2
preparations of vegetables, fruit, nuts or other parts of plants	2383.2	2734.6	5480.2
miscellaneous food stuffs	134.9	216	155.4
alcoholic, non-alcoholic drinks and vinegar	9792.2	22472.6	39119.2
residues and waste from the food industries; prepared animal fodder	0.01	72.9	30.6
tobacco and manufactured tobacco substitutes	3563.8	1764.7	2861.2
salt; sulphur; earths and stone; plastering materials, lime and cement	4090.1	1295	234.9
ores, slag and ash	7751.6	15241.4	20492.4

mineral fuels, mineral oils and products of their distillations; bituminous substances; mineral waxes	8168.6	10978.3	7680
inorganic chemicals; radioactive elements or isotopes	179	59.6	221.7
organic chemicals	359.2	796	367.9
pharmaceutical products	858.4	1243.5	1608.1
fertilizers	33	48.4	4.8
tanning or dyeing extracts; dyes, pigments and other coloring matter; paints and varnishes; inks	171.9	1014.5	57.2
essential oils and retinoid perfumery, cosmetic or toilet preparations	34.4	34.3	42.1
soap, organic surface-active agents, washing preparations, lubricating preparations, candles and similar articles	0.81	57.8	140.5
albuminoidal substances; modified starches; glues; enzymes	38.8	16.8	338
explosives; matches; certain combustible preparations	0	0	0
photographic or cinematographic goods	75	16.2	0.7
miscellaneous chemical products	140.6	87.1	68.2
plastics and articles thereof	212.6	247.3	663
rubber and articles thereof	8897.6	8801.5	12405.3
leather and leather raw materials	921.5	1410.7	1954.5
articles of leather; articles of animal gut	38.5	24.4	5.7
fur skins and artificial fur; manufactures thereof	27.9	6.3	122.3
wood and articles of wood; wood charcoal	319	870.3	896.7
cork and articles of cork	0	0	3.8
manufactures of straw	0	1.5	0
pulp of wood waste and scrap of paper	0	0	0
paper and paperboard; articles of paper pulp,	789	209.1	1085.2
printed books, newspapers, pictures and other products of the printing industry	252.4	209.6	194.1
silk	1.8	9.2	0
wool, fine or coarse animal hair; horsehair yarn and woven fabric	0	8.6	166.7
cotton	13.7	7.1	349.9
other vegetable textile fibers and woven fabrics thereof	0	0.3	0
chemical filaments	16.1	6.1	1928.4
chemical staple fibers	8.3	21.3	288.9
wadding, felt and non-woven; special yarns; twine, cordage, ropes and cables and articles thereof	27.7	0.3	199.3
carpets and other textile floor coverings	745.8	1242.8	795.2

special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	5.2	0.8	169.1
impregnated, coated, covered or laminated textile fabrics; textile articles thereof	0.3	1.9	0.5
knitted or crocheted fabrics	0	10.6	305.9
knitted clothes and clothing accessories	1713	2683	3064.9
textile clothes and clothing accessories	10980.3	9029.4	15543.1
other made up textile articles; sets; worn clothing and worn textile articles	73.3	163	1475.8
footwear, gaiters and the like; parts of such articles	965.2	934.9	245.8
head-dress and parts thereof	21.5	15.9	40.8
umbrellas, seat-sticks, whips, riding-crops and parts thereof	0.13	0	0
prepared feathers and down and articles made of feathers or of down; artificial flowers	0	1.3	12
articles of stone, plaster, cement, or similar materials	304.5	348.7	707.3
ceramic products	31	50.9	33.4
glass and glassware	421.1	1637.2	865.9
natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof	99879.1	121452.1	122848.1
ferrous metals	8453.9	10789.5	9581.6
articles ferrous metals	345.5	392	597.2
copper and articles thereof	5448.4	15999.2	12882.4
nickel and articles thereof	0	0.4	0
aluminum and articles thereof	9154.9	14366.1	17865.4
tin and articles thereof	149.5	205.4	337
other non precious metals; cermets, articles thereof	1098.4	2005.3	1895.1
tools, cutlery, spoons and forks, non precious metals	200.4	332.1	206.2
miscellaneous articles of non precious metals	100.9	113.2	54
nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	8644.3	9656.8	15080.6
electrical machinery and equipment and parts thereof sound recorders and reproducers and parts and accessories of such articles	8843.3	21362.9	13393.6
railway or tramway locomotives, rolling stock and parts thereof; tramway and parts thereof;	20.2	11.8	73.2
vehicles other than railway and parts thereof	985.4	1229.2	1525.6

aircraft, spacecraft and parts thereof	1648.8	586.4	806.7
ships, boats and floating structures	0	0	0
optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	1235	1423.3	4954.5
clocks and watches and parts thereof	364.8	758.7	3781.3
musical instruments; parts and accessories of such articles	20.6	72.5	50.6
furniture; bedding mattresses, mattress supports, cushions and similar stuffed furnishings	88.8	436.1	225.5
toys, games and sports requisites; parts and accessories thereof	126.2	316.5	90.5
miscellaneous manufactured articles	47.4	437.1	434.6
works of art, collectors pieces, and antiques	264.4	273.9	330.6

Table 25

EXPORTS (mln of USD)		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total		**156.2**	**215.5**	**270.9**	**290.3**	**232.6**	**220.5**	**231.7**	**300.5**	**341.8**	**507.2**
1	animals and products of animals origin	0.0	0.0	0.1	0.1	0.3	0.1	0.5	0.7	1.2	2.7
2	products of vegetables origin	0.3	0.7	0.9	0.9	2.8	1.3	1.4	1.7	1.3	1.8
3	fats and oils	0.0	0.0	0.0	0.1	0.4	0.1	0.0	0.0	0.1	0.0
4	prepared foods	10.4	12.9	12.6	11.8	24.6	16.8	15.9	27.3	48.0	54.9
5	mineral production	2.3	17.8	28.8	19.1	17.9	30.8	31.0	37.2	37.9	42.4
6	chemical production	5.3	3.9	14.5	5.4	4.3	2.2	1.9	3.4	2.8	1.9
7	plastic, rubber	4.3	7.9	10.8	8.2	9.2	8.1	9.1	9.0	13.1	6.4
8	skins and articles of leather	0.6	0.8	1.4	1.4	2.3	1.1	1.0	1.4	2.1	0.6
9	woods and articles of wood	0.0	0.0	0.2	0.2	0.2	0.3	0.3	0.9	0.9	1.3
10	paper and articles of paper	0.1	0.4	0.9	0.5	1.1	0.5	1.0	0.4	1.3	0.7
11	textile articles	14.8	15.8	15.2	9.7	10.6	13.6	13.6	13.2	24.3	28.7
12	footwear, umbrellas, headgear	18.8	15.9	5.4	2.2	0.7	1.1	1.0	1.0	0.3	0.4
13	stone, plaster, cement	11.0	12.7	2.1	1.8	1.2	0.9	0.8	2.0	1.6	3.0
14	precious stones and metals	41.0	75.2	89.6	140.3	55.2	53.1	99.9	121.5	122.8	259.2
15	base metals and articles thereof	5.3	9.4	30.5	47.3	57.7	40.3	25.0	44.2	43.4	44.8
16	machinery and equipment	25.3	30.9	39.1	34.3	32.2	40.8	17.5	31.0	28.5	21.4
17	transport means	4.7	1.7	11.4	2.7	2.0	3.3	2.7	1.8	2.4	15.7
18	machinery and apparatus	2.5	4.0	3.9	2.5	4.8	3.7	1.6	2.3	8.8	19.2
19	different industrial articles	9.2	5.5	3.4	1.5	4.9	2.4	7.3	1.2	0.8	1.4
20	works of art and antique	0.2	0.0	0.2	0.1	0.0	0.2	0.3	0.0	0.3	0.8

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	02/97
Total		**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**147%**
1	animals and products of animals origin	0.00%	0.00%	0.10%	0.05%	0.13%	0.05%	0.24%	0.23%	0.36%	0.53%	413.0 %
2	products of vegetables origin	0.18%	0.32%	0.34%	0.32%	1.21%	0.58%	0.61%	0.57%	0.37%	0.35%	45.0%
3	fats and oils	0.00%	0.00%	0.00%	0.04%	0.18%	0.02%	0.00%	0.00%	0.02%	0.00%	15.1%
4	prepared foods	6.69%	5.98%	4.65%	4.05%	10.59 %	7.61%	6.87%	9.10%	14.04 %	10.82 %	195.0 %
5	mineral production	1.48%	8.26%	10.62 %	6.59%	7.69%	14.00 %	13.38 %	12.38 %	11.08 %	8.37%	211.6 %
6	chemical production	3.40%	1.80%	5.35%	1.87%	1.86%	0.97%	0.82%	1.12%	0.83%	0.38%	66.3%
7	plastic, rubber	2.78%	3.68%	3.99%	2.84%	3.96%	3.65%	3.93%	3.01%	3.82%	1.27%	142.0 %
8	skins and articles of leather	0.39%	0.36%	0.51%	0.50%	1.00%	0.49%	0.43%	0.48%	0.61%	0.12%	90.5%
9	woods and articles of wood	0.00%	0.00%	0.07%	0.07%	0.08%	0.12%	0.14%	0.29%	0.26%	0.25%	450.3 %
10	paper and articles of paper	0.07%	0.18%	0.32%	0.18%	0.45%	0.02%	0.45%	0.14%	0.37%	0.14%	116.3 %
11	textile articles	9.47%	7.34%	5.63%	3.35%	4.54%	6.16%	5.86%	4.39%	7.11%	5.65%	229.1 %
12	footwear, umbrellas, headgear	12.01 %	7.38%	1.99%	0.75%	0.32%	0.48%	0.43%	0.32%	0.09%	0.07%	42.6%
13	stone, plaster, cement	7.07%	5.88%	0.76%	0.60%	0.52%	0.41%	0.33%	0.68%	0.47%	0.58%	133.9 %
14	precious stones and metals	26.25 %	34.90 %	33.06 %	48.32 %	23.75 %	24.00 %	43.11 %	40.42 %	35.94 %	51.11 %	222.6 %
15	base metals and articles thereof	3.41%	4.38%	11.27 %	16.29 %	24.81 %	18.20 %	10.77 %	14.71 %	12.71 %	8.83%	75.3%
16	machinery and equipment	16.18 %	14.35 %	14.41 %	11.82 %	13.84 %	18.50 %	7.55%	10.32 %	8.33%	4.22%	88.4%
17	transport means	3.02%	0.77%	4.20%	0.92%	0.87%	1.48%	1.15%	0.61%	0.70%	3.09%	120.3 %
18	machinery and apparatus	1.59%	1.84%	1.44%	0.86%	2.07%	1.67%	0.70%	0.75%	2.57%	3.79%	183.1 %
19	different industrial articles	5.91%	2.54%	1.24%	0.53%	2.12%	1.10%	3.13%	0.40%	0.22%	0.28%	15.3%
20	works of art and antique	0.10%	0.00%	0.10%	0.04%	0.00%	0.07%	0.11%	0.01%	0.10%	0.15%	

Table 26

EXPORTS (mln of USD)	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
TOTAL	156.2	215.5	270.9	290.3	232.6	220.5	231.669	297.524	341.836	507.157
Total of CIS	126.6	157.9	169.6	133.5	94.8	80.5	56.4	72.8	89.1	98.2
Russia	58.5	89.3	90.8	96.1	63	39.9		44.5	60.5	64.8
Turkmenistan	57	65.6	68.7	17.5	13.8	22.7		5.5	0.8	2.8
Georgia	3.2	2.9	2.7	6.9	10.7	9.57		15.4	12.4	16.9
Belarus	1.9	0.7	0.9	1.2	3.49	0.8		0.9	1.2	1.5
Ukraine	4.1	3.7	4.5	4.9	0	3.9		3.3	11.0	8.1
Kazakhstan	1.4	0.9	1.6	1	0	0.36		1.3	1.1	0.8
Other CIS Countries	*0.5*	*0.1*	*0.4*	*5.9*	*7.3*	*3.1*		*1.8*	*2.0*	*3.3*
Other	29.6	57.6	101.3	156.8	137.8	139.97	227.1	224.8	252.8	408.9

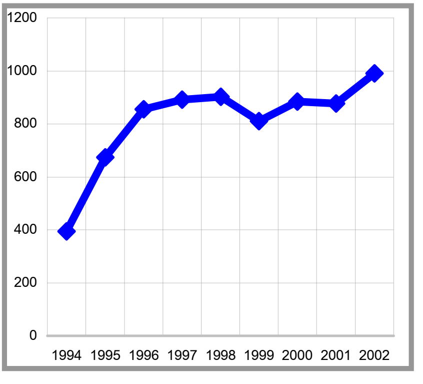
Countries											
EU countries	*16.5*	*35.3*	*48.3*	*61.9*	*66.4*	*76.2*		*107.0*	*88.6*	*197.7*	
Austria	0	0	0	0	0.8	0.05		0.0	0.0		
Belgium	14.9	26	30.8	44.7	47	49.8		75.1	46.5	92.3	
France	1.3	0.4	0.2	0.4	0	0.1		0.5	0.7	1.1	
Germany	0.3	6.6	10.1	3.7	9.3	9.3		12.9	11.1	28.1	
Italy	0	0	0.1	0.1	0.4	0.4		2.7	6.1	11.7	
Netherlands	0.1	0.7	5.3	8.7	6.2	7.9		2.6	1.3	11.2	
Great Britain	0	0.5	1.3	3.2	1.2	8		10.1	20.1	51.1	
Greece	0	0	0.1	0.5	0.2	0.2		3.0	2.0	1.2	
Ireland	0	1.2	0.5	0.2	0.1	0.3		0.0	0.0		
Other EU Countries	*0*	*0*	*0*	*0.4*	*1.3*	*0*		*0.2*	*0.8*	*0.6*	
Switzerland	0.4	2.5	3.1	0.3	1.6	2.48		8.8	8.9	7.7	
Iran	5.5	14.6	35	43.9	42.6	31.39		27.7	31.9	31.3	
Turkey	0.3	0.2	2.6	6	7.2	2.98		1.5	1.1	0.9	
UAE	0.3	0.1	0.4	1.9	2.9	3.69		5.5	7.3	14.2	
USA	0.2	0.4	0.6	4.4	7.1	11.6		37.9	52.3	46.4	
Bulgaria	1	0	0.1	0.2	0	1		0.7	0.3		
Other	*5.3*	*4.5*	*11.1*	*38.2*	*10.1*	*10.4*		*35.7*	*62.3*	*111.0*	
EXPORTS	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**02/97**
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	147.0%
Total of CIS	81.03%	73.26%	62.61%	46.00%	40.74%	36.50%	24.33%	24.46%	26.06%	19.37%	103.6%
Russia	37.46%	38.95%	33.51%	33.12%	27.09%	18.10%		14.96%	17.70%	12.78%	102.9%
Turkmenistan	36.46%	30.46%	25.35%	6.03%	5.91%	10.29%		1.86%	0.24%	0.55%	20.0%
Georgia	2.02%	1.34%	1.01%	2.37%	4.61%	4.30%		5.19%	3.63%	3.34%	158.3%
Belarus	1.23%	0.34%	0.32%	0.40%	1.50%	0.36%		0.30%	0.35%	0.29%	42.8%
Ukraine	2.63%	1.73%	1.66%	1.67%	0.00%	1.76%		1.10%	3.21%	1.60%	
Kazakhstan	0.89%	0.42%	0.60%	0.36%	0.00%	0.14%		0.43%	0.33%	0.16%	
Other CIS Countries	*0.35%*	*0.03%*	*0.16%*	*2.05%*	*3.14%*	*1.40%*		*0.61%*	*0.59%*	0.66%	45.6%
Other Countries	18.97%	26.74%	37.39%	54.00%	59.26%	63.40%	98.04%	75.54%	73.94%	80.63%	296.7%
EU countries	*10.59%*	*16.38%*	*17.84%*	*21.32%*	*28.53%*	*34.55%*		*35.97%*	*25.91%*	38.97%	297.7%
Austria	0.00%	0.00%	0.00%	0.00%	0.33%	0.02%		0.00%	0.00%	0.00%	0.0%
Belgium	9.53%	12.04%	11.35%	15.41%	20.19%	22.59%		25.23%	13.60%	18.20%	196.3%
France	0.80%	0.20%	0.06%	0.14%	0.00%	0.04%		0.16%	0.22%	0.22%	
Germany	0.17%	3.05%	3.72%	1.27%	3.99%	4.21%		4.34%	3.25%	5.54%	302.0%
Italy	0.00%	0.00%	0.04%	0.03%	0.16%	0.18%		0.90%	1.77%	2.31%	2924.4%

Netherlands	0.07%	0.33%	1.96%	3.01%	2.68%	3.58%	0.88%	0.37%	2.21%	180.8%
Great Britain	0.00%	0.21%	0.49%	1.10%	0.50%	3.62%	3.39%	5.88%	10.08%	4258.9%
Greece	0.00%	0.00%	0.04%	0.16%	0.07%	0.09%	1.00%	0.59%	0.23%	595.5%
Ireland	0.00%	0.55%	0.17%	0.06%	0.03%	0.13%	0.00%	0.00%	0.00%	0.0%
Other EU Countries	*0.00%*	*0.00%*	*0.01%*	*0.13%*	*0.56%*	*0.00%*	*0.06%*	*0.22%*	0.12%	47.9%
Switzerland	0.26%	1.17%	1.15%	0.09%	0.68%	1.12%	2.97%	2.61%	1.53%	484.1%
Iran	3.53%	6.77%	12.93%	15.13%	18.31%	14.23%	9.32%	9.32%	6.17%	73.4%
Turkey	0.18%	0.09%	0.96%	2.08%	3.07%	1.35%	0.51%	0.33%	0.18%	12.5%
UAE	0.21%	0.05%	0.15%	0.66%	1.26%	1.67%	1.84%	2.13%	2.80%	489.6%
USA	0.16%	0.17%	0.23%	1.50%	3.06%	5.26%	12.73%	15.29%	9.16%	654.2%
Bulgaria	0.67%	0.01%	0.03%	0.07%	0.00%	0.45%	0.22%	0.10%	0.00%	
Other	*3.37%*	*2.09%*	*4.09%*	*13.15%*	*4.34%*	*4.71%*	*11.99%*	*18.24%*	21.89%	1099.1%

Imports

Armenia is a food importer. Its mineral deposits are small. Armenia has no oil production, known reserves, or refineries, so it is completely dependent on imports of refined products. Rail or truck transports all of Armenia's petroleum. Given its geographical location and the limited territory Armenian economy has always relied on imported raw material. After the collapse of centralised economic system and losing the main trade partners, Armenian economy was forced to build new economic relations with the outer world. Once being specialized in exports of industrial products, Armenia started to import nearly all products consumed in local market. Thus, in the early 90's the imports volumes were growing in higher pace. Along with the strengthening of economy, the share of imported products started to decline. The growth rate of imports also slowed down. The overall imports reached about 990 million of US dollars in 2002.

Figure 50.Imports (mln of USD)



The imports composition and its dynamics represent the main economic trends in the country. A large portion of imports is taken by precious stones. Imports of diamonds currently constitute about 21.5 % of overall imports and are expected to grow further. This tendency is explained by a boost in diamond refurbishing industry, which is mainly based on imported raw material. Rough diamonds are being imported mostly from Russian Federation. It is worth mentioning, that the country has obvious relative preferences in this sector, as the specialists of diamond refurbishing and graving are high qualified. Besides, the transportation costs for such products are substantially low, given the exogenous hindrances in transportation system.

Mineral products are the second largest group of imported products. This is mainly due to the reliance of economy on imported fuel. The share of mineral products has been equal to 17.6% of the total imports. The high pace of growth in mineral product's import physical volumes dynamics is highlighting the fact, that the economy is growing fast, thus consuming more fuel and energy. As compared to the year 1997, in 2002 the mentioned product group's volumes have grown by about 973%. This is the highest growth rate for this time period. It is obvious, that the mentioned high rate will accompany the growth in economy, as there is no local alternative for imported energy sources and fuel.

Machinery and equipment maintain their constant share in imports, equal to about 10%. This means that the physical volumes are steadily growing along with the growth in imports volumes.

During the recent years there have been positive changes in imports composition in terms of imports substitution with local production for specific products. This mainly refers to the food production, which has constituted 7.9% of overall imports in 2002 instead of 1997's 9.6%.

The calculations assert substitute of about 30 percent of import for domestic products in 2001 total consumption structure comparing with 1996 data.

Domestic market capacity particularly re foodstuff persist comprising huge potential from import substitute standpoint that grants an opportunity to expand definite goods production thus reducing the Republic's food program dependence from outer world and simultaneously improving the trade balance of Armenia.

Along with the growth in tobacco industry, which is partly based on imported raw material, the share of tobacco leaves is increasing with high pace. As the local tobacco industry has crowded out the most imported brands in cheaper segment of cigarette market, the share of luxury cigarettes has been increased.

The imports volumes of product groups such as footwear, furniture, chemistry has declined radically. Anyway, the shares of the mentioned groups are not large enough.

The import dynamics of Armenia indicates the hereby trends:

- the volume of investment products noticeably increased;
- the share of consumer goods reduced in import volume;
- relatively high-qualified and precious goods trend to grow.

Nevertheless, the major portion of import structure still belongs to consumer goods. In the meantime, Armenia imports such types of consumer goods that do not require solid investment (confectionery, tinned vegetables, macaroni, chicken, washing powders, plastic products, shoes, etc).

The geography of imports also represents the tendencies in Armenian economy and the trends in international relations. The major trade partner of Armenia is Russian

Federation. Imports from Russia constitute about 20% of total imports. The main imported product from Russia is fuel, including nuclear. Russia is the major partner of Armenia in energy sector and the main exporter of all kind of energy resources. The products are being transported to Armenia via Georgia. Total value of imported fuel is reaching about 85 million US dollars annually.

Second largest product group imported from Russia is wheat and cereals. Annually about 44 tons of these products are being imported. Precious stones (rough diamonds) and aluminium are also major imported products. The latter is conditioned by the ownership of Yerevan aluminium factory by Russian Aluminium.

Rubber, leather, pharmaceutical products are also being imported from Russia in relatively large volumes.

The next largest trade partner of Armenia in imports is Belgium, as the rough precious stones are mostly being imported from this European country. Other imported products value does not exceed 1 million dollar annually (with exception of cigarettes, imports of which reached about 1 million dollars in 2001).

Iran is the third largest exporter to Armenia. It is mainly supplying mineral and vegetable oil and plastic.

The USA can also be enlisted as a considerable trade partner. It is supplying mainly drugs, meat and mineral fuel.

Georgian exports to Armenia is also considerable (annually about 31 million US dollars), as it is neighbouring to Armenia and has traditionally good economic relations with Armenia. Main imported product group is transportation means, in particular cars, which are being imported to Armenia due to the favourable customs regime as applicable to the vehicles. Armenia is also importing wheat and cereals (mainly seeds) and wood.

As for the country groups having trade relations with Armenia, the major supplier is CIS countries (including Russia). Imports from CIS countries are making up more than 30% of total. This is conditioned, obviously, by traditionally tight relations with CIS countries, low transportation costs, similar culture and large quantity of newly migrated Armenian Diaspora in these countries.

25 per cent of Armenian imports are supplied by EU. The main imported product is mineral fuel (about 65 % in 2001), precious stones (mainly from Belgium), wheat and cereals (mainly from Italy), products from sugar (mainly from Great Britain, France and Switzerland).

Table 27

(in USD)	1999	2000	2001
live animals	1149.7	759.7	1420.1
meat and edible meat products	25937.1	20476.9	20939.6
fish and crustaceans, mollusks and other aquatic invertebrates	65.3	41.2	144.6
milk and dairy produce; birds' eggs; natural honey; edible products of animal origin	14227.2	12283.2	8226.9
live trees and other plants; bulbs, roots and the like	346.9	392.5	351.5

edible vegetables and certain roots and tubers	987.3	2191.3	2643.4
edible fruit and nuts; peel of citrus fruit or water-melons	5824.8	4597.3	4972.5
coffee, tea and other spices	12650.9	14047.2	14544.6
cereals	47296.5	64425.1	48169.9
products of the milling industry; malt; starches; inulin and other	5526.3	11367.5	8071.6
oil seeds and fruits; medical plants for technical purposes; straw	1769.7	1195.8	4904.7
lacs, gums, resins and other vegetable saps and extracts	1244.3	907.3	1492.8
vegetable plaiting materials; vegetable products not elsewhere specified or included	3.2	0	0
animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes	18084	17175.7	19548.8
preparations of meat, of fish or of crustaceans, mollusks or other aquatic invertebrates	3609.6	3964.6	3636.8
sugar and sugar confectionery	19617.6	19179.4	19691.8
cocoa and cocoa preparations	4238.3	5656.1	5661.3
preparations of cereals, flour starch or milk; pastry cooks products	7815.7	6851.3	3150.7
preparations of vegetables, fruit, nuts or other parts of plants	3791.6	2908.7	3023.1
miscellaneous food stuffs	3105.1	3555.7	3210.3
alcoholic, non-alcoholic drinks and vinegar	981.2	536	1368.6
residues and waste from the food industries; prepared animal fodder	3396.7	6570.3	7223.6
tobacco and manufactured tobacco substitutes	830435.4	720580.2	29922.5
salt; sulphur; earths and stone; plastering materials, lime and cement	1002.3	735.6	988.3
ores, slag and ash	0	0	1.7
mineral fuels, mineral oils and products of their distillations; bituminous substances; mineral waxes	175037	178515.6	187200.8
inorganic chemicals; radioactive elements or isotopes	5366.1	4523.6	6370.4
organic chemicals	3370	1699.8	2254.9
pharmaceutical products	32441.4	42290.1	28945.2
fertilizers	3249.6	2643.8	3378.4
tanning or dyeing extracts; dyes, pigments and other coloring matter; paints and varnishes; inks	5665.8	6671.7	4170.3
essential oils and retinoid perfumery, cosmetic or toilet preparations	7420.2	7454.4	7485.8
soap, organic surface-active agents, washing preparations, lubricating preparations, candles and similar articles	7771.9	9358.6	6242.3

albuminoidal substances; modified starches; glues; enzymes	1428.4	1632.3	1277.8
explosives; matches; certain combustible preparations	968.5	730.5	592.5
photographic or cinematographic goods	1260.7	1680.6	896.7
miscellaneous chemical products	2410.3	3700.9	3521.1
plastics and articles thereof	19991.1	18081.6	17093.8
rubber and articles thereof	3533.8	4942	5384.6
leather and leather raw materials	490.8	642.9	4347.1
articles of leather; articles of animal gut	560.6	742	1154.4
fur skins and artificial fur; manufactures thereof	398.1	236.1	341.3
wood and articles of wood; wood charcoal	3613.8	4466.7	5376.3
cork and articles of cork	385.9	389.1	508.9
manufactures of straw	21.3	22	30
pulp of wood waste and scrap of paper	0	0	0
paper and paperboard; articles of paper pulp,	14921.4	18188.9	15448
printed books, newspapers, pictures and other products of the printing industry	3410.3	4895.5	9040.6
silk	9	7.2	13.7
wool, fine or coarse animal hair; horsehair yarn and woven fabric	241.6	712.1	596.6
cotton	3150.1	3067	4347.1
other vegetable textile fibers and woven fabrics thereof	48.5	210.5	87.3
chemical filaments	3011.3	4839.5	6094.4
chemical staple fibers	3130.8	1414	822.8
wadding, felt and non-woven; special yarns; twine, cordage, ropes and cables and articles thereof	2962.3	2992.6	2155.6
carpets and other textile floor coverings	1433.7	1553.1	1673.6
special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	470.7	281.8	415.6
impregnated, coated, covered or laminated textile fabrics; textile articles thereof	458.2	699.3	620.7
knitted or crocheted fabrics	1272.6	1429.5	2163.9
knitted clothes and clothing accessories	2537.2	3557.1	5527.9
textile clothes and clothing accessories	5719.6	4697.7	6106.5
other made up textile articles; sets; worn clothing and worn textile articles	5594.7	6597.1	5277.1
footwear, gaiters and the like; parts of such articles	5049.9	5094.7	5566.7
head-dress and parts thereof	184.8	46.2	155.6

umbrellas, seat-sticks, whips, riding-crops and parts thereof	232.9	120.6	218.3
prepared feathers and down and articles made of feathers or of down; artificial flowers	45.1	36.4	59
articles of stone, plaster, cement, or similar materials	1981.4	1676.8	1872.3
ceramic products	5424.9	5625.2	6770
glass and glassware	5379.6	4072.7	6766.7
natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof	86712.2	113246.5	106771.1
ferrous metals	8312.8	5584.4	9412.3
articles ferrous metals	6348.7	6282.4	5901.9
copper and articles thereof	567.4	1403.4	961.3
nickel and articles thereof	1.9	2.8	119.5
aluminum and articles thereof	3270.6	5678.1	15084.2
tin and articles thereof	5	2.3	9.5
other non precious metals; cermets, articles thereof	205.2	111.3	358.6
tools, cutlery, spoons and forks, non precious metals	1387.8	1953.7	1184.5
miscellaneous articles of non precious metals	3695.5	3155.8	2930.4
nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	49215.1	50130.2	48529.3
electrical machinery and equipment and parts thereof sound recorders and reproducers and parts and accessories of such articles	32187.5	67103.5	39836.3
railway or tramway locomotives, rolling stock and parts thereof; tramway and parts thereof;	180.7	66.1	106.5
vehicles other than railway and parts thereof	30944.7	21859.3	24618.5
aircraft, spacecraft and parts thereof	2008.3	1222.3	1084.4
ships, boats and floating structures	12.3	54.4	87.6
optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	12575.5	11641.2	24341.7
clocks and watches and parts thereof	321.5	426.6	2450.3
musical instruments; parts and accessories of such articles	62.4	274.3	160.5
furniture; bedding mattresses, mattress supports, cushions and similar stuffed furnishings	8249.6	6182.2	7283.3
toys, games and sports requisites; parts and accessories thereof	2588	3823.3	2439.7

miscellaneous manufactured articles	1748.7	1607.9	1804.8
works of art, collectors pieces, and antiques	26.8	42.6	15.8

Table 28

Imports (mln of USD)		**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	
TOTAL		254.2	393.8	673.9	855.8	892.4	902.4	811.3	884.7	877.4	991.1	
1	animals and products of animals origin	23.0	46.1	63.3	67.4	58.5	47.0	41.5	33.6	30.8	27.9	
2	products of vegetables origin	45.5	64.3	85.6	112.8	105.3	117.8	75.7	99.1	85.2	74.5	
3	fats and oils	2.5	12.0	25.1	26.4	24.6	19.3	18.1	17.2	19.5	18.4	
4	prepared foods	16.8	32.5	51.5	85.1	86.0	110.0	77.0	69.8	76.9	79.1	
5	mineral production	2.3	17.8	28.8	19.1	17.9	206.0	176.0	179.3	188.2	174.3	
6	chemical production	4.2	9.1	55.4	56.2	85.2	73.7	71.4	82.4	65.1	63.0	
7	plastic, rubber	0.6	1.0	4.0	13.5	23.5	27.3	23.5	23.0	22.5	22.3	
8	skins and articles of leather	1.9	0.2	0.3	1.3	1.7	1.3	1.4	1.6	5.8	1.8	
9	woods and articles of wood	0.1	0.4	0.9	1.3	2.7	3.2	4.0	4.9	5.9	7.2	
10	paper and articles of paper	0.1	2.7	8.1	12.7	16.1	26.9	18.3	23.1	24.5	18.5	
11	textile articles	4.5	8.7	7.8	21.0	33.6	31.7	30.0	32.1	36.0	35.6	
12	footwear, umbrellas, headgear	0.3	0.3	0.9	4.9	10.0	5.8	5.5	5.3	6.0	4.4	
13	stone, plaster, cement	0.2	0.8	2.5	8.7	15.7	15.4	12.8	11.3	15.4	19.4	
14	precious stones and metals	26.8	31.8	62.4	129.8	47.5	45.5	86.7	113.2	106.8	213.5	
15	base metals and articles thereof	11.1	3.6	16.0	10.2	24.6	20.1	23.8	24.4	36.1	55.7	
16	machinery and equipment	4.0	8.0	49.6	80.5	102.1	78.9	81.4	117.2	88.4	103.5	
17	transport means	1.9	2.0	6.4	12.0	15.7	47.3	33.1	23.2	25.9	40.2	
18	machinery and apparatus	0.8	2.9	5.7	11.0	14.1	12.8	13.0	12.3	27.0	20.6	
19	different industrial articles	4.6	6.7	3.2	13.6	15.7	12.1	17.9	11.6	11.5	11.0	
20	works of art and antique	0.0	0.0	0.1	1.0	0.1	0.1	0.0	0.0	0.0	0.0	
		1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**02/97**
TOTAL		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	111%
1	animals and products of animals origin	9.04%	11.70%	9.39%	7.87%	6.56%	5.20%	5.11%	3.80%	3.51%	2.82%	47.8%
2	products of vegetables origin	17.91%	16.32%	12.70%	13.17%	11.80%	13.10%	9.33%	11.20%	9.70%	7.51%	70.7%
3	fats and oils	0.97%	3.04%	3.72%	3.08%	2.75%	2.10%	2.23%	1.94%	2.23%	1.86%	74.8%

4	prepared foods	6.60%	8.24%	7.64%	9.95%	9.64%	12.20%	9.49%	7.89%	8.76%	7.98%	92.0%
5	mineral production	1.48%	8.26%	10.62%	6.59%	7.69%	22.80%	21.70%	20.26%	21.45%	17.58%	973.6%
6	chemical production	1.67%	2.32%	8.22%	6.56%	9.55%	8.20%	8.80%	9.31%	7.42%	6.36%	73.9%
7	plastic, rubber	0.25%	0.25%	0.60%	1.58%	2.63%	3.00%	2.90%	2.60%	2.56%	2.25%	94.8%
8	skins and articles of leather	0.77%	0.05%	0.05%	0.15%	0.19%	0.10%	0.18%	0.18%	0.67%	0.18%	106.8%
9	woods and articles of wood	0.04%	0.10%	0.14%	0.16%	0.31%	0.40%	0.50%	0.55%	0.67%	0.72%	266.0%
10	paper and articles of paper	0.06%	0.69%	1.20%	1.48%	1.80%	3.00%	2.26%	2.61%	2.79%	1.87%	115.2%
11	textile articles	1.75%	2.20%	1.16%	2.45%	3.76%	3.50%	3.70%	3.62%	4.10%	3.60%	106.1%
12	footwear, umbrellas, headgear	0.11%	0.08%	0.13%	0.58%	1.12%	0.60%	0.68%	0.60%	0.68%	0.45%	44.3%
13	stone, plaster, cement	0.09%	0.20%	0.38%	1.02%	1.76%	1.70%	1.58%	1.28%	1.76%	1.95%	123.4%
14	precious stones and metals	10.55%	8.06%	9.27%	15.17%	5.32%	5.00%	10.69%	12.80%	12.17%	21.55%	449.6%
15	base metals and articles thereof	4.36%	0.92%	2.37%	1.20%	2.76%	2.20%	2.94%	2.75%	4.11%	5.62%	226.5%
16	machinery and equipment	1.58%	2.03%	7.36%	9.40%	11.44%	8.70%	10.03%	13.25%	10.07%	10.45%	101.4%
17	transport means	0.76%	0.50%	0.94%	1.40%	1.76%	5.20%	4.09%	2.62%	2.95%	4.06%	256.1%
18	machinery and apparatus	0.31%	0.74%	0.85%	1.28%	1.57%	1.40%	1.60%	1.40%	3.07%	2.08%	146.0%
19	different industrial articles	1.83%	1.70%	0.47%	1.59%	1.75%	1.30%	2.20%	1.31%	1.31%	1.11%	70.0%
20	works of art and antique	0.00%	0.00%	0.01%	0.12%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	26.0%

Table 29

IMPORTS	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
TOTAL	254.2	393.8	673.9	855.8	892.3	902.4	801.7	885.1	877.4	991.1
Total of CIS	168.2	205.6	334.0	287.8	299.1	230.2	175.6	168.3	218.5	305.7
Russia	77.9	112.2	135.1	125.5	215.9	182.7		132.1	173.6	196.5
Turkmenistan	64.1	69.6	129.3	86.4	27.7	0.6		1.1	0.8	25.0
Georgia	19.5	17.8	61.8	51.2	38.2	26.8		19.5	18.5	31.8
Belarus	1.2	0.4	1.9	2.2	3.3	1.8		0.6	1.1	2.0
Ukraine	4.0	5.3	5.4	12.0	11.6	8.9		12.3	22.1	45.9
Kazakhstan	1.2	0.1	0.1	0.1	2.1	0.5		0.9	0.5	1.7
Other CIS Countries	*0.3*	*0.2*	*0.3*	*10.4*	*0.4*	*0.3*		*1.7*	*1.8*	*2.9*
Other Countries	86.7	188.3	343.6	568.0	593.2	672.2	626.1	716.9	658.9	685.3
EU countries	*35.6*	*37.1*	*88.8*	*132.7*	*176.8*	*259.0*		*305.6*	*252.0*	*255.7*
Austria	0.0	0.0	2.1	1.9	2.3	2.8		2.5	4.1	
Belgium	2.9	1.3	15.6	49.5	49.7	54.6		84.4	41.8	91.2

France	0.9	10.7	16.3	12.0	19.5	27.7		17.6	12.0	12.1	
Germany	0.3	6.9	11.3	17.4	26.2	34.0		36.3	34.0	42.9	
Italy	31.0	8.8	22.4	26.2	36.2	34.6		25.7	29.6	36.8	
Netherlands	0.2	8.3	6.0	5.7	15.4	9.6		12.4	7.0	9.8	
Great Britain	0.0	0.5	2.2	7.1	10.5	69.1		59.5	91.2	28.3	
Greece	0.0	0.0	5.6	5.3	10.2	9.1		54.0	13.6	12.2	
Ireland	0.0	0.0	1.7	2.4	0.8	8.1		1.0	0.4		
Other EU Countries	*0.2*	*0.6*	*5.7*	*5.2*	*6.0*	*9.7*		*12.2*	*18.7*	*11.8*	
Switzerland	0.3	2.4	6.2	16.5	22.6	25.6		22.9	26.5	9.9	
Iran	15.3	42.5	86.5	149.8	88.7	63.9		83.0	78.1	62.4	
Turkey	0.0	0.5	2.3	6.3	38.4	56.8		39.5	33.8	38.0	
UAE	2.5	1.1	12.3	33.4	71.7	54.5		41.6	47.4	43.1	
USA	26.3	96.1	112.2	103.6	116.1	96.3		102.7	84.2	53.1	
Bulgaria	0.2	0.9	4.4	14.3	25.4	16.2		7.2	6.4		
Other	*6.5*	*7.7*	*30.9*	*111.4*	*53.5*	*99.9*		*117.4*	*130.6*	*233.8*	
IMPORTS	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	02/97
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	111.1%
Total of CIS	66.16%	52.19%	49.57%	33.63%	33.52%	25.50%	21.90%	19.01%	24.90%	30.85%	102.2%
Russia	30.65%	28.48%	20.05%	14.66%	24.19%	21.20%		14.93%	19.79%	19.82%	91.0%
Turkmenistan	25.20%	17.68%	19.19%	10.10%	3.10%	0.06%		0.12%	0.09%	2.52%	90.2%
Georgia	7.69%	4.52%	9.18%	5.99%	4.29%	2.97%		2.21%	2.11%	3.21%	83.4%
Belarus	0.48%	0.10%	0.28%	0.26%	0.37%	0.20%		0.07%	0.12%	0.21%	61.8%
Ukraine	1.59%	1.34%	0.81%	1.40%	1.30%	1.00%		1.39%	2.52%	4.63%	395.4%
Kazakhstan	0.46%	0.02%	0.01%	0.01%	0.23%	0.05%		0.10%	0.06%	0.17%	80.1%
Other CIS Countries	*0.10%*	*0.05%*	*0.04%*	*1.21%*	*0.04%*	*0.03%*		0.19%	0.21%	0.29%	714.7%
Other Countries	34.09%	47.81%	50.98%	66.37%	66.48%	74.50%	78.10%	80.99%	75.10%	69.15%	115.5%
EU countries	14.01%	9.41%	13.17%	15.51%	19.81%	28.70%		34.53%	28.72%	25.80%	144.6%
Austria	0.00%	0.00%	0.31%	0.22%	0.25%	0.30%		0.29%	0.47%	0.00%	0.0%
Belgium	1.14%	0.34%	2.32%	5.79%	5.57%	6.05%		9.53%	4.76%	9.20%	183.5%
France	0.35%	2.70%	2.42%	1.40%	2.18%	3.07%		1.98%	1.37%	1.22%	61.9%
Germany	0.12%	1.76%	1.67%	2.03%	2.94%	3.77%		4.10%	3.87%	4.33%	163.6%
Italy	12.20%	2.24%	3.32%	3.06%	4.06%	3.83%		2.90%	3.38%	3.71%	101.6%
Netherlands	0.09%	2.09%	0.89%	0.67%	1.73%	1.06%		1.40%	0.79%	0.99%	63.8%
Great Britain	0.00%	0.12%	0.32%	0.83%	1.17%	7.66%		6.72%	10.40%	2.85%	269.2%
Greece	0.00%	0.00%	0.83%	0.61%	1.15%	1.01%		6.10%	1.55%	1.23%	119.9%
Ireland	0.00%	0.00%	0.25%	0.28%	0.09%	0.89%		0.12%	0.04%	0.00%	0.0%

Other EU Countries	0.10%	0.15%	0.84%	0.61%	0.67%	1.07%	1.38%	2.13%	1.19%	196.1%
Switzerland	0.10%	0.62%	0.92%	1.93%	2.54%	2.84%	2.59%	3.02%	1.00%	44.0%
Iran	0.60%	10.79%	12.83%	17.50%	9.94%	7.08%	9.37%	8.90%	6.30%	70.4%
Turkey	0.02%	0.14%	0.34%	0.73%	4.30%	6.29%	4.46%	3.85%	3.83%	98.9%
UAE	1.00%	0.27%	1.82%	3.91%	8.04%	6.03%	4.70%	5.40%	4.35%	60.1%
USA	10.36%	24.40%	16.65%	12.10%	13.01%	10.67%	11.60%	9.59%	5.36%	45.7%
Bulgaria	0.06%	0.23%	0.65%	1.67%	2.85%	1.79%	0.81%	0.73%	0.00%	0.0%
Other	2.54%	1.94%	4.59%	13.02%	5.99%	11.00%	13.26%	14.88%	23.59%	437.1%

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Table 30. Dynamics of exports and imports in 1995-2001(thsd. USD)

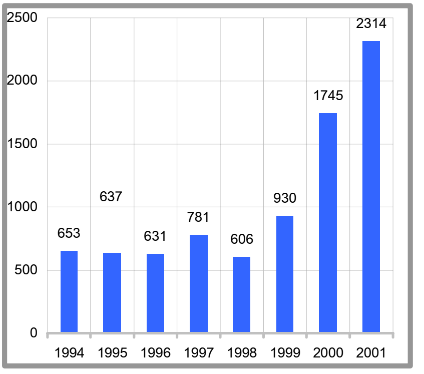
Years	Turnover	Imports	Exports	Balans
1995	1304856,5	667657,2	637199,3	-30457,9
1996	1591881,8	960636,3	631245,5	-329390,8
1997	1575652,9	794343,2	781309,7	-13033,5
1998	1682647,9	1076497,4	606150,5	-470346,9
1999	1965552,4	1035888,8	929663,6	-106225,2
2000	2917291,1	1172071,2	1745219,9	573148,7
2001	3745159,8	1430877,4	2314282,4	883405,0

Exports

From 1992 to 1997 years the turnover of goods had a tendency to the reduction. By 1993 year the export volume had reduced almost for 50%. In 1994 the new fall happened for 34%. The different participant of different economy sectors in the trade relations, the growth of demands to any products, the neglect in the structure of the different industries, orientation to raw market and the backwardness of processing branches were fringing to the point of production reducing. The reduction of powers for oil and gas output in 1994 year turned Azerbaijan into the usual importer of power industry products.

Signing the oil contacts got to significant foreign investments in the energy sector. It ensured the changes in the external trade development especially in export area. The growth of turnover of goods began in 1998 year. First in 2000 the export volume exceeded the improve volume for 573 mil. USD and in 2001 the positive balance of foreign-trade relations already constituted 883 mil. USD.

Figure 51 Dynamics of exports volume (mln. USD)



The export structure of Azerbaijan has chiefly raw material nature. The export has been growing for score of oil and oil products on the whole. Increasing in that area was appeared in 1995 and has been continuing to remain as predominating.

In 1991 year 97 trade groups took part in the export with sum of $244 mil. where the foodstuffs, alcohol and non-alcohol, tobacco took the first place. They made 30,9% export volume.

In 1992 the group trade of mineral products was taking the first place (47,2%). Here, three trade positions where the first place had the mineral fuel, oil and products of its process, the second-ores and their concentrates, the third - salt, cement, sulfur, limestone. The second group was introduced with foodstuffs: alcohol and non-alcohol drinks, tobacco and so on. Here the leaders were alcohol and non-alcohol drink, then tobacco and its articles, the products of vegetables and fruit processing had the third position.

In the exports structure of 1993 the leadership belonged to non-precious metals and their articles (8 position). The first – third places were taken with ferrous metals and articles from them, aluminum and its articles. But these trade positions took the third, fifth, seventh in the general volume of foodstuffs, taken the third place in exports general structure. They followed in such an order: alcohol and non-alcohol drinks, tobacco and the articles from it, further-product of vegetable and fruit process. The place of these positions in the general volume of exports is corresponded to fourth, sixth and 13-th. The exports volume constituted 724.5 mil. USD in 1993 year. It was less than the level of 1992 for 700 mil.

In 1994 the mineral products took the first place. They were introduced with mineral fuel, oil and products of it, the second-salt, sulfur, limestone, cement, the ores and their concentrates. In the general volume of exports the mineral fuel kept the leading position, but two other trade positions were taken accordingly 24-th and 47-th places. The second place in the exports structure was taken textiles and articles (18%). 14 trade positions were introduced in that group where the first, second and third places were shared with accordingly cotton, wool, carpets and carpets articles. In general volume of exports they took second, 19-th, 20-th places. The third place in the export structure belonged to non-precious metals and articles of them (seven trade positions). The leadership was divided in such a way: metals, aluminum and articles from it, articles from metals. They took accordingly 3-th, 11-th, 12-th places in the general volume of exports.

The exports volume in 1995 constituted 637.2 mil. USD. 97 trade position were involved in the export operations, where the mineral products took the first place (51.75%), the second-textile and textile articles, the third-machinery mechanisms and electro-technical equipments, the fourth-foodstuffs, alcohol and non-alcohol drinks, tobacco. In the general volume of export goods the first five pieces were taken with mineral fuel, oil and oil productions process, the second-cotton, the third-boilers, equipment, mechanisms and their parts, the fourth-electro-technical equipment, the fifth – alcohol and non-alcohol drinks.

In 1996 the exports volume constituted the sum in 633.2 mil. As usual the first place was taken mineral products, (oil and products of its process made 99.6% in tis category). The textile and it articles took the second place (22.75%), the third place was taken with heat equipment, mechanisms, electro-technical equipment (7.2%).

Analogical quantity, i.e. 97 trade position took part in the import-export operation in 1997 year. The general exports volume comparing with 1996 year increased for 23.8%. The first place was kept for mineral products. As the last years there were three trade positions in which the leadership belonged to mineral fuel, oil and oil products process. The second place in the exports structure was occupied with the group of goods – textile and it articles. (11 trade positions). Here the leadership was distributed accordingly, among cotton, clothes and their kinds, carpets and carpet article. These three trade positions got 97.52% of exports volume of trade group "Textile and textile articles". The trade group, heat equipment, mechanisms and electro-technical equipment took the third place in the export structure. The fourth place was got with foodstuffs, alcohol and non-alcohol drinks, tobacco (4.29%).

In 1998 year in the export operation the first places were taken with the same goods. If in 1997 year their share made 87.75% of the general exports volume, in 1998 it was 88.42%. It was mineral products, textile and textile articles, heat equipment, foodstuffs.

In 1999 year compared with 1998 the export volume increased for 53.2%. As usual the main positions belonged to mineral products with general volume 78.67% (the main parts was raw oil). After them there was a trade group: mechanisms, heat equipment, electro-technical equipment 3.73%, further – foodstuffs, alcohol and non-alcohol drinks, tobacco (3.61%). The group goods, textile and article of it took the fourth place in the general exports structure (2.86%).

In 2000 the mineral products kept the predominating place, after them there appeared other group-product of plants, the third place was taken with textile and articles of it (14 trade positions). However, in that trade group the growth of its participant in the export operations was executive for score of untreated raw material-cotton.

Table 31. Share of main product groups in export

Groups of products	Years									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Foodstuffs, alcohol & non-alcohol drinks, tobacco	30,9	15,9	12,91	7,7	4,46	3,3	4,29	45,66	3,61	1,38
Textiles & textile articles	18,0	7,1	10,5	18,0	22,75	10,7	16,96	9,24	2,86	2,33
Mineral products	13,3	47,2	28,7	34,2	51,75	66,8	61,71	69,08	78,67	85,12

Machinery mechanisms, electro-technical equipment	10,4	9,8	10,52	14,0	7,20	6,9	4,79	5,52	3,73	1,75
Chemical industry & it's branches	8,9	6,1	5,04	3,6	3,58	3,3	2,35	1,86	2,45	2,07
Pearls, metal goods, precious stones	5,5	0,1	0,02	0,00	-	-	0,002	0,0	0,004	-
Polymers, plastic, rubber	4,7	2,9	2,9	1,6	2,49	4,2	2,88	1,98	1,41	1,14
Non-precious metals & articles from them	4,0	8,5	22,75	16,5	3,21	1,0	1,96	2,21	2,66	1,83
Vegetable products	2,7	0,5	2,15	2,3	2,43	0,9	2,01	2,74	2,44	13,09
Transport	1,1	0,3	0,72	0,7	0,79	0,7	0,51	0,49	0,76	1,99
Different industrial products	0,7	0,7	0,005	0,1	0,004	0,00	0,05	0,04	0,16	0,05
Wood and articles from it	0,5	0,5	0,7	0,1	0,05	0,0	0,03	0,06	0,06	0,04
Equipment & devices, clocks, musical instruments	0,1	0,03	0,07	0,2	0,34	0,04	0,26	0,77	0,35	0,17
Leather-processing productions	1,0	0,2	0,24	0,1	0,292	0,9	1,05	0,59	0,17	0,09
Footwear & articles of light industry	0,6	0,002	0,025	0,1	0,053	0,0	0,053	0,003	0,46	0,00
Vegetables and animals fats & oils	0,3	0,04	0,004	0,0	0,05	0,1	0,684	0,267	0,364	0,20

At present Azerbaijani articles, especially industrial, almost have not chances for sale of products in the West. Because of the bad process of raw materials, they are realized on the more low prices. Azerbaijan has the great quantity of different industries such as oil-processing, chemical and oil-chemical enterprises, whose reconstruction will let increase their production supplies for the external market: natural gas. Besides oil and oil products Azerbaijan has a good export potential in the chemical industry. Azerbaijan carpets are appreciated in all the world, sewing articles, and art folk products. The world market is interested in agricultural technical products, mineral water, snake poison, products of fish-processing industry. Only exports of fruits in the CIS and Europe countries can got groups ten of millions to the republic. The production of the restoring machinery mechanisms, chemical, electro-technical, can have the fine export perspectives.

At present the increasing of export can be reaches not only for a score of oil, but with the simplest goods of light and food industries. And then the different kinds of industrial and agricultural goods would be able to take part in the export operations. One can increase the export for a score of production accumulated in the stores realizing it to those, who needs it. By the first of January 2001 mass of really production in the stores had constituted the sum in 620.7 billion mantas: 160.7 billions of them made the production of oil-processing enterprises; 92.1 billion of machinery mechanisms, 25 billion of chemical industry. The share of these branches made 44.6% of all remains of ready production.

Table 32. Exports of main commodities in 2001

Total exports		**Of which**				
		Countries of CIS		Countries rest of the world		
Quantity	Value, thsd. USD	Quantity	Value, thsd. USD	Quantity	Value, thsd. USD	Names of products
360,3	102, 9	333,1	84, 3	27, 2	18, 6	Fish, ton
3042,4	829, 4	1080,4	270,1	1962, 0	559, 3	Fresh vegetable, ton

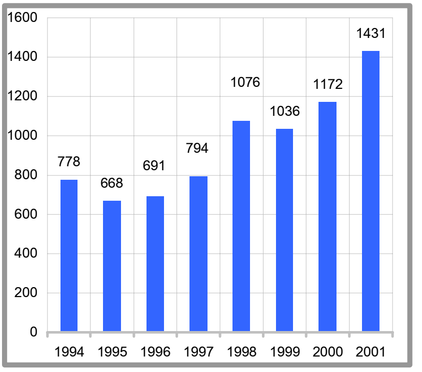
28257.2	11884, 6	26237,0	7168, 0	2020, 2	4716, 6	Fresh fruits, ion
1570,8	3143, 7	1523,8	3055, 2	47, 0	88, 5	Tea, ton
2471,8	519, 6	2471,8	519, 6	0, 0	0, 0	Wheat flour, ton
4350,3	1365, 2	0,0	0, 0	4350, 3	1365, 2	Liquorices roots, ton
42725,5	2151 ,4	0,0	0 ,0	42725,5	2151, 4	Sugar best, ton
6574,7	2843 ,3	6388,9	2685 ,2	185 ,8	158, 1	Plant oil, ton
1.6	689 ,4	0.0	0 ,0	1 ,6	689, 4	Caviar and caviar substitutes, ton
1991,6	832 ,4	1991,6	832 ,4	0 ,0	0, 0	Tomato paste, ton
3389,0	1046 ,5	2460,8	759 ,2	928 ,2	287, 3	Fruit juice, ton
148,7	360 ,3	147,8	343 ,2	0 ,9	17, 1	Wineb, thsd. dkl
154,1	2645 ,8	154,1	2645 ,8	0 ,0	0, 0	Alcoholic beverages, thsd.dkl
14228,7	14304 ,8	14160,4	13558 ,1	68, 3	746, 7	Tobacco, ton
9142,5	1725478,8	180,5	28503, 2	8962, 0	1696975, 6	Raw-oil, thsd.ton
184,8	38077, 9	184,8	38077, 9	0, 0	0, 0	Automobile petrol, thsd. ton
342,4	65113 ,1	57,8	11521 ,4	284 ,6	53591, 7	Kerosene, thsd. ton
1234,3	222834 ,0	125,2	23964 ,9	1109 ,1	198869, 1	Diesel fuel, thsd. ton
493,2	42141 ,3	0,3	39 ,2	492 ,9	42102, 1	AH type of mazut, thsd. ton
11138,8	2072 ,9	7880,5	1489 ,1	3258 ,3	583, 8	Oil and smearing, ton
23401,7	1282 ,5	23401,7	1282 ,5	0 ,0	0, 0	Coke oil, ton
608,9	4463 ,6	608,9	4463 ,6	0 ,0	0, 0	Electric power, mil.kWh
4617.3	1079 ,6	4557.3	1064 ,0	60 ,0	15. 6	Hydroxide of natrium soda
93 ,0	9721 ,2	89,0	9247,3	3, 7	473 ,9	Aluminum oxide,thsd. ton
8123 ,3	2597,8	3788,3	1231,8	4335,0	1366 ,0	Acyclic alcohols and their halogenated, ton
20274 ,3	10052 ,6	8489,9	4522,8	11784,4	5529 ,8	Polyethylene, ton
29458,2	2390 .2	2500,0	275,0	26958,2	2115 ,2	Petroleum resins, ton
6411 ,7	998 ,1	379,0	50,9	6032, 7	947 ,2	Coats of bovine animals, ton
843 ,1	487 ,2	48,5	52,9	794, 6	434 ,3	Coats of sheep and lambs, thsd. piece
19824,6	14890 ,9	11513,6	8631,1	8311, 0	6259,8	Cotton fibre, ton
18652,4	1013 ,0	0,0	0,0	18652,4	1013 ,0	Wastes and scraps of iron, thsd.ton
18637,3	3712 ,8	262,9	48,6	18374,4	3664 ,2	Rods and fittings, ton
1533 ,7	1572 ,6	1165,0	400.0	368, 7	1172 ,6	Tubes drilling, ton
3762 ,4	2455 ,0	0,0	0,0	3762, 4	2455 .0	Copper wastes and scraps, ton
5893 ,5	3861 ,6	0,0	0,0	5893, 5	3861 ,6	Rough aluminum, ton
3762 .0	2095 ,1	0,0	0,0	3762. 0	2095 ,1	Aluminum wastes and scraps, ton
668 ,0	307 ,9	644,0	232,0	24, 0	75 ,9	Liquid pumps, piece

Imports

The main reason of the development of import operations structure in 1992-2001 was the liberalization becoming the head feature of external trade in Azerbaijan. There takes place reducing the custom taxes, abolishes the different limited quotes.

The general imports volume during 1992-2001 increased for 4 times. It took places for a score of supply increasing the mechanisms, equipment, transport means. However, there was a reduction of foodstuffs share from 30.2% in 1991 till 18.9% in 2000 year.

Figure 52 Dynamics of imports volume (mln USD)



In 1991, 96 trade groups were involved in imports operations for sum in 217.5 mil. USD. The leaders were foodstuffs, alcohol and non-alcohol drinks, tobacco (8 trade positions). Their share made 15.52% of the general trade volume. Within the trade group the first place was taken alcohol and non-alcohol drinks, the second – the other foodstuffs, the third place – sugar and confectionery article.

In 1992 the quantity of imported articles was 98 trade groups in the sum of 854.1 mil. USD i.e. the imports volume increased for 636.6 mil. USD compared with 1991 year. In the imports structure the first place was taken with precious metals, articles from them (21.04%). They concluded 9 trade positions, among which the places were distributed in such a way: the first – articles from metals, the second-black metals, the third – aluminum and articles from it. However, ferrous metal kept the leadership in the general imports volume. Further, there follows heat equipment, mechanisms, electro-technical equipment (11.87%). There were two positions where the first place was taken with boilers, equipment, stones, mechanisms and their parts, the second-electric devices and equipment.

In 1993 Azerbaijan imported 97 kinds of trade groups in the sum of 496 mil. USD. The mineral products (three trade positions) had the leadership (21.72%), the second place (17.32%) was occupied with product of plant origin (seven trade positions). The first – third places among them were divided with products of flour – grinding and groats industry, crops and vegetables. But in the all import goods they took accordingly the second, ninth and 20-th places. The third place in that structure (14.47%) was taken with non-precious metals and the articles from them (7 trade positional). Where the first – third places were accordingly taken with ferrous metals, articles from them, aluminum and its articles. The last twentieth place was got to group of goods – services.

In 1994 like in 1993 mineral products took the first and second places (33.33%) having three trade positions: non-precious metal and articles from them (12.52%) – 11 trade positions. Among of mineral products the first place was taken sulfur, limestone, cement, the second – ores and their concentrates, the third – mineral fuel, oil and products of oil-processing. These trade position took accordingly 18-th, 45-th and the first places. Among of non-precious metals and articles from them the first – third places were taken with ferrous metals and articles from them, copper and articles from it that took the second, tenth and 38-th places in the general volume of import goods. The third place (10.14%) was got with heat equipment, mechanism and electro-technical equipment (three trade positions) where the first and second place were taken with boilers, equipment, heat equipment, mechanisms and their parts, electric machinery and equipment. In the general imports volume they had accordingly the third and seventh places.

In 1995 year imports volume constituted the sum in 667 mil. USD. It was less than the level of 1994 for 112.3 mil. As usual the mineral products kept the leadership (15.1%). They again had three trade positions: mineral fuel, oil and products of oil-processing. Further – salt, limestone and cement, then – ores and their concentrates. In the general imports volume the second place (14.5%) was taken with foodstuffs, alcohol and non-alcohol drinks, tobacco (8 trade positions). In that group the first place was sugar and confectionery articles from sugar. Further – tobacco and tobacco articles, the third – alcohol and non-alcohol drinks. In the general imports volume they took accordingly the third, 14-th, 18-th places. In the import structure the third place was taken with heat equipment, mechanisms, electro-technical equipment (12.41%). They had two trade positions accordingly: broilers, equipment, mechanisms and their parts, the second place – electric machinery and equipment. In general imports goods they were dropped on the fourth and sixth places.

The imports volume in 1996 constituted the sum in 960.6 mil. USD. It was more that the level of 1995 year for 292.9 mil. USD. There imported the goods of 97 trade positions. The first place was taken with heat equipment, mechanism, electro-technical equipments (19.5%), the second (14.12%) – products of plant origin (8 trade positions), the third (12.35%) - foodstuffs, alcohol and non-alcohol drinks, tobacco (9 trade positions).

The same quantity of trade positions took part in import – export operations in 1997 year. However, the imports volume reached only 82.4% of 1996 level. Among of 97 trade positions the first place in imports belonged to the group: heat equipment, mechanism, electro-technical equipments, having 2 trade positions, the second – non-precious metal and articles from them (11 trade positions), the third – mineral products (3 trade positions) the fourth – products of plant origin where the first place was taken with cotton, the second – clothes and textile items, then carpets and their articles. These three trade position made 97.52% of exports goods of group "textile and textile articles". The third place was got with heat equipment, mechanism, electro-technical equipments. The fourth - foodstuffs, alcohol and non-alcohol drinks, tobacco (4.29%).

In 1998 almost same 97 trade positions were involved in import-export operations. The volume of these operations constituted 1076 mil. USD that was less than the 1997 turn over of goods for 9.4%. Again the leadership was got with heat equipment, mechanism, electro-technical equipments (32.33%) (two trade positions), the second place was taken with non-precious metal and articles from them (11 trade positions), the third – products of plant origin (9.05%, 9 trade positions). The first two trade positions took the analogical places in imports volume in 1997 year. Then their share made in total 35.1%. In 1998 year this indication was 45.37% i.e. it has a tendency to increase. First in 1998 year the means of air, land and water transport reached more high fourth place instead of 8-th in 1991, 6-th – 1992, 8-th – 1993, 9-th – 1994-1995, 8-th – 1996, 7-th – 1997. The first – fourth places were taken with the same trade goods as in total 87.75% of import-export operations in 1998 it was 88.42%. Among of them there were mineral products, textile and textile articles, heat equipment, foodstuffs.

In 1999 the imports sum constituted 1033,5 mil. USD. It was less than the level of 1998 for 4.1%. In 1999 the first four places of imports were taken with heat equipment, mechanism, electro-technical equipments (33.11%), products of plant origin (11.2%), non-precious metal and articles from them (10.75%) means lands, air, water transport (8.74%) that made in total 63.82% of the general imports volume.

These four trade groups were leaders in import in 1998 year (61.5%). The growth took place because of increasing volume of heat equipment, mechanism, electro-technical equipment.

In import-export operations of 2000 95 trade positions took part. The first place was taken with trade groups - heat equipment, mechanism, electro-technical equipment, the second - non-precious metal and articles from them, the third - products of plant origin, the fourth – mineral products.

During 1993-2001 republic depended on steady supply of the main industrial goods. It is necessary to change the state policies and give the additional means for processing branches.

Table 33. Share of main product groups in import

Groups of products	Years									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Foodstuffs, alcohol & non-alcohol drinks, tobacco	15,52	7,48	6,86	7.89	14.5	12,35	6,90	3,875	5,06	5,07
Pearls, metal goods, precious stones	13,71	0,08	0,17	0,05	0,01	0,01	0,02	0,002	0,04	0,00
Textiles & textile articles	10,0	5,76	2,82	2,33	1.7	1,63	1,55	1,515	1,95	2,14
Mineral products	9,87	9,19	21.72	33,33	15,1	6.83	12.26	7,95	8,69	9,82
Non-precious metals & articles from them	9,75	21,04	14,41	12,52	6.29	9,04	13,77	12,04	10,75	10,52
Machinery mechanisms, electro-technical equipment	6,99	11,87	10,61	10,14	12,41	19,15	21,32	32,33	33.11	30,95
Vegetable products	6,94	11.39	17.32	10,08	7,72	14,12	10,86	9,047	11,23	10,19
Transport	6,15	739	5,39	2,9	5,48	4,6	6,28	8,08	8,74	8,53
Chemical industry & it's branches	4,34	7,28	6,26	4,85	9,18	6,36	7.02	7,67	5,57	7,17
Vegetables and animals fats & oils	4,27	4,33	6,29	2,95	8.16	2,46	0,8	0,45	1,29	0,95
Live animals & vegetable products	3048	3.72	1,62	5,43	11.13	10,81	4.20	2,9	2,57	2,69
Different industrial products	1,18	0.80	1,99	1,46	1.07	1,18	1,68	2,36	1.68	1,43
Equipment & devices, clocks, musical instruments	0,46	0,34	0.42	0,52	0,59	0.72	0,65	2.18	1,95	3.05
Polymers, plastic, rubber Leather-processing productions	1,34	2,57	1,01	1,85	1,73	3,12	2,8	2,23	1,72	1,94
Pulp of wood waste & scrap of paper		0.59	0,24	0,88	2.27	3,56	3,45	1,49	0.92	1,57
Wood and articles from it	2,24	0.9	0.75	0,78	0,76	1,81	2,98	2,85	2,12	1,95
Articles from stones, ceramic, cement etc.	1,26	1.43	0,91	0.91	1,19	1.96	2.71	2,93	1,91	1,51

Table 34. Imports of main commodities in 2001

Total imports		**Of which**				
		Countries of CIS		Countries rest of the world		
Quantity	Value, thsd. USD	Quantity	Value, thsd. USD	Quantity	Value, thsd. USD	Names of products
17607,4	15140,3	20,4	37,8	17587,0	15102,5	Birds meal ton
7914,7	9974,8	174,7	213,4	7740,0	9761,4	Butter, ton
51978,4	2255,0	134,6	20,4	51843,8	2234,6	Birds eggs, in shell, fresh, thsd. piece
54986,2	6653,1	7288,9	834,1	47697,3	5819,0	Potatoes, ton
6540,6	22090,7	15,2	31,0	6525,4	22059,7	Tea, lon
615,1	69410,9	602,6	67803,1	12,5	1607,8	Wheat, thsd. ton
14693,3	3489,6	2877,6	706,4	11815,7	2783,2	Rice, ton
17721,2	4097,4	288,2	65,9	17433,0	4031,5	Wheat ton
28918,2	10177,9	3834,2	1225,7	25084,0	8952,2	Plant oils, ton
294,6	294,0	70,0	82,7	224,6	211,3	Margarine, ton
2197,3	2644,9	428,6	651,0	1768,7	1993,9	Sausages of meat ton
94508,2	19596,9	13928,1	2367,8	60580,1	17229,1	Sugar and granulated sugar, ton
11367,8	3126,8	120,5	48,5	11247,3	3078,3	Macaroni, ton
83,8	512,1	61.1	345,7	22,7	166,4	Beer made from malt, thsd. dkl
52,1	498,9	52,1	498,8	0,0	0,1	Ethyl alcohol, Other spirits, thsd. ton
8127,6	18219,4	24,6	70,3	8103,0	18149,1	Tobacco, ton
40913,8	3314,6	23400,8	1653,4	17513,0	1661,2	Natural barium sulphate, ton
240,1	11984,0	61,9	2656,5	178,2	9327,5	Cement, cement clinkers. thsd. ton
168,4	8142,7	0,0	0,0	168,4	8142,7	Aluminum ores and concentrates, thsd.ton
17607,4	15140,3	20,4	37,8	17587,0	15102,5	Birds meal ton
7174.3	10562,6	530,6	678,8	6643,7	9883,8	Diesel fuel, lon
6303,9	4873,6	3009,3	1889,3	3294,6	2984,3	Oil and smearing, ton
3336,8 1	70732,7	3336,8	170732,7	0,0	0,0	Natural gas, mil. cub.m.
1425,1	27609,2	717,5	5586,5	707,6	22022,7	Electric power, mil. kwh
8073,0	719,3	8012,9	684,7	60,1	34,6	Sodium hydroxide (caustic soda}, ton
3927,8	23173,6	2590,3	5535,8	1337,5	17637,8	Pharmaceutical products, ton
34190,8	4324,6	31123,3	3153,6	3067,5	1171,0	Nitric fertilizers, ton
5002,3	2451,7	1029,4	495,1	3972,9	1956,6	Soap, ton
9213,7	6815,7	177, .2	114,2	9036,5	6701,5	Washing and cleaning preparations, ton
197,4	3617,9	142,7	7050,7	54,7	1567,2	Rubber tires, thsd. piece
179,6	12833,4	179,5	12714,8	0,1	118,6	Longitudinal sawn timber, thsd. cub metr
35779,8	4048,7	18118,2	1889,5	17661,6	2159,2	Wood sawdust slabs, cub metr
10418,5	1269,6	10034,0	1210,9	384,5	58,7	Sticky veneer, cub metr
2135,1	1160,6	2135,1	1160,6	0,0	0,0	News print, ton
1273,4	3385,0	18,0	43,1	1255,4	3341,9	Cigarette paper, ton
27812,5	5765,3	25038,1	4358,0	2774,4	1407,3	Hot-roller and cold-roller iron, ton
26150,0	6601,2	25992.4	6364,3	157,6	236.9	Flat-rolled products of iron or non-alloy steel, clad, lon
34760,2	6817,0	34673,2	6708,9	87,0	108,1	Rods and fittings, ton
29914,8	5043,2	28361.7	4541,2	1553,1	502,0	Angle-bars and shvellers, ton
10667,4	10612.9	6403.2	3281,1	4264,2	7331.8	Line pipe of kind used for oil or gas, ton
23333,5	31663,1	5001,8	2909,3	18331,7	28753,8	Tubes drilling, lon
6333,2	10964,3	2499,9	1513,4	3833,3	9450,9	Structures and pan's of structure, ton
28657,0	6739,0	16570,0	878,1	12087,0	5860,9	Pumps for liquids, piece
10458,0	1884,6	6015,0	833,0	4443,0	1051,6	Compression-type, piece
5696,0	6698,7	7,0	7,4	5689,0	6691,3	Automatic data processing machines, piece
52422,0	5495,1	37,0	11,6	52385.0	5483,5	Digital automate data processing machines, piece
25,0	10381,8	5,0	3,5	20,0	10378,3	Machinery for preparing or making up tobacco, piece

2060.0	801,9	129,0	132,9	1931,0	669,0	Electric motors, piece
955,0	10334.4	28,0	96,8	927,0	10237,6	Electric generators, piece
6033,0	3405,4	2681,0	1836,4	3352,0	1569,0	Electrical transformers, piece
55519,3	1872,9	11,1	66,4	55508,2	1806,5	Battery, thsd.piece
34212.0	1404.4	2797.0	244.8	29615,0	1159.6	Accumulators, piece
110,1	37205,5	2,1	114,0	108,0	37091,5	Communication line equipment and parts, thsd. piece
47084,0	16829,4	8,0	28,4	47076,0	16801,0	Telephone, telegraph, broadcasting equipments, piece
138,7	365,7	0,0	0,0	138,7	365,7	Radio set, thsd.piece
95374,0	4950,7	11,0	1,5	95363,0	4949,2	Televisions, piece
5779,7	8919,4	2042,5	3613,6	3737,2	5305,8	Insulated wire arid cable, ton
237,0	4626,6	237,0	4626,6	0,0	0,0	Rail road car, piece
81,0	1727,7	16,0	422,9	65,0	1304,8	Tractors, piece
198,0	1787,1	71,0	344,0	127,0	1443,1	Buses, piece
6393,0	26091 ,2	5724,0	18982,7	669,0	7108,5	Cars, piece
822,0	7454,1	593,0	5389,9	229,0	2064,2	Lorry cars, piece
762,0	5620,6	63,0	856,5	699,0	4764,1	Hydrographic, meteorological or geophysical instruments, piece
5331,0	615,0	2,0	0,3	5329,0	814,7	Electro-diagnostic apparatus used in medical, piece
	8257,3		288,3		7969,0	Of her instruments and appliances used in medical, thsd.doll
5202,0	3369,5	2,0	0.0	5200,0	3369,5	Gas, electric meters, piece
85520,0	1423,8	3804,0	65,4	81716,0	1338,4	Seals, piece
2208	7735.0	1.0	190.6	219,3	7544.4	Office, bedroom kitchen and other furniture, thsd piece

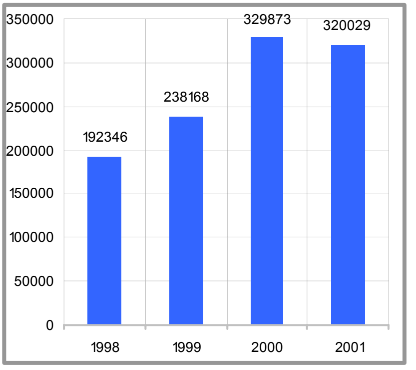
GEORGIA

The main goal of the trade policy is to encourage the building of productive activities in which Georgia has a true comparative advantage, while avoiding incentives to revive inefficient activities and trade patterns. Both theory and experience show that this goal is best met by creating an open trade regime with minimal anti-export bias in the incentive structure and with institutions supportive of export development. Disruptions in trade and payments relations following the break up of the Soviet Union hit the Georgian economy hard because of it's dependence on other Soviet republics for inputs, particularly energy, and for export markets. Also the closure in important transport routes and the deterioration of communications infrastructure have contributed to the economic decline. A significant effort has been made during 1995-2002 period in order to normalize trade relation with foreign partners. The normalization of Georgian trade relations with the rest of the world has made some further progress, in particular with the USA that allowed to keep on reducing the trade deficit of Georgia. CIS, EU and Turkey remain the main trade partners of Georgia.

Exports

The dynamics of the last five years (1997-2001) reflects continuous improving of Georgian export performance with the only exception in 1998 when export reduced by 20%. However, the total export growth during this period amounted to 33.5%. The overall composition of Georgian exports reflects competitive advantage of traditional branches of industry: agricultural business and extracting industry. In 2001 the main export items prepared foodstuffs, edible fruit and vegetable products, wood and wood articles account for about 28 per cent of exports. Among these beverages, spirits and vinegar have 16.8%, and edible fruit, nuts, tea and citrus- 6% of total export.

Figure 53. Export volumes dynamics, 1998-2001



Past investments in the extractive industry positively contributed to the present result of the extraction industry: 17 per cent of the total. The share of scrap metals in 2001 was still very significant and reached about 25% of Georgian export, however, this item hardly can be for long time a main component of the export.

Export of machinery and industrial products amounts totally to 18.8%, with aircraft, and parts accounting for 11.8 % of total export. Main trade items are accentuated with bold. In order to expand exports, Georgia has to activate economic relations with different countries, finding new markets and enlarging the market share in the traditional markets.

Table 35. Exports of Georgia (thousand of US$)

		1998	1999	2000	2001
	Total Export	***192,346***	***238,168***	***329,873***	***320,029***
	Of which:				
01	LIVE ANIMALS	6	4	9	10
02	MEAT AND EDIBLE MEAT OFFAL	958	1,019	303	190
03	FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES	22	230	136	343
04	DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PRODUCTS OF ANIMAL	277	140	43	23
05	PRODUCTS OF ANIMAL ORIGIN NOT ELSEWHERE SPECIFIED OR INCLUDED	-	-	-	0
06	LIVE TREES AND OTHER PLANTS; BULBS,	81	41	216	118
07	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	101	779	560	488
08	EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUITS OR MELONS	15,836	18,077	22,255	11,637
09	COFFEE, TEA, MATE AND SPICES	10,768	12,462	7,262	6,803

10	CEREALS	1,609	1,381	1,184	1,302
11	PRODUCTS OF THE MILLING INDUSTRY; MALT; STARCHES; INULIN; WHEAT GLUTEN	571	553	1,901	1,226
12	OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUIT;	1,845	649	1,193	702
13	LACS; GUMS, RESINS AND OTHER VEGETABLE SAPS AND EXTRACTS	130	57	5	1
14	VEGETABLE PLAITING MATERIALS; VEGETABLE PRODUCTS NOT ELSEWHERE SPECIFIED OR INCLUDED	56	37	4	5
15	ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS;	36	67	32	50
16	PREPARATIONS OF MEAT, OF FISH OR OF CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC	134	15	67	75
17	SUGARS AND SUGAR CONFECTIONERY	2,083	1,913	2,844	3,167
18	COCOA AND COCOA PREPARATIONS	211	1	12	133
19	PREPARATIONS OF CEREALS, FLOUR, STARCH OR MILK; PASTRYCOOKS' PRODUCTS	48	85	162	165
20	PREPARATIONS OF VEGETABLES, FRUIT, NUTS OR OTHER PARTS OF PLANTS	2,786	1,837	1,117	1,410
21	MISCELLANEOUS EDIBLE PREPARATIONS	100	220	385	513
22	BEVERAGES, SPIRITS AND VINEGAR	31,207	23,330	46,857	53,593
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODDER	72	3	5	15
24	TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES	946	3,322	6,119	1,568
25	SALT; SULPHUR; EARTHS AND STONE; PLASTERING MATERIAL, LIME AND CEMENT	2,013	1,720	1,372	1,227
26	ORES, SLAG AND ASH	8,238	14,096	29,858	23,323
27	MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES;	21,482	23,118	27,641	27,477
28	INORGANIC CHEMICALS: ORGANIC OR INORGANIC COMPOUNDS OF	2,671	3,123	5,657	4,083

	PRECIOUS METALS,				
29	ORGANIC CHEMICALS	239	4	100	125
30	PHARMACEUTICAL PRODUCTS	6,408	2,161	5,227	4,156
31	FERTILIZERS	10,733	11,369	16,177	4,931
32	TANNING OR DYEING EXTRACTS;	794	572	758	460
33	ESSENTIAL OILS AND RESINOIDS; PERFUMERY,	1,432	209	1,100	2,094
34	SOAP, ORGANIC SURFACE-ACTIVE AGENTS, WASHING	354	43	53	122
35	ALBUMINOIDAL SUBSTANCES; MODIFIED STARCHES;	3	10	4	0
36	EXPLOSIVES; PYROTECHNIC PRODUCTS;	4	-	-	0
37	PHOTOGRAPHIC OR CINEMATOGRAPHIC GOODS	0	14	6	-
38	MISCELLANEOUS CHEMICAL PRODUCTS	170	130	3,058	761
39	PLASTICS AND ARTICLES THEREOF	662	994	1,341	966
40	RUBBER AND ARTICLES THEREOF	207	83	92	113
41	RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	926	745	2,216	2,089
42	ARTICLES OF LEATHER; SADDLERY AND HARNESS;	10	3	105	2
43	FURSKINS AND ARTIFICIAL FUR; MANUFACTURES THEREOF	-	10	-	0
44	WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL	5,785	5,606	7,492	4,206
45	CORK AND ARTICLES OF CORK	-	96	0	31
46	MANUFACTURES OF STRAW,	-	-	0	-
47	PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL;	-	-	4	-
48	PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER	653	463	611	253
49	PRINTED BOOKS, NEWSPAPERS, PICTURES	115	105	62	635
50	SILK	85	4	106	0
51	WOOL, FINE OR COARSE ANIMAL HAIR; HORSEHAIR YARN AND WOVEN FABRIC	3	-	6	27
52	COTTON	132	-	12	-
53	OTHER VEGETABLE TEXTILE FIBRES; PAPER YARN AND	-	-	-	-
54	MAN-MADE FILAMENTS	519	320	1	7
55	MAN-MADE STAPLE FIBRES	21	0	37	67

56	WADDING, FELT AND NON-WOVENS;	40	8	45	2
57	CARPETS AND OTHER TEXTILE FLOOR COVERINGS	11	10	16	25
58	SPECIAL WOVEN FABRICS; TUFTED	24	0	9	1
59	IMPREGNATED, COATED, COVERED OR LAMINATED	4	8	6	15
60	KNITTED OR CROCHETED FABRICS	-	-	-	2
61	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED	573	101	90	161
62	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHET	1,001	715	916	896
63	OTHER MADE UP TEXTILE ARTICLES; SETS; WORN CLOTHING AND WORN TEXTILE ARTICLES; RAGS	262	455	322	908
64	FOOTWEAR, GAITERS AND THE LIKE; PARTS OF SUCH ARTICLES	724	1,499	1,523	705
65	HEADGEAR AND PARTS THEREOF	13	1	7	1
66	UMBRELLAS, SUN UMBRELLAS, WALKING-STICKS, SEAT-STICKS, WHIPS,	3	0	1	1
67	PREPARED FEATHERS AND DOWN AND ARTICLES MADE OF FEATHERS	-	-	-	0
68	ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS	141	73	47	83
69	CERAMIC PRODUCTS	190	28	51	84
70	GLASS AND GLASSWARE	422	1,073	1,409	1,090
71	NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES,	880	17	1,576	14,110
72	IRON AND STEEL	28,296	44,822	53,389	50,789
73	ARTICLES OF IRON OR STEEL	5,860	2,084	3,080	2,990
74	COPPER AND ARTICLES THEREOF	164	856	4,349	7,667
75	NICKEL AND ARTICLES THEREOF	3	-	20	3
76	ALUMINIUM AND ARTICLES THEREOF	3,242	6,999	17,601	18,409
78	LEAD AND ARTICLES THEREOF	103	170	84	114
79	ZINC AND ARTICLES THEREOF	134	80	75	24
80	TIN AND ARTICLES THEREOF	-	-	-	-
81	OTHER BASE METALS; CERMETS; ARTICLES THEREOF	351	615	515	273
82	TOOLS, IMPLEMENTS,	191	220	1,919	436

	CUTLERY, SPOONS AND FORKS, OF BASE METAL; PARTS THEREOF OF BASE METAL				
83	MISCELLANEOUS ARTICLES OF BASE METAL	169	137	11	380
84	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	7,124	9,307	21,342	11,682
85	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF;	1,894	3,521	4,792	5,152
86	RAILWAY OR TRAMWAY LOCOMOTIVES, ROLLING-STOCK AND PARTS THEREOF;	972	725	1,258	2,496
87	VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	3,693	6,776	1,647	2,462
88	AIRCRAFT, SPACECRAFT, AND PARTS THEREOF	573	20,202	11,215	36,084
89	SHIPS, BOATS AND FLOATING STRUCTURES	330	1,266	1,812	160
90	OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR	1,036	646	576	675
91	CLOCKS AND WATCHES AND PARTS THEREOF	-	26	8	19
92	MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES OF SUCH ARTICLES	9	48	25	20
93	ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF	0	3,650	2,743	165
94	FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS,	244	276	416	385
95	TOYS, GAMES AND SPORTS REQUISITES; PARTS	19	23	226	96
96	MISCELLANEOUS MANUFACTURED ARTICLES	81	445	726	648
97	WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES	25	60	260	123

Russian Federation was the biggest exports trade partner of Georgia in 2001. That period Georgian exports volumes to this country increased by 32% as compared with 1998 and amounted to US$ 73,462 thousands or almost 23% of total exports. The export structure to Russia is comprised mainly from the following items: beverages, spirits and vinegar; edible fruits, nuts and tea. The trade relations with Turkmenistan can also characterized by increasing dynamics of exports mainly due to repair of military aircrafts and also exports of beverages, spirits and vinegar. Georgia constantly expands export to Ukraine. However, exports volume to other

CIS main trade partners Armenia and Azerbaijan is continuously decreasing. Export dynamics to EU shows different patterns. There is some increase in exports volumes to Italy, Belgium Great Britain while exports to Germany declined significantly. More than three times increased export to Switzerland. The main export items to EU countries are edible fruits, nuts, and citrus; beverages, spirits and vinegar; natural and cultured pearls; ores slag and ashes; machinery; row hides and skins etc. The exports dynamics with the main non-EU trade partner Turkey increases mainly due to the export of scrap metal.

Table 36. Georgia: Exports trade partners

	1998		**1999**		**2000**		**2001**	
Total Export, of which:	*192,346*	*100*	*238,168*	*100*	*329,873*	*100*	*320,029*	*100*
	US$ thousand	*%*	*US$ thousand*	*%*	*US$ thousand*	*%*	*US$ thousand*	*%*
1. Azerbaijan	18,475	9.6	19,201	8.1	21,270	6.5	10,598	3.3
2. Armenia	17,832	9.3	15,008	6.3	13,672	4.2	12,353	3.9
3. Germany	13,238	6.9	24,530	10.3	34,290	10.4	7,918	2.5
4. Italy	8,948	4.7	10,789	4.5	12,434	3.8	8,594	2.9
5. Russian Federation	55,243	28.7	44,625	18.7	69,650	21.1	73,462	22.9
6. Switzerland	5,443	2.8	5,675	2.4	13,383	4.1	15,572	4.9
7. Turkey	20,291	10.5	37,729	15.8	74,784	22.5	68,695	21.5
8. Turkmenistan	1,367	0.7	12,906	5.4	10,581	3.2	28,867	9.0
9. Ukraine	8,435	4.4	10,903	4.6	10,975	3.3	11,687	3.7
10.United Kingdom	1,150	0.6	4,091	1.7	10,261	3.1	22,946	7.2
11.United States	11,104	5.9	9,986	4.2	7,274	2.2	9,489	2.9
12. Other	30820	16.0	42725	17.9	51299	15.6	49848	15.6

Table 37. Prices of main exported commodities, 1998-2001, US$

Code	**Name of product**	**Units**	**Price in US$**			
			1998	1999	2000	2001
207	Meat and edible offal, of the poultry	kg	0.72	0.43	-	-
802	Other nuts, fresh or dried, whether or not shelled or peeled.	kg	3.21	2.78	2.6	2.5
805	Citrus fruit, fresh or dried.	kg	0.18	0.18	0.2	0.2
902	Tea.	kg	0.87	0.80	0.6	0.6
910	Ginger, saffron, turmeric (curcuma), thyme, bay leaves, curry and other spices.	kg	0.79	0.55	-	-
1001	Wheat and meslin.	kg	0.14	0.13	0.2	0.1
1101	Wheat or meslin flour.	kg	-	-	0.2	0.2
1701	Cane or beet sugar and chemically pure sucrose, in solid form.	kg	0.32	0.24	0.3	0.3
2009	Fruit juices (including grape must) and vegetable juices,	kg	0.60	0.46	-	-

	unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.					
2201	Waters, including natural or artificial mineral waters and aerated waters, not containing added sugar or other sweetening matter nor flavored; ice and snow.	kg	0.39	0.31	0.3	0.3
2202	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavored, and other non-alcoholic beverages, not including fruit or vegetable juices of heading No. 2009.	litre	0.70	0.33	0.4	0.4
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading No. 2009.	litre	0.98	1.64	1.8	1.9
2207	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol or higher; ethyl alcohol and other spirits, denatured, of any strength.	litere	0.86	0.55	-	-
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % vol; spirits, liqueurs and other spirituous beverages; compound alcoholic preparations of a kind used for the manufacture of beverages.	litere	3.78	2.40	2.3	1.7
2403	Other manufactured tobacco and manufactured tobacco substitutes; 'homogenized' or 'reconstituted' tobacco; tobacco extracts and essences.	kg	-	-	2.7	10.4
2516	Granite, porphyry, basalt, sandstone and other monumental or building stone, whether or not roughly trimmed or merely cut, by sawing or otherwise, into blocks or slabs of a rectangular (including square) shape.	kg	0.19	0.08	-	-
2602	Manganese ores and concentrates, including manganese- ferrous iron ores and concentrates with a manganese content of 20 % or more, calculated on the dry weight .	kg	-	-	0.1	0.1
2603	Copper ores and concentrates.	kg	0.16	0.18	0.2	0.2
2616	Precious metal ores and concentrates.	kg	93.68	183.06	5903.2	5235.8
2709	Petroleum oils and oils obtained from bituminous	kg	0.09	0.09	0.2	0.1

	minerals, crude.					
2710	Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included, containing by weight 70 % or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic con	kg	0.14	0.11	0.2	0.2
2716	Electrical energy.	Thsd. KWH	45.59	41.95	34.2	34.1
2837	Cyanides, cyanide oxides and complex cyanides.	kg	0.82	1.11	1.2	1.1
3004	Medicaments (excluding goods of heading No. 3002, 3005 or 3006) consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses or in forms or packing for retail sale.	kg	40.27	15.87	22.6	13.7
3102	Mineral or chemical fertilizers, nitrogenous.	kg	0.11	0.06	0.1	0.1
3306	Preparations for oral or dental hygiene, including denture fixative pastes and powders.	liter	0.69	4.40	-	-
4403	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared.		-	-	15.0	10.7
4407	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or finger-jointed, of a thickness exceeding 6 mm.	m^3	-	-	102.2	109.8
6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.	pair	-	-	24.37	11.94
7010	Carboys, bottles, flasks, jars, pots, phials, ampoules and other containers, of glass, of a kind used for the conveyance or packing of goods; preserving jars of glass; stoppers, lids and other closures, of glass.	units	-	-	0.13	0.08
7112	Waste and scrap of precious metal or of metal clad with precious metal.	kg	-	-	23.7	108.1
7202	Ferro-alloys.	kg	0.53	0.46	0.5	0.4
7204	Ferrous waste and scrap; remelting scrap ingots of iron or steel.	kg	0.07	0.06	0.1	0.1
7207	Semi-finished products of iron or non-alloy steel.	kg	0.13	0.12	-	-
7304	Tubes, pipes and hollow profiles, seamless, of iron or steel.	kg	0.23	0.17	0.1	0.1
7404	Copper waste and scrap.	kg	-	-	0.6	0.8
7601	Unwrought aluminium.	kg	0.52	0.37	0.4	0.9
7602	Aluminium waste and scrap.	kg		-	0.5	0.6
7604	Aluminum bars, rods and	kg	0.47	0.23	-	-

	profiles.					
7606	Aluminum plates, sheets and strip, of a thickness exceeding 0,2 mm.	kg	-	-	0.3	0.2
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases.	units	-		208.14	292.33
8438	Machinery, not specified or included elsewhere in this chapter, for the industrial preparation or manufacture of food or drink, other than machinery for the extraction or preparation of animal or fixed vegetable fats or oils.	units	-	-	62894.9	14783.4

Imports

The volume of total imports decreased by almost 23% as compared to 1998. The analysis of the change in the structure of the largest imported product groups can help to understand the dynamics of total imports. In 2001 the eight largest imported product groups constituted 83.8 per cent of total imports. The share of natural gas and oil and oil products was the biggest in total imports in 2001 and accounted for more than 23 per cent. However, import volumes of this product groups have decreased by 28% as compared to 1998. The same developments occurred in other major product groups: imports of machinery and mechanical appliances; television image and sound recorders and reproducers (18.4% of total imports) shrunk by 26%; imports of vehicles, aircrafts, vessels and associated transport equipment (7.2% of total imports) reduced by 49%; imports of base metals including iron and steel, articles of iron and steel etc. (6.7% of total imports) diminished by 34%; imports of vegetable products, including cereals, products of milling industry, grains etc. (5.4% of total imports) fell by 55%; imports of optical, photographic, cinematographic, medical or surgical instruments etc. (2.4% of total imports) deceased by 7%. Other major imported product groups indicated some growth: imports of pharmaceuticals (10.9% of total imports) increased by 51%; and imports of prepared foodstuffs; beverages, spirits, sugars, tobacco and tobacco substitutes (9.3% of total imports) increased by 6%. Thus import substitution should be one of the main priorities of Georgia's economic policy. Some positive steps has been taken recently in this direction with the constitution of a Georgian cigarette manufacturing company.

Figure 54 Imports of Georgia (thousand of US$)

		1998	1999	2000	2001
	Total Import	***880,387***	***601,939***	***650,733***	***678,702***
	Of which:				
01	LIVE ANIMALS	200	196	257	267
02	MEAT AND EDIBLE MEAT OFFAL	9,942	9,786	9,531	10,320
03	FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES	2,670	1,187	1,230	1,085
04	DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PRODUCTS OF	12,375	10,615	6,077	5,347

	ANIMAL				
05	PRODUCTS OF ANIMAL ORIGIN NOT ELSEWHERE SPECIFIED OR INCLUDED	21	21	17	5
06	LIVE TREES AND OTHER PLANTS; BULBS,	132	428	128	161
07	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	2,599	3,288	1,292	2,395
08	EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUITS OR MELONS	3,327	2,558	1,752	2,517
09	COFFEE, TEA, MATE AND SPICES	5,954	5,517	4,945	2,623
10	CEREALS	33,868	16,592	22,199	11,531
11	PRODUCTS OF THE MILLING INDUSTRY; MALT; STARCHES; INULIN; WHEAT GLUTEN	35,156	15,843	22,479	17,272
12	OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUIT;	498	950	308	291
13	LACS; GUMS, RESINS AND OTHER VEGETABLE SAPS AND EXTRACTS	115	47	103	152
14	VEGETABLE PLAITING MATERIALS; VEGETABLE PRODUCTS NOT ELSEWHERE SPECIFIED OR INCLUDED	26	44	40	9
15	ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS;	12,708	3,652	3,305	5,863
16	PREPARATIONS OF MEAT, OF FISH OR OF CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC	4,146	2,277	2,379	4,126
17	SUGARS AND SUGAR CONFECTIONERY	19,856	17,293	25,477	25,117
18	COCOA AND COCOA PREPARATIONS	1,977	891	1,748	3,287
19	PREPARATIONS OF CEREALS, FLOUR, STARCH OR MILK; PASTRYCOOKS' PRODUCTS	3,166	1,661	2,772	2,693
20	PREPARATIONS OF VEGETABLES, FRUIT, NUTS OR OTHER PARTS OF PLANTS	1,288	2,209	1,442	1,622
21	MISCELLANEOUS EDIBLE PREPARATIONS	3,182	4,785	4,614	7,755
22	BEVERAGES, SPIRITS AND VINEGAR	7,122	3,079	3,038	5,032
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODDER	345	473	388	668
24	TOBACCO AND MANUFACTURED	7,806	35,316	33,670	23,412

	TOBACCO SUBSTITUTES				
25	SALT; SULPHUR; EARTHS AND STONE; PLASTERING MATERIAL, LIME AND CEMENT	6,331	3,381	3,842	3,875
26	ORES, SLAG AND ASH	291	26	49	38
27	MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES;	216,063	138,547	137,775	155,481
28	INORGANIC CHEMICALS: ORGANIC OR INORGANIC COMPOUNDS OF PRECIOUS METALS,	2,932	2,313	5,146	3,458
29	ORGANIC CHEMICALS	1,659	957	1,379	1,169
30	PHARMACEUTICAL PRODUCTS	38,516	43,206	35,753	40,440
31	FERTILIZERS	2,361	175	696	215
32	TANNING OR DYEING EXTRACTS;	2,163	984	1,800	2,136
33	ESSENTIAL OILS AND RESINOIDS; PERFUMERY,	3,540	2,766	5,515	6,809
34	SOAP, ORGANIC SURFACE-ACTIVE AGENTS, WASHING	3,922	3,676	4,178	4,205
35	ALBUMINOIDAL SUBSTANCES; MODIFIED STARCHES;	730	322	701	803
36	EXPLOSIVES; PYROTECHNIC PRODUCTS;	408	281	196	856
37	PHOTOGRAPHIC OR CINEMATOGRAPHIC GOODS	159	258	232	296
38	MISCELLANEOUS CHEMICAL PRODUCTS	3,676	2,235	2,225	3,049
39	PLASTICS AND ARTICLES THEREOF	9,870	8,691	13,087	14,767
40	RUBBER AND ARTICLES THEREOF	3,492	3,580	2,732	3,560
41	RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	973	871	1,468	830
42	ARTICLES OF LEATHER; SADDLERY AND HARNESS;	106	270	314	335
43	FURSKINS AND ARTIFICIAL FUR; MANUFACTURES THEREOF	-	222	2	1
44	WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL	3,293	2,902	2,696	2,858
45	CORK AND ARTICLES OF CORK	393	520	1,201	1,508
46	MANUFACTURES OF STRAW,	1	1	0	18
47	PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL;	143	136	66	86
48	PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF	10,057	8,915	11,551	14,749

	PAPER				
49	PRINTED BOOKS, NEWSPAPERS, PICTURES	2,527	4,917	3,410	4,161
50	SILK	97	51	95	54
51	WOOL, FINE OR COARSE ANIMAL HAIR; HORSEHAIR YARN AND WOVEN FABRIC	26	397	502	657
52	COTTON	335	299	177	250
53	OTHER VEGETABLE TEXTILE FIBRES; PAPER YARN AND	3	11	5	52
54	MAN-MADE FILAMENTS	313	352	678	1,340
55	MAN-MADE STAPLE FIBRES	1,049	1,163	956	953
56	WADDING, FELT AND NON-WOVENS;	811	260	439	769
57	CARPETS AND OTHER TEXTILE FLOOR COVERINGS	260	207	263	582
58	SPECIAL WOVEN FABRICS; TUFTED	50	107	64	92
59	IMPREGNATED, COATED, COVERED OR LAMINATED	168	329	387	373
60	KNITTED OR CROCHETED FABRICS	9	246	74	101
61	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED	1,565	2,987	2,778	1,502
62	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHET	4,134	6,318	2,582	1,573
63	OTHER MADE UP TEXTILE ARTICLES; SETS; WORN CLOTHING AND WORN TEXTILE ARTICLES; RAGS	2,804	3,505	2,214	3,141
64	FOOTWEAR, GAITERS AND THE LIKE; PARTS OF SUCH ARTICLES	4,822	4,355	5,035	4,346
65	HEADGEAR AND PARTS THEREOF	5	209	71	35
66	UMBRELLAS, SUN UMBRELLAS, WALKING-STICKS, SEAT-STICKS, WHIPS,	187	511	45	80
67	PREPARED FEATHERS AND DOWN AND ARTICLES MADE OF FEATHERS	8	13	11	6
68	ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS	3,985	1,918	3,038	1,868
69	CERAMIC PRODUCTS	3,832	2,705	4,400	4,808
70	GLASS AND GLASSWARE	6,359	4,157	10,260	9,488
71	NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES,	748	52	1,117	1,237
72	IRON AND STEEL	8,480	5,366	6,571	11,344
73	ARTICLES OF IRON OR STEEL	51,333	8,038	16,434	26,162
74	COPPER AND ARTICLES	1,407	537	562	493

	THEREOF				
75	NICKEL AND ARTICLES THEREOF	2	9	2	42
76	ALUMINIUM AND ARTICLES THEREOF	2,246	1,706	2,600	3,058
78	LEAD AND ARTICLES THEREOF	30	1	4	11
79	ZINC AND ARTICLES THEREOF	153	15	56	18
80	TIN AND ARTICLES THEREOF	-	2	30	34
81	OTHER BASE METALS; CERMETS; ARTICLES THEREOF	3,226	58	30	60
82	TOOLS, IMPLEMENTS, CUTLERY, SPOONS AND FORKS, OF BASE METAL; PARTS THEREOF OF BASE METAL	902	939	1,511	1,798
83	MISCELLANEOUS ARTICLES OF BASE METAL	1,828	1,053	1,516	2,635
84	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	82,615	49,214	54,060	69,460
85	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF;	87,124	40,985	73,536	55,576
86	RAILWAY OR TRAMWAY LOCOMOTIVES, ROLLING-STOCK AND PARTS THEREOF;	1,054	3,317	11,915	5,047
87	VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF	80,069	45,046	21,697	21,823
88	AIRCRAFT, SPACECRAFT, AND PARTS THEREOF	1,781	18,394	13,532	21,102
89	SHIPS, BOATS AND FLOATING STRUCTURES	12,421	721	275	623
90	OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR	17,111	14,194	17,408	15,987
91	CLOCKS AND WATCHES AND PARTS THEREOF	46	108	152	138
92	MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES OF SUCH ARTICLES	7	33	9	18
93	ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF	1,045	592	561	399
94	FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS,	12,855	11,075	5,916	8,507
95	TOYS, GAMES AND SPORTS REQUISITES; PARTS	660	1,035	1,054	1,021
96	MISCELLANEOUS	336	484	899	773

	MANUFACTURED ARTICLES				
97	WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES	1	4	7	9

The share of Georgian imports from CIS countries continuously increases during past three years and became the largest in total imports in 2001. Russian Federation (13.5% of total imports) remains the biggest CIS imports trade partner of Georgia, despite that imports volumes from this country continuously decreased by more than 28% as compared to 1998. Other CIS main trade partners of Georgia are Ukraine, Turkmenistan, Azerbaijan, and Armenia, which account for almost 23% of Georgian total imports. The import structure from these countries is comprised mainly from the following items: cereals; mineral fuels, mineral oils, and products of their distillation; pharmaceutical products; iron and steel, and articles of iron and steel; machinery and mechanical appliances; electrical machinery and equipment; aircraft, spacecraft and parts thereof. Import dynamics from main EU trade partners Germany, Italy, United Kingdom, Switzerland shows the similar patterns. After a significant drop in 1999, import volumes from these countries continuously increase. The main import items from EU countries are tobacco and manufactured tobacco substitutes; pharmaceutical products; plastics and articles thereof; machinery and mechanical appliances; electrical machinery and equipment; vehicles other than railway; optical products; furniture. The share of imports from the main non-EU trade partner Turkey increases during the past three years in accounted for 15.5 % of total imports in 2001. The import structure with Turkey and other countries of the world consists of the following items: meat and edible meat offal; products of milling industry; sugar and sugar confectionery; mineral fuels, mineral oils, and products of their distillation; pharmaceutical products; machinery and mechanical appliances; electrical machinery and equipment.

Table 38. Imports trade partners

	1998		**1999**		**2000**		**2001**	
Total Imports, of which:	880,387	100	601,939	100	650,733	100	678,702	100
	US$ thousand	%	US$ thousand	%	US$ thousand	%	US$ thousand	%
1. Azerbaijan	73,529	8.4	41,511	6.9	55,367	8.5	73,175	10.8
2. Armenia	10,055	1.1	11,845	2.0	13,475	2.1	10,365	1.5
3. Germany	82,166	9.3	44,157	7.3	50,157	7.7	63,669	9.4
4. Italy	28,760	3.3	13,115	2.2	17,326	2.7	25,552	3.8
5. Russian Federation	127,173	14.5	115,715	19.2	91,919	14.1	91,286	13.5
6. Switzerland	32,778	3.7	11,532	1.9	22,749	3.5	13,992	2.1
7. Turkey	98,438	11.2	73,262	12.2	104,004	15.9	105,032	15.5
8. Turkmenistan	10,036	1.14	22,138	3.7	13,304	2.1	17,638	2.5
9. Ukraine	31,215	3.6	27,088	4.5	35,364	5.4	49,499	7.3
10.United Kingdom	68,130	7.7	21,143	3.5	22,960	3.5	25,143	3.7

11.United States	75,865	8.7	71,568	11.9	35,723	5.5	27,821	4.1
12. Other	242,242	27.5	148,865	24.7	188,385	29.0	175,530	25.8

Table 39. Prices of main imported commodities, 1998-2001

Code	**Name of product**	**Units**	**Price in US$**			
			1998	1999	2000	2001
0207	Meat and edible offal, of the poultry of heading No. 0105, fresh, chilled or frozen.	kg	0.43	0.45	0.53	0.60
0405	Butter and other fats and oils derived from milk.	kg	1.38	1.11	1.51	1.42
0901	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee in any proportion.	kg	2.65	2.45	2.22	1.54
1001	Wheat and meslin.	kg	0.15	0.10	0.13	0.14
1101	Wheat or meslin flour.	kg	0.24	0.17	0.18	0.18
1507	Soya-bean oil and its fractions, whether or not refined, but not chemically modified.	kg	0.80	0.46	-	-
1512	Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified.	kg	0.76	0.42	-	-
1701	Cane or beet sugar and chemically pure sucrose, in solid form.	kg	0.28	0.21	0.24	0.22
2401	Unmanufactured tobacco; tobacco refuse.	kg	-	-	2.57	3.66
2402	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.	box	0.70	0.24	0.27	0.30
2523	Portland cement, aluminous cement ('cement fondue'), slag cement,	kg	0.05	0.04	-	-
2710	Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included, containing by weight 70 % or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic con	kg	0.12	0.13	0.26	0.23
2711	Petroleum gases and other gaseous hydrocarbons.	Thsd. m^3	1.78	1.80	50.00	56.00
2716	Electrical energy.	Thsd. KWH	31.67	34.04	24.39	23.84
3004	Medicaments (excluding goods of heading No. 3002, 3005 or 3006) consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses or in forms or packing for retail sale.	kg	13.81	16.93	13.84	14.10
3402	Organic surface-active agents (other than soap); surface-active preparations, washing preparations (including auxiliary washing preparations) and cleaning preparations, whether or not containing soap, other than those of heading No. 3401.	kg	-	-	0.56	0.45
3923	Articles for the conveyance or packing of goods, of plastics; stoppers, lids, caps and other closures, of plastics.	kg	-	-	1.69	1.60
4818	Toilet paper, handkerchiefs, cleansing tissues, towels, tablecloths,serviettes, napkins for babies, tampons, bed sheets and similar household, sanitary or hospital articles, articles of apparel and clothing accessories, of paper pulp, paper, cellulose wad	kg	-	-	2.24	2.09
7010	Carboys, bottles, flasks, jars, pots, phials, ampoules and other containers, of glass, of a kind used for the conveyance or packing of goods; preserving jars of glass; stoppers, lids and other closures, of glass.	units	0.14	0.14	-	-

7214	Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling.	kg	-	-	0.21	0.20
7302	Railway or tramway track construction material of iron or steel, the following : rails, check-rails and rack rails, switch blades, crossing frogs, point rods and other crossing pieces, sleepers (cross-ties), fish-plates, chairs, chair wedges, sole plates	kg	0.56	0.48	0.43	0.60
7304	Tubes, pipes and hollow profiles, seamless, of iron or steel.	kg	0.66	0.44	-	-
7305	Line pipe of a kind used for oil or gas pipelines	kg	0.40	0.45	-	-
7306	Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel.	kg	3.04	0.54	-	-
7308	Structures (excluding prefabricated buildings of heading No. 9406) and parts of structures (for example, bridges and bridge-sections, lock-gates, towers, lattice masts, roofs, roofing frameworks, doors and windows and their frames and thresholds for doors	kg	2.79	0.50	1.72	0.86
8413	Pumps for liquids, whether or not fitted with a measuring device; liquid elevators.	units	53.60	16.35	-	-
8433	Harvesting or threshing machinery, including straw or fodder balers; grass or hay mowers; machines for cleaning, sorting or grading eggs, fruit or other agricultural produce, other than machinery of heading No. 8437.	units	-	-	3290 5.50	7015.73
8471	Automatic data processing machines and units thereof; magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data, not elsewhere specified or included.	units	27.22	245.36	232.7 3	113.09
8479	Machines and mechanical appliances having individual functions, not specified or included elsewhere in this Chapter.	units	-	-	4975. 88	7042.29
8501	Electric motors and generators (excluding generating sets).	units	82.46	5.61		
8504	Electrical transformers, static converters (for example, rectifiers) and inductors.	units	-	-	157.0 7	117.79
8517	Telephonic or telegraphic switching apparatus	units	226.4 8	96.23	118.3 6	135.89
8525	Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras.	units	-	-	431.6 2	313.08
8535	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, fuses, lightning arresters, voltage limiters, surge suppressors, plugs, junction boxes), for a voltage	kg	74.06	2.72	-	-
8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes), for a voltage not exceed in	kg	-	-	12.05	6.77
8544	Insulated (including enameled or anodized) wire, cable (including co-axial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fiber cables, made up of individually sheathed fibers,	kg	6.75	2.31		

	whether or not assembled with					
8606	Railway or tramway passenger coaches, not self-propelled; luggage vans, post office coaches and other special purpose railway or tramway coaches, not self-propelled (excluding those of heading No. 8604).	units	-	-	15558.21	13002.96
8702	Motor vehicles for the transport of ten or more persons, including the driver.	cali	1489.04	928.80	-	-
8703	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading No. 8702), including station wagons and racing cars.	cali	615.25	786.48	1835.00	1450.36
8802	Other aircraft (for example, helicopters, airplanes); spacecraft (including satellites) and spacecraft launch vehicles.	cali	-	-	1304823.40	981494.50
9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight-testing instruments.	cali	0.90	0.29	0.31	0.08
9019	Mechano-therapy appliances; massage apparatus; psychological aptitude-testing apparatus; ozone therapy, oxygen therapy, aerosol therapy, artificial respiration or other therapeutic respiration apparatus.	kg	-	-	177.42	14.78
9028	Gas, liquid or electricity supply or production meters, including calibrating meters thereof.	cali	3.60	33.12	21.12	20.37

ARMENIA

Trade regimes

Trade regime with foreign countries

In December 10, 2002 Armenia admitted WTO. We conversed about that in "Liberalization" chapter (2.3.1.) of this very document.

The provision of commercial collaboration constructive policy adhered by Armenia was recently based upon the variety of collaboration types, particularly, multilateral (European Union, CIS, Black Sea Economic Cooperation), trilateral (Armenia-Greece-Iran), bilateral (Russia, USA, China, Japan, France, German, Great Britain, Belgium, India, Iran, Georgia, Lebanon, Syria, etc). Over 40 interstate treaties were concluded and ratified by National Assembly. Intergovernmental commercial committee's works were productive enough between Armenia-Iran, Armenia-Japan, Armenia-India, Armenia-Syria, Armenia-Russia, Armenia-Georgia, Armenia-Turkmenistan, Armenia-China, Armenia-Egypt, etc.

Armenia has also developed bilateral trade relations. In particular, Armenia has set free trade regimes with the following countries:

- Russian Federation
- Turkmenistan
- Ukraine
- Georgia
- Moldova
- Tajikistan
- Belarus
- Kyrgyzstan
- Kazakhstan.

General System of Preference (GSP) had been established with the European Union, Japan and the USA.

20 countries are in Most Favorable National Regime (MFN) with Armenia. These are: European Union, USA, Argentina, Bulgaria, Canada, China, Cyprus, Iran, Austria, Slovak Rep., India, Hungary, Lebanon, Poland, Romania, Syria, Switzerland, Lithuania, Slovenia and Vietnam.

Transport costs

Armenian railroad is currently realising about 5% of its capacity as calculating by comparison of current freight volumes with those of Soviet era. On the other hand, given current speed limitation for railroad transport (20 km/h), it could be stated that current capacity is less than it was during the Soviet era. Also, the length of railroads in use decreasing: it reached 711 kilometres in 2002 as opposed to 806 kilometres in 1997.

Starting from early 90s the railroad transport was mainly serving local freight. During the recent years the share of external trade, in particular the share of imports started to grow. Currently about 62% of freight by railroad is imported, 12% is exported and the rest is the share of local turnover. The sole direction for the external trade by railroad is Georgia. The share of imports in total freight has a tendency to grow.

Main commodities that are being transported by railroad are ferrous metal iron (14.5%), and cement (9.6%).

As compared to the year 1997, the overall railroad fright volumes have decreased by more than 25%. This trend could be explained by increase of share of products with higher value-to-weight ratio. In 2001 the total freight by railroad constituted 1.4 million tons, or 28.3 per cent of overall freight. This is the second position after the motor vehicles.

The tariff for freight by railroad is fixed and is equal to 0.024 US dollars per ton/km irrespective of product type and the distance. As applicable to main products that are being transported by railroad to Georgia the tariff will be: about 800 USD per 20t and 1200 USD per 40t truck, excluding terminal charges.

The railroad transport is not expected to play a significant role in Armenia's external trade freight, given the current political situation in the region.

The share of freight volumes by air transport is the lowest as compared to other transportation types. This is conditioned by the import-export structure peculiarities, where the largest share is occupied by products with high value-to-weight ratio. Currently the share of air transportation volumes constitutes about 0.2% of overall freight (11400 tons in 2001). Value of transported products by air is much higher.

Financed by an EBRD loan a huge air cargo terminal at Yerevan Zvartnots airport has been constructed. The terminal covers about 10000 m^2. The terminal is equipped with the modern equipment and provides wide range of services, including customs clearance etc. The annual capacity of Zvartnots Cargo is about 100000 tons, although a small portion of it (about 15000 tons) is being utilised.

Tariffs for air transportation differ from product to product. This type of transportation is the most expensive. 5 ton truck will cost about 2500 USD to be transported to neighbouring countries.

Yerevan city "Zvartnots" International airport went under "Argentina Corporasion S.A." management for a term of 30 years according to the Concession concluded between the Republic of Armenia and the Argentinean Company in December, 2001.

The main responsibilities being implied via the airport manager's contract are conditioned with serious investment projects implementation. Subsequent to contract repudiation every building constructed in the airport will be transferred under Armenian Republic's management with property right. Since September, 2002, the airport lane reconstruction works started in order to coincide international security standards, hence 5.5 million US dollars have been invested in the first 100 days.

Armenian roads may be considered as most qualitative in the region. Huge investments have been made for reconstruction of the roads with regional importance, in particular those which connect North to South.

Throughout 1998-2002 over 1136.8 km highways was built up that more than 3 times exceeds that of during previous 5 years (362.3 km highway was built up within1994-1997).

About 7.7 billion AMD of financing has been made in the course of 1998-2002 for reconstruction, building and maintenance. Consequently, reconstructed 374 km trunk road; realized some activities of interstate and Republican importance with regard to road networking and winter maintenance.

The share freight transport by road is the largest in the total - about 52% or 2.5 million tons. Main directions for trade by motor vehicles are Iran and Georgia.

Main products which are transported to Iran are aluminium and fuel. Products from plastic and vegetable oil are being imported on motor vehicles.

25 cents per kg is the average cost for transportation of products to Georgia. This charge includes the road fees and other charges, which are as follows:

Table 40

Type of transport	Ecological charges in Armenian drams
trucks (>8 tons)	5000
trucks (>8 <20 tons)	10000
trucks (>20 tons)	15000
	Tariffs on transit payments
Trucks and trailers (>1.5 tons carrying capacity)	15000
Trucks and trailers (>1.5 <3 tons carrying capacity)	25000
Trucks and trailers (>3 <5 tons carrying capacity)	40000
Trucks and trailers (>5 <10 tons carrying capacity)	65000
Trucks and trailers (>10 <20 tons carrying capacity)	80000
Trucks and trailers (>20 <36 tons carrying capacity)	110000
Trucks and trailers (>36 tons carrying capacity)	150000

Trade policy

Armenian Customs Service is within the structure of the Ministry of State Revenues. Customs duties and customs policy is being regulated by the Ministry of Finance and Economy. The Ministry of State Revenues is responsible for collection of customs payments. The organisational structure of Customs Service comprises of the following units: The Customs Directorate, 4 regional customs houses and 11 custom stations at point of entry. The latter ones are open every day for 24 hours.

In practice the customs clearance procedures are not very simple. As estimated by the World Bank specialists, 24-48 hours are needed for customs clearance for railroad transport, 12-24 hours - for road and 12 hours for airport.

To avoid these difficulties, many traders use the services of customs brockers, which make the customs clearance quicker.

Documents required to import goods to Armenia are as follows: internal shipping document, consignment, cargo declaration, certificate of origin, certificate of conformity, certificate of quality, statement of not having tax obligations etc. If the clearance does not completed within 10 days, then the importer undergoes several penalties.

Armenia is known for its liberal trade regime, hence there are no tariff barriers on foreign trade, also bearing in mind Armenia's recent accession to WTO. As regards non-tariff barriers Armenia has several problems, which are mainly conditioned by the legacy of Soviet times. Main problems here are longer procedures for customs clearance as compared by what is foreseen by legislation. The customs clearance terms can be shortened by paying some extra payments (non-formal payments). Also there are some hindrances in getting several licenses and certificates for exports and imports. On the other hand, market mechanisms have provided acceptable solutions to this kind of problems: there are many agent companies which can deal with aforementioned problems instead of the importers and exporters. Meanwhile, this solution increases the cost for the entities involved in external trade.

AZERBAIJAN

Trade partners

In 90-s the process of involvement in the trade among foreign countries and Azerbaijan had three main directions. The first - including the countries having different levels of economic development. The second – the significant increasing share of 2-5 countries in the trade with Azerbaijan. The third – in the middle of 90-th there appeared a tendency to increasing trade share of foreign neighbors of Azerbaijan – Turkey, Iran, Georgia, Pakistan and other new industrial countries.

The capital changes took place in the foreign-trade relations of Azerbaijan and other countries diring last 11 years. In 1991 year 65 states took part in export operation, 54 – in imports, but only two states, Russia and Ukraine concentrated more 72% exports and 80% imports. On this stage Azerbaijan foreign trade experienced the paradoxical effects of some factors. First, there committed centrifugal forces weakening the integration with countries Commonwealth Independent State (USSR break-up). And at that time countries CIS made desperate efforts to do reaching the independent, the political situation became worse and the political, economic, social features of former united republics played the role of centrifugal forces.

In 1991 93,9% exports traditionally were sent in the countries of former USSR that supplied 80,3% imports. However, the uncoordinated changes in the resources supply and accordingly reducing the output took place and in 1992 the export share of CIS reduced to 49% and in import to 62,5%.

One can distinguish two groups of states in trade relations of 1992 that had an effect on these sizes. 55 countries took part in import operations. 73,6% of the general imports volume were ensured with 6-th states: Russia – 26,67%; Ukraine – 22,79%; Turkey – 9,27%; Iran – 5,98%; Kazakhstan – 4,53%; Great Britain – 4,41%.

In general export volume in 1992 year (54 countries) the largest share was taken: Russia – 23,4%; Iran – 15,44%; Great Britain – 9,76%; Ukraine – 9,2%; Turkey – 8,46%.

The main trade partners in 1993 were Russia – 20,2% imports and 25,56% exports; Iran – 6,7% imports and 26,6% exports; Turkey –according by 10,12% and 8,3%; Ukraine – 8,53% and 6,6%; Turkmenistan – 8,69% and 5,43%; further Kazakhstan and Georgia. More activity than in last years Azerbaijan conducted the import trade operations with developed countries: German, Greece, Italy, Austria, Switzerland and exports – Greece and Italy.

In 1994 4 countries from 39 states supplied 79% exports: Iran – 39,4%; Russia –21,4%; Great Britain – 9,45%; Ukraine – 8,98%. At that time 69,6% imports made the share of 5 countries: Turkmenistan – 26,14%; Russia –15,11%; Ukraine – 11,09%; Turkey – 9,7%; Iran – 8,58%.

In 1995 the leaders in imports from 63 states were Turkey –21,05%; Russia –13,23%; Iran – 12,03%; Turkmenistan – 7,7%; German – 6,56%. Their general imports volume made 60,6%. More 75% exports sent in six countries: Iran – 29,2%; Russia –15,7%; Turkmenistan – 11,08%; Great Britain – 7,62%; Georgia – 7,1%; Ukraine – 5,27%.

The imports of 1996 are conducted from six countries (60,7%): Turkey –22,5%; Russia –16,49%; Ukraine – 9,83%; Iran – 6,7%; Georgia – 2,9%; Kazakhstan – 2,01%. Five countries were exporters of Azerbaijan goods (79,9%): Iran – 35,8%; Russia –17,6%; Georgia – 14,5%; Turkey – 6,2%; Turkmenistan – 5,8%. The quantity of countries taking part in import operation increased compared with last years.

In 1997 exports were carried out in 58 countries, the share of six from them made 79,6%: Iran – 24,2%; Russia –23,1%; Georgia – 17,08%; China – 5,59%; Turkey – 5,28%; Italy – 4,21%. At that period five countries supplied 63,5% of the general imports volume: Turkey – 22,62%; Russia –19,07%; %; Ukraine – 10,78%; Iran – 6,14%; German – 4,89%.

In 1998 97 states took part in import operations, the share of six countries made 61,86% of the general imports volume: Turkey – 20,43%; Russia –17,93%; Ukraine – 8,6%; Great Britain – 6,40%; German – 4,43%; Kazakhstan – 4,1%. 66 state were involved in export operations: Turkey – 22,4%; Russia –17,45%; Georgia – 12,69%; Italy – 7,43%; Iran – 7,34%; Great Britain – 6,66% with the general share – 73,98.

From 121 countries taking part in trade operations in 1999 110 states were involved in import. The share of six countries made 55,42% of general imports volume: Russia –21,85%; Turkey – 13,78%; France – 8,02%; Poland – 4,59%; German – 4,46%; Ukraine – 3,72%. Since 1994 Russia has been taking the first place in Azerbaijan import. Russia had the same position in 1993-1995, but some time later the share of Russia reduced because of import belonged to the industrial developed countries. More important factors, intensify the share of Russian import were the absence of competition on interval market of Azerbaijan, the striving of Russia to use foreign currency is difficultly earned in the conditions of unlimited competition on world markets. However, the economic potential of Russia allows exceeding the trade connections with Azerbaijan for friendly mutual enrichment and peopling progress, restoring the tradition profitable connections.

In 1999 90 countries were involved in export operations. Six from them possessed 70,1% of export volume: Italy – 33,7%; Russia – 8,9%; Georgia – 7,7%; Turkey – 7,4%; France – 6,3%; Israel – 6,1%.

In 2000 115 countries took part in import operations. And again six countries concentrated more half of general imports volume. The first and second places were taken with Russia (21,27%) and Turkey (10,96%). 84 states took part in export operations in 2000 year. The leaders were as usual six of them had more 79% of general export. However, the situation altered a little. The first place are taken by Italy - 43,7%; further France – 10,76%; Israel – 7,75%; Turkey – 6,02%; Russia – 5,65%; Georgia – 4,28%.

Table 41. Main trade partners in import

Share, percent					Rank, place					Countries
1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
2,8	3,7	8.0	8,9	16,1	10	9	3	3	1	United States
19,1	18,0	21,9	21,3	10,7	2	2	1	1	2	Russia
22,6	20,4	13,8	11,0	10,4	1	1	2	2	3	Turkey

Table 42 Main trade partners in export

Share, percent					Rank, place					Countries
1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
3,2	2,5	1,3	0,8	9.4	9	10	15	20	4	Turkmenistan
3.7	4,1	2,4	4,9	7,0	8	7	10	6	5	Kazakhstan
4,9	4,3	4,5	5,8	5,1	6	5	7	4	6	Germany
0,1	0,0	5.4	1,4	4,7	32	34	5	16	7	Japan
6,1	4,0	4,6	4.8	3,9	4	8	6	7	8	Iran
1,8	6.4	6,5	5,0	3,8	12	4	4	5	9	United Kingdom
0,8	0,6	1,3	2,0	2,9	15	22	14	11	10	China
10.8	8,6	3,7	3.1	2,7	3	3	8	9	11	Ukraine
2,2	1,8	2,4	1,6	1,8	11	12	11	14	12	France
0,5	0,8	0,8	2,4	1,7	21	19	20	10	13	Italy
0,7	0,3	0,2	0,7	1,4	19	27	31	21	14	Austria
0,4	1,1	1,0	0,4	1.4	26	16	17	29	15	Belgium
5,3	4,2	1,2	1,7	1,3	5	6	16	13	16	United Arabia Emirate
0,0	0,0	0,4	0,3	1.3	33	33	28	31	17	Sri Lanka
0.4	1.2	0,3	4,8	1,3	22	15	29	8	18	Switzerland
0,1	0,2	0,3	1,0	1,1	31	29	30	18	19	India
0,3	0,9	0,5	0,5	1,0	27	17	25	26	20	Sweden
0,8	1.5	1,4	1,6	0,9	16	13	13	15	21	Nederland
0,2	0,2	0,7	1,0	0,8	28	31	21	17	22	Bulgaria
0,9	0,8	0,7	1,8	0,8	14	18	22	12	23	Poland
0,0	0,0	0,4	0,5	0.6	36	35	27	25	24	New Zealand
0.2	0,3	0,0	0.3	0,6	29	26	35	33	25	Greece
0,0	0,0	0,1	0,4	0,5	35	0	34	30	26	Brazil
0,6	0,5	0,5	0,3	0,4	20	25	26	32	27	Denmark
0,7	0,3	0,0	0,1	0,4	18	28	36	36	28	Uzbekistan
0,7	0,8	0,5	0,5	0,4	17	20	24	23	29	Israel
0,4	0,5	1,4	0,4	0,4	23	23	12	27	30	Republic of Korea
0,4	0,6	0,1	0,2	0,4	24	21	33	35	31	Finland
4,6	2,3	0,9	0.9	0,3	7	11	18	19	32	Georgia
0,9	1,4	0,9	0,6	0,3	13	14	19	22	33	Belarus
0,4	0,5	0,6	0,4	0,3	25	24	23	28	34	Hungary
0,2	0,1	0,2	0,2	0,3	30	32	32	34	35	Romania
0.0	0?	3,6	05	0,3	34	30	9	24	36	Norway

4,2	7,4	33,7	43,7	57,2	5	4	1	1	1	*Italy*
0,3	0.1	6,1	7,7	7,1	16	24	6	3	2	*Israel*
17,1	12,7	7,7	4,3	4,5	3	3	3	6	3	*Georgia*
0.0	0.9	1,0	0,4	4,4	22	15	14	19	4	*Spain*
0,0	0,0	0,0	1,8	3,7	0	34	0	8	5	*Iceland*
23,1	17,5	8,9	5,6	3,4	2	2	2	5	6	*Russia*
5.3	22, 4	7,4	6,0	2,9	4	1	4	4	7	*Turkey*
0,0	1.9	6.3	11,8	2,9	24	12	5	2	S	*France*
1,8	2,0	1,4	1,3	2,2	7	10	11	12	9	*Greece*
0,2	6,7	1,2	1,1	1,5	19	6	12	14	10	*United Kingdom*
0,0	0,0	0,2	0,2	1,1	0	32	28	28	11	*Croatia*
0,0	0,0	0,0	0,0	1,0	0	33	0	0	12	*Morocco*
0,7	0,7	0,5	1,5	0,7	12	17	19	9	13	*Netherlands*
0,0	0.0	0,3	0,4	0,6	0	30	25	23	14	*Argentina*
0,3	2,3	3,2	0,5	0,6	17	9	8	18	15	*United States*
0,8	0,9	0,8	0,5	0,6	11	16	17	16	16	Germany
0,4	0,3	1,2	1,1	0,5	15	21	13	13	17	*Tajikistan*
1,1	2.3	1,0	0,5	0,5	9	8	16	17	18	*Turkmenistan*
0,1	0,5	1,0	0,4	0,4	21	19	15	24	19	*United Arabia Emirate*
24,3	7,3	2,4	0,4	0,4	1	5	10	21	20	*Iran*
0,0	0,1	0,4	0,4	0,4	26	25	22	22	21	*Romania*
0.0	0,0	0,3	1,5	0,4	0	27	23	10	22	*Malta*
0,0	0,0	0,3	0,0	0,4	25	29	24	35	23	*Livan*
0,9	2,8	4,0	2,6	0,3	10	7	7	7	24	*Switzerland*
4,1	2,0	2,6	1,4	0,3	6	11	9	11	25	*Ukraine*
1.1	1,7	0,4	0,4	0,3	8	14	20	25	26	*Kazakhstan*
0,0	0,0	0,2	0.0	0,2	27	28	29	34	27	*Egypt*
0,0	0,0	0,0	0,0	0,2	23	31	33	33	28	*Pakistan*
0,6	0,3	0,1	0,1	0,1	14	20	31	31	29	*Uzbekistan*
0,0	0,0	0,5	0,4	0,1	0	0	18	20	30	*Gibraltar*
0,2	0,5	0,2	0,7	0,1	18	18	27	15	31	*Latvia*
0,2	0.1	0,0	0,3	0,1	20	23	32	26	32	*China*
0,0	0,2	0,4	0,2	0,1	0	22	21	27	33	*Tunisia*
0,0	0,0	0,1	0,1	0,1	0	26	30	32	34	*Norway*
0,6	1,8	0,2	0,2	0,1	13	13	26	29	35	*Bulgaria*

Transport costs, trade routs and transit opportunities

Table 43. Total freight transportation volume (thsd. ton)

1991	1995	1996	1997	1998	1999	2000	2001	Type of transport
140525	20458	18333	18546	21223	21605	23219	24742	Railway
17842	5713	5747	7504	8178	7382	8779	10247	Sea
21	29	29	22	64	48	37	31	Air
380760	75844	67967	46353	36937	44598	52534	62842	Highway

Table 44. Structure of freight transportation turnover (%)

1990	1995	1997	1998	1999	2000	2001	Type of transportation
100,0	100.0	100,0	100.0	100.0	100,0	100,0	Total of which:
74,8	28,9	32,9	38,9	34,1	36,2	33,3	railway
11,7	51,9	46,9	36,8	32,0	32,6	31,1	sea
0.1	0.7	0,4	1.3	0.8	0,6	0,4	air
6,8	12.2	11,4	11,5	13,0	8,6	8,9	pipelines
6,6	6,3	8,4	11,5	20,1	22,0	26.3	motor

The largest towns of Azerbaijan are connected with Baku and each other by air communication. The largest airport is in Baku. Regular international races are carried out from Baku, Ganja and Nakhichevan.

The length of railways is 2125 km, moreover, more half of them are electrified. Two main railways, with which are carried out the head goods and passenger traffic, connect Azerbaijan with other states – Russia and Georgia: Baku – Mahachkala (Dagestan) and Baku – Tbilisi (Georgia). The railway communication with Erevan, Iran and Nakhichevan is interrupted. Approximately a third of rail lines is worn and demands reconstruction. So the movement speed on lots sections is limited.

Motor transport has the main importance in freight transportation. Parallelly to two main railways the highways run from Russia through Baku to Iran and from Baku towards the Georgian border. The length of roads is 25 thsd. km. and 23 of them are asphalted. The highway towards Karabakh runs from the town Evlah in the south. At present some 60% roads are need of repair and reconstruction (with in project frame of revival of Great Silk Way the active work for reconstruction of Azerbaijan sector of Baku – Tbilisi highway are carried out since 2001 year). However, activity coaching communication are fulfilled among Baku and other large towns of republic and also the cities and towns of Russia, Georgia, Iran, Turkey.

Baku is a port and transshipping point for oil, oil products, wood and saw–timbers on the whole. The period of navigation is 12 months. The port has 17 moorings. The port can serve the crafts with cargo capacity of 12 thsd. tons and has 10 thsd. sg. km of covered store accommodations and 28,7 thsd. sg. km – opened. The transportation through the largest port on Caspian Sea – Baku is carried out within Caspian and the Volga basin. The ferry crossing ensures the cargo transportation from Europe to Asia. It acts with Turkmenistan and Khazachstan. Very soon the sea communication between Baku and Astrakhan (Russia) will be restored.

Enter taxes

- For light cars – 15 USD
- For coaches in the dependence on seat quantity for 1 day:
- seats quantity from 1 to 12 – 30 USD
- from 13 to 30 – 40 USD
- from 31 and more – 50 USD
- For lorries, the transport means with the trailers and half-trailers in the dependence on cargo capacity for 1 day:
- if the cargo capacity is from 1 to 10 tons – 40 USD
- from 11 to 24 tons – 70 USD
- more 24 tons – 100 USD.

In the case of the loads transportation with the freight means the tax for the every kilometers will be increased in such a way:

If the general weight of all the transport means together with loads:

- from 37 to 41 tons – 0.15 USD
- from 41 to 51 tons – 0.30 USD
- from 51 to 61 tons – 0.45 USD
- from 61 to 71 tons – 0.60 USD
- from 71 to 81 tons – 0.75 USD
- more 81 tons – 1.8 USD

If the limit of permitted axles load is more than the according distance between axles

- to 20% - 0.5 USD
- from 20 to 50% - 1.0 USD
- from 50 to 70% - 2.0 USD

In the case of dangerous loads the taxes sum will be increased

- for loads of less danger for 100 per cent
- for the dangerous loads – for 200%
- for particularly dangerous loads – 400%

In the dependence on how much time transport means wait for the drawing up the taxes sum will be increased for the every day

- from 2 to 7 days – 20%
- from 7 to 30 days – 30%
- after 30 days – 40%

Permitting system

For custom drawing up of transit transportation are taken the payment 30 USD.

For the foreign transporters increasing the permit quotes, the costs of enter permission and transit constitutes 100 USD; for autotransporters of Iran – 160 USD.

If the bilateral agreement between countries about permission change is absent the cost of enter and transit constitutes 150 USD.

The permission cost for loading the foreign transport means on Azerbaijan territory constitutes 100 USD and Iran transporters – 150 USD.

The permission cost for the transport to the third countries and from the third countries constitutes 600 USD.

The enter permission cost for an empty foreign autotransport constitutes 350 USD.

The special permission whose cost constitutes 25 USD needs for entering the large-ton transport means in Baku, Gandjua, Sumgait.

For foreign transporter carring out irregular coach transportation the permission cost for enter and transit constitutes 50 USD.

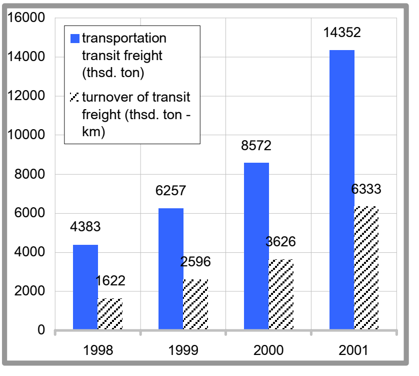
Ferry crossing

- Baku – Turkmenbashi (Turkmenistan) – Baku

On average there are two sailing out of the every port in the dependence on the loading of line every day. The way time is 13-14 hours in one direction. The stop in ports is 5 hours. The cost transportation in one direction for one using meter is 30 USD.

- Baku – Aktau (Khazachstan) – Baku

Figure 55



On average there is one sailing every day. The cost transportation in one direction is 35 USD for one using meter. 28 carriages (length – 15 m) or 30-35 trucks are placed on carriage deck. There is a hold for light cars (55 items).

Azerbaijan is historically the most important transit point in region. The different transport and communicational lines cross the Azerbaijan territory. They connect Asia and Europe (the Transeuropean corridor). Azerbaijan is one of the most important point in the West-East relations and can play the same role in the South-North relations. The special program of establishing the transport corridor through the Black Sea and Caucasus in Central Asia, restoring the connections lost after USSR breaking up was passed by EC in 1993 year. In 1998 12 states within frame this program signed the multilateral agreement, Baku Declaration, about economic cooperation for restoring and developing the transport infrastructure. One of success of this declaration became the Tauz bridge whose reconstruction allowed increasing doubly the turnover of goods between Azerbaijan and Georgia. The work for restoring the transit infrastructure is conducted in Azerbaijan for, in fact, all the orientations: the roads, railways, bridges are restored, Baku Airport are reconstructed on the world standards level. The new "Silk Way" became the reality and its trade volume exceeded the original plans.

Trade regimes and trade policy

Since the middle of 90-s the most widespread foreign-trade operations were three forms: on the finding list, indicative and between enterprises. The first form included the operation with the most important goods (energy, raw materials, foodstuffs). The second form of trade - structure determinated goods between two countries according to agreements. By the end of 1995 quoting and licensing import and export goods, excepting energy resources, had been abolished. Control for import and export touched only the weapons and medicines. The transition from the licenses and quotes to the export tariffs allowed the enterprises of different types to take part in the trade operations. From the permission of free foreign economic activity the different kinds of bargains appeared. The main share belongs to the bargains executed with foreign currency (in 2001 65% imports operations and 40% exports).

Azerbaijan has the bilateral agreements with the following countries:

- Turkey
- Georgia
- Belarus
- Bulgaria
- Romania
- Uzbekistan
- Kazakhstan
- Moldova
- Ukraine
- Russia
- Latvia

The bilateral agreements are prepared for signing with the following countries: Austria, German, Finland, Norway, Switzerland, Estonia, Iran, Tajikistan, Kirgizstan.

The agreements of abolishing the double taxation

- Austria
- Great Britain
- German
- Georgia
- Pakistan
- Norway
- Belarus
- Poland
- Kazakhstan
- Moldova

- Uzbekistan
- Russia
- Turkey
- Ukraine
- France

The main way for regulating import operations became the custom taxes founded on the international practice. The determination of custom cost of goods is conducted according to the cost bargain of import goods. The cost bargain is cost paid in fact and a cost will be subject of the payment for import goods. Five categories on import taxes in the sizes (percents) 15,10, 5, 3, 0 rents of custom cost were acted till 1 January of 2000 year. Then the one rent was passed instead of five rents that will be supported for four-five years. Further, the standardize rent will be accepted again. The standardize rent was accepted for internal producers protection.

The principle of taxes imposition of goods is done with the following way: for the every code the position is defined for that of which is accepted its own tax. The tax exemption is not provided for any trade position. The custom tariffs and taxes are shared according to two categories: for goods produced on the country territory and non-produced in the country. For the first goods the rents are higher, for the second ones are lower. So custom tariffs for the goods not having analogs in republic are passed in the rent of zero level. The custom tariffs for goods produced on the republic territory are passed in the size from 15% to 100% cost production. Since the law of anti-dumping is not passed yet in Azerbaijan, the representatives of some branches feeling the competition from import production will get lost preference thanks to such system of custom tariffs.

Table 45

Customs offices located on border between Azerbaijan Republic and Russia:	1. Khachmaz customhouse: "Samur" customs post (motor way) operating duty - 24 hours; "Yalama" customs post (railway) operating duty - 24 hours; "Khudat" customs post (motor way) operating duty - 24 hours; "Shirvanovka" customs post (motor way) operating duty - 24 hours.
Customs offices located on border between Azerbaijan Republic and Islamic Republic of Iran:	1. Customs Committee of Nahchivan Autonomous Republic: "Julfa" customhouse (motor way) operating duty - 24 hours; "Shahtakhti" customs post (motor way) operating duty from 09:00 to 19:00. 2. Astara customhouse: "Astara" customhouse (motor way) operating duty from 09:00 to 21:00 daily. 3. Bilesuvar customhouse: "Bilesuvar" border check point (motor way) operating duty from 09:00 to 18:00 daily; Thursday from 09:00 to 16:00; Monday from 09:00 to 16:00; - Friday - day off. 4. Khudaferin customhouse: "Imishli" customs post (motor way) operating duty from 09:00 to 18:00; "Horadiz" customs post (motor way) doesn't act.
Customs offices located on border between Azerbaijan Republic and Georgia:	1. Tovuz customhouse: "Siniq Korpu" customs post (motor way) operating duty - 24 hours; "Sadixli" customs post (motor way) operating duty - 24

	hours; "Boyuk Kesik" customs post (railway) operating duty - 24 hours; 2. Balaken customhouse: "Mazimchay" customs post (motor way) operating duty - 24 hours; "Muganli" customs post (motor way) operating duty - 24 hours;
Customs offices located on border between Azerbaijan Republic and Turkey:	1. Customs Committee of Nahchivan Autonomous Republic: "Sadarak" customhouse (motor way) operating duty from 09:00 to 22:00;
Customs offices located on sea border between Azerbaijan Republic and Russia, Kazakhstan, Turkmenistan, Islamic Republic of Iran:	1. Baku Head Customs Administration: "Ferry" customs post (marine) operating duty - 24 hours; 2. Energy customhouse: "Liman" customs post (marine) operating duty - 24 hours; "Dubendi" customs post (marine) operating duty - 24 hours
Customs offices located on air border of the Azerbaijan Republic:	1. Customs Committee of Nahchivan Autonomous Republic: "Airport" customs post (air transport) operating duty - 24 hours; 2. Head Customs Administration in Air Transport: Head Customs Administration in Air Transport (air transport) operating duty - 24 hours; "Ganja" customs post (air transport) operating duty - 24 hours

Table 46. Structure of imports and exports by custom enterprises

Imports			**Exports**			
Total	Countries rest of the world	CIS countries	Total	Countries rest of the world	CIS countries	Custom enterprises
1430877,4	985643,6	445233,8	2314282,4	2091410,3	222872,1	Total
890861,7	534884	355977,7	2171602.0	2030479,8	141122,2	Baku main Custom Office
5505,2	3788,1	1717,1	-	-	-	Baku Excise post
290117,5	276038,1	14079,4	38503,5	18750,0	19753,5	Bina Custom Office
						Custom houses
45011,1	43003,2	2007,9	1483,2	192,7	1290,5	Astara
1739,6	1590,4	149,2	9856,9	1553.2	6303,7	Balaken
12632,8	9990,4	2642,4	3317,8	1075,9	2241,9	Bilasuar
8713,6	8588,5	125,1	215,0	0,0	215,0	Julfa
17320,4	14334,7	2985,7	22135,2	10023.9	12111,3	Ali Bairamli
28652,4	17927,6	10724,8	17728,2	3449,5	14278.7	Ganja
34283,5	9708,2	24575.3	1979,1	366,4	1612,7	Khachmas
5326,6	4900,7	425,9	2399,7	1346,9	1052,8	Khudat
19319,0	18965,9	353,1	2203,3	2203.3	0,0	Sadarak
51207,4	27124,2	24083,2	26962,3	14584,2	12378,1	Sumgait
4854,5	3949,8	904,7	4833,2	4229,3	603,9	Tovuz
15332,3	10849,9	4482,4	11063,0	3155.2	7907,8	Yevlakh

At the last time the state policy in the development of foreign trade gains more single-minded nature. If the sporadic interference of state had taken place before, the government program of trade development is developed now. This documents is State Program of trade development in Azerbaijan Republic (1999-2002). It united the complex of different economic bills for perfecting the state regulation, increasing the export potential for the furthest process of integration economy into the world system, creating more favorable competitive environment on the internal market, ensuring the consumers' rights protection.

For strategic management of export activity the Center of export support and encouragement was established. The project of the establishment the Found for the export promotion is realized. It has to promote increasing the export production including the solution of problems of production expansion, mastering the new kind of production and ensuring their quality.

The foreign companies becoming the employers and outputting the export production can pretend for the help of Found. There foresees the public control for this Found so as to rid of abuses of sending the means. The Found will be a non-commercial organization on the first stage for it'll be financed with budget means. However, because of the requirement of capitals the Found origin will become the deductions of local exporters in the size of 0.1% sale production sum. The additions will be conducted on the treaty base of companies delivering the Found promotion. The third source of Found means accumulation will become the credits of international organization. However, the Found will become the commercial organization when the production is increased.

Azerbaijan has a status of observer in WTO. The process of entering was begun by the state in June 1997. In 1999, Azerbaijan represented the Memorandum "On Foreign Trade Regime". For entering WTO the working group was established whose activity has three directions: tariffs for the import production, the government regulation of import-export operation in agriculture and tariff policy in the services.

GEORGIA

Trade regimes

Trade agreements among the CIS countries, although signed by Georgia, largely, have not been effective. Georgia has concluded free trade agreements with Armenia, Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Moldova. These agreements stipulate zero import duties on the products from participating countries. However, these agreements have not been ratified by the Parliament of Georgia. As a result, Georgia does not enjoy a zero import tariff and, in turn, levies full import tariffs on all CIS countries.

Georgia levy import tariffs, VAT, and excise tax on imports. There are also (small) customs clearance fees. Georgian membership in WTO significantly influences country's trade regime. As a result, the Georgian import tariff schedule for 2000-05 has been approved by the WTO. It has a variety of tariff levels gravitating toward 12 percent. VAT on imports in Georgia are broadly consistent with the destination principle and stand at 20 percent. Excise taxes are levied on alcohol, cigarettes, fuel, passenger cars, and some consumption ("luxury") goods. Export taxes in Georgia had been abolished. Georgia license trade in sensitive and potentially dangerous products, which is a normal procedure. Georgia licenses the export of raw materials (wood and wood products, scrap, metals, etc.). There are usual (non-tariff) regulations on the quality and certification of goods.

Table 47. Georgian Import Tariffs (Approved by the WTO for the period 2000-2005)

Code	Description	Rates at date of WTO accession	Average tariffs at date of accession	Final rates	Final Average tariffs

1	2	3	4	5	6
01	LIVE ANIMALS	12	12	12	12
02	MEAT AND EDIBLE MEAT OFFAL	12	12	12-10	11.96
03	FISH AND CRUSTACEANS, MOLLUSCS	12	12	0-12	0.4
04	DAIRY PRODUCE; EDIBLE PRODUCTS	12-25	16.6	5-252	13.963
05	PRODUCTS OF ANIMAL ORIGIN	12	12	0-12	10.6
06	LIVE TREES AND OTHER PLANTS; BULBS,	12	12	12	12
07	EDIBLE VEGETABLES AND CERTAIN ROOTS	12-17	12.7	10-17	12.6
08	EDIBLE FRUIT AND NUTS; PEEL OF CITRUS	12-17	12.98	10-17	12.93
09	COFFEE, TEA, MATE AND SPICES	12-20	12.5	12-20	12.5
10	CEREALS	12	12	10-12	11.9
11	PRODUCTS OF THE MILLING INDUSTRY;	12-20	13.18	10-12	13.12
12	OIL SEEDS AND OLEAGINOUS FRUITS;	12	12	0-12	7.60
13	LACS; GUMS, RESINS AND OTHER VEGETABLE	12	12	12	12
14	VEGETABLE PLAITING MATERIALS;	12	12	12	12
15	ANIMAL OR VEGETABLE FATS AND OILS	12	12	0-12	4.4
16	PREPARATIONS OF MEAT, OF FISH	12	12	0-12	4.6
17	SUGARS AND SUGAR CONFECTIONERY	10-12	11.9	5-12	11.6
18	COCOA AND COCOA PREPARATIONS	12	12	10-12	10.6
19	PREPARATIONS OF CEREALS, FLOUR, STARCH	12-20	17.6	12-20	16.6
20	PREPARATIONS OF VEGETABLES, FRUIT, NUTS	12-30	21.55	10-30	20.5
21	MISCELLANEOUS EDIBLE PREPARATIONS	12-25	17.8	0-252	15.90
22	BEVERAGES, SPIRITS AND VINEGAR	0.2-3 euro/lt	0.2-3 euro/lt		
23	RESIDUES AND WASTE FROM THE FOOD	12	12	0-12	6.4
24	TOBACCO AND MANUFACTURED TOBACCO	12-30	24	12-30	13.4
25	SALT; SULPHUR; EARTHS AND STONE;	12-20	13.4	12-20	13.4
26	ORES, SLAG AND ASH	12-15	12.1	12-15	12.1
27	MINERAL FUELS, MINERAL OILS AND	12	12	12	12
28	INORGANIC CHEMICALS:	12	12	0-12	6.2
29	ORGANIC CHEMICALS	8-12	11.9	0-12	5.7
30	PHARMACEUTICAL PRODUCTS	5	5	0	0
31	FERTILIZERS	12	12	6.5-10	7.85
32	TANNING OR DYEING EXTRACTS;	12	12	6.5-12	7.7
33	ESSENTIAL OILS AND RESINOIDS; PERFUMERY	12	12	6.5	6.5
34	SOAP, ORGANIC SURFACE-ACTIVE AGENTS,	12	12	6.5-12	7.9
35	ALBUMINOIDAL SUBSTANCES;	12	12	6.5	6.5
36	EXPLOSIVES; PYROTECHNIC PRODUCTS;	12	12	6.5	6.5
37	PHOTOGRAPHIC OR CINEMATOGRAPHIC	12	12	6.5	6.5
38	MISCELLANEOUS CHEMICAL PRODUCTS	5-12	11.6	0-12	6.2
39	PLASTICS AND ARTICLES THEREOF	0-12	11.3	0-12	8.5

40	RUBBER AND ARTICLES THEREOF	0-12	10.9	0-12	8.2
41	RAW HIDES AND SKINS AND LEATHER	12-15	12.8	12-15	12.8
42	ARTICLES OF LEATHER; SADDLERY	12	12	0-12	11.5
43	FURSKINS AND ARTIFICIAL FUR;	12	12	12	12
44	WOOD AND ARTICLES OF WOOD;	12	12	5-12	11.4
45	CORK AND ARTICLES OF CORK	0-12	10.7	0-12	10.7
46	MANUFACTURES OF STRAW,	12	12	12	12
47	PULP OF WOOD OR OF OTHER FIBROUS	5-12	11.7	0	0
48	PAPER AND PAPERBOARD;	0-2	11.9	0	0
49	PRINTED BOOKS, NEWSPAPERS, PICTURES	12	12	0	0
50	SILK	12	12	4-12	10.4
51	WOOL, FINE OR COARSE ANIMAL HAIR;	4-12	10.2	0-12	6.3
52	COTTON	5-12	11.9	4-12	7.0
53	OTHER VEGETABLE TEXTILE FIBRES;	12	12	4-12	6.5
54	MAN-MADE FILAMENTS	5-12	10.3	4-10	6.8
55	MAN-MADE STAPLE FIBRES	12	12	4-8	6.4
56	WADDING, FELT AND NON-WOVENS;	12	12	4-12	9.9
57	CARPETS AND OTHER TEXTILE FLOOR	12	12	8-12	11.7
58	SPECIAL WOVEN FABRICS; TUFTED	12	12	8-12	9.9
59	IMPREGNATED, COATED,	12	12	8	8
60	KNITTED OR CROCHETED FABRICS	12-15	13.8	8-12	10.4
61	ARTICLES OF APPAREL AND CLOTHING	12-15	13.4	7-15	13.2
62	ARTICLES OF APPAREL AND CLOTHING	12-15	12.5	6-12	11.9
63	OTHER MADE UP TEXTILE ARTICLES; SETS;	12-15	12.15	10-12	11.97
64	FOOTWEAR, GAITERS AND THE LIKE;	12-20	16.1	8-12	10.6
65	HEADGEAR AND PARTS THEREOF	12	12	12	12
66	UMBRELLAS, SUN UMBRELLAS,	12	12	12	12
67	PREPARED FEATHERS AND DOWN	12	12	12	12
68	ARTICLES OF STONE, PLASTER, CEMENT,	0-12	11.3	0-12	10.7
69	CERAMIC PRODUCTS	12	12	10-12	11.6
70	GLASS AND GLASSWARE	0-12	11.8	0-12	11.6
71	NATURAL OR CULTURED PEARLS, PRECIOUS	12	12	12	12
72	IRON AND STEEL	5-12	10.8	0-12	0.2
73	ARTICLES OF IRON OR STEEL	0-12	10.8	0-12	8.5
74	COPPER AND ARTICLES THEREOF	0-12	11.2	0-12	0.4
75	NICKEL AND ARTICLES THEREOF	12	12	0	0
76	ALUMINIUM AND ARTICLES THEREOF	0-12	10.7	0-5	0.5
78	LEAD AND ARTICLES THEREOF	12	12	5	5
79	ZINC AND ARTICLES THEREOF	12	12	5	5
80	TIN AND ARTICLES THEREOF	12	12	5	5
81	OTHER BASE METALS; CERMETS; ARTICLES	0-12	11.7	0-5	4.9
82	TOOLS, IMPLEMENTS, CUTLERY,	12	12	5	5
83	MISCELLANEOUS ARTICLES OF BASE METAL	0-12	10	0-12	8.1
84	NUCLEAR REACTORS, MACHINERY	0-5	4.2	0-5	2.3
85	ELECTRICAL MACHINERY AND EQUIPMENT	0-5	3.4	0-5	2
86	RAILWAY OR TRAMWAY LOCOMOTIVES,	12	12	12	12
87	VEHICLES OTHER THAN RAILWAY	5-12	11.7	0-12	9.6
88	AIRCRAFT, SPACECRAFT, AND	0-12	7.35	0-12	7.3512

	PARTS				
89	SHIPS, BOATS AND FLOATING STRUCTURES	12	12	12	12
90	OPTICAL, PHOTOGRAPHIC,	0-5	3.8	0-5	1.9
91	CLOCKS AND WATCHES AND PARTS THEREOF	0-12	11.8	0-12	11.4
92	MUSICAL INSTRUMENTS; PARTS	12	12	12	12
93	ARMS AND AMMUNITION; PARTS	12	12	12	12
94	FURNITURE; BEDDING, MATTRESSES,	0-12	10.4	0-12	4.7
95	TOYS, GAMES AND SPORTS REQUISITES;	12	12	0-12	6.1
96	MISCELLANEOUS MANUFACTURED ARTICLES	12	12	12	12
97	WORKS OF ART, COLLECTORS' PIECES	12	12	12	12

Despite the fact that Georgia is a beneficiary of the EU, Japan and Switzerland Generalized Systems of Preferences (GSP) schemes, Georgia does not use these preferences. The purpose of the GSP is to offer developing and transition countries lower customs tariffs than those applied to the developed nations. This gives their exports preferential access to the developed markets. Almost all the developed countries operate GSP schemes. The US GSP scheme is a widely used scheme. Unfortunately Georgia is not a beneficiary of this scheme, which provides preferential duty free entry for more than 4,650 products from approximately 140 designated beneficiary countries. Despite the fact that the overall size of the GSP relative to total US imports is small, many developing and transition countries use the US GSP scheme very effectively.

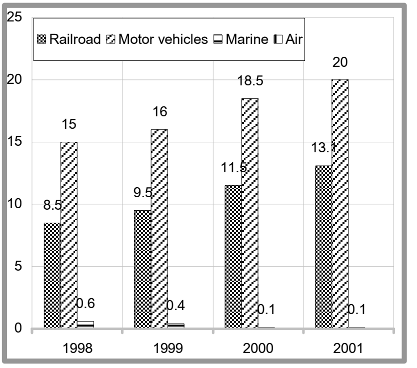
Due to the global trade liberalization the role of tariff barriers has substantially diminished. Thus the use of trade defense instruments to ensure fair competition in the internal market of countries is increasing. Georgia needs to develop and adopt internal market protection legislation (antidumping, countervailing and safeguards) in accordance with WTO and EU rules.

Transport routes and costs

The recent developments in transport sector in Georgia indicates significant expansion of railway and motorways operation in 2001. The railway transported around 7 million tons of Caspian oil. The average speed of Georgian trains is still very low, largely because of the old age of tracks and carriages. Cargo turnover in Poti and Batumi sea ports increased by 28 per cent to 10.5 million tones. Supsa exported 4.9 million tons of oil. In 2001, air transport experienced a sharp decline. The main reason is the outdated fleet of air carrier. To summarize the main means of freights shipments remain railroads (39.5% in total volume of shipments) and motor vehicles (60.2 % in total volume of shipments).

Trade routes between Georgia and Armenia and Azerbaijan utilizes railroads and roads. There are also gas and oil pipelines between Georgia and Azerbaijan. The routes are not affected by regional conflicts. Trade between Georgia and Russia flows directly by sea and by road or by railroad via Azerbaijan; energy flows by direct pipelines and energy lines. The closed railway on the east coast of the Black Sea (due to the Abkhazia conflict) has a minor effect on cargo flows, since that railway was designed and used for primarily passenger transportation.

Figure 56 Freights shipped by general purpose transport, 1998-2001, mln. tons



Georgia plays an important transit role in the region. Currently Georgia is the only medium for Armenia to trade with much of the rest world. Trade routes from Turkey to Armenia are rerouted a Georgian intermediary. In Georgia, the stated destination is switched to Armenia. The same scheme works in the opposite direction. Trade goods between Armenia and Russia travel by railway via Azerbaijan and by road via Georgia. Gas and power lines link the two countries through Georgia. When using the railway through Azerbaijan, the consignments are assigned to a Georgian intermediary, a scheme that is used in the trade between Armenia and Turkey.Poti serves as the main regional seaport and is linked by a railway with all three countries. The most economic mode for general cargo to Armenia would be maritime to Poti followed by railway. Containers are transported primarily by road rather than by railway due to time efficiency and better reliability.

After the breakup of the Soviet Union, Georgia switched from the Soviet tariff system to international tariffs, based on the international tariff agreements (NTT) tariff system. At the same time, in order to reduce the cost of transit, Georgia, Azerbaijan, Turkmenistan, and Uzbekistan entered into the Xerox and Baku agreements, which allow a 50 percent tariff reduction for all goods traveling between those four countries. Georgia and Armenia bilaterally agreed to a 25 percent tariff reduction for shipments within the two countries. As a result, tariffs for Armenia on the Georgian railway are 25 percent higher than those for the Xerox/Baku signatories.

Table 48. Transport costs from Georgia, 1999, US$[12]

Transport type	Destination			
	Armenia	Azerbaijan	Russia	Turkey
Railroad	17 per ton general cargo; 30-32 per ton– wheat, flour, sugar; 1,400 per 20 foot container; 1,800 per 40 foot container, incl. terminal charges	500 – 700 per 20 foot container; 12-13 per ton of general cargo from Poti		

[12] Source: E. Polyakov. Changing Trade Patterns after Conflict Resolution in South Caucasus. The World bank, Washington, DC, 2000.

Road	300-350 per 20 ton truck; 1,400 per 20 foot container; 1,800 per 40 foot container, (from Poti)	3,000 per 20 ton truck (Sverdlovsk)	15-20 per ton of general cargo incl. port charges

Georgia levy high transit fees on foreign vehicles. Road tax is levied on all foreign vehicles crossing the Georgian territory. The tax depends on the type of vehicle and the weight of a cargo. If the vehicle is loaded above its capacity, for each additional ton additional tax is paid. According to the schedules, the most common carrier -- a truck with the capacity of 10-20 tons – transiting the Georgian territory must pay $ 245 equivalent in local currency (at the October, 2000, exchange rate). Additionally there is extra charge for each additional axle.

Table 49. Road tax schedule (for all foreign vehicles)

Vehicle type	Tax (GEL)	For each additional ton
Cars 60	60	
Vans (up to 13 passenger seats)	115	
Vans (13-30 passenger seats)	230	
Buses (30+ passenger seats)	380	
Trucks (up to 3 tons)	230	23 (10% of tax)
Trucks (3-10 tons)	380	38 (10% of tax)
Trucks (10-20 tons)	480	48 (10% of tax)
Trucks (20-40 tons)	650	32.5 (5% of tax)
Trucks (40+ tons)	880	44 (5% of tax)

Transportation companies offer the following tariffs from Georgia to Armenia: $ 300-350 for a 20 ton truck, $ 1,400 for a 20 foot container, and $ 1,800 for a 40 foot container. Thus, the transit fee equals 70-82 percent of the tariff for trucking, 18 percent for a 20 foot container, and 14 percent for a 40 foot container.

Trade policy[13]

Legislation and institutions. Georgia is already a member of the WTO, having joined in July, 2000. The required adjustments, prior to full membership, included a reduction in tariffs on manufactured goods and an increase in tariffs on imported materials. The areas of trade facilitation and international compliance in Georgia fall under the guidance of trade department within the Ministry of Economy. The responsibilities for external trade relations were being passed to the Ministry of Foreign Affairs.

The main obstacle to the further development of a competitive freight-forwarding sector in Georgia is the current lack of domestic legal recognition for the industry. There is a current divergence between the international requirements of the industry, and the domestic legal framework. The problem relates to the existence of certain old Soviet laws in the institutional framework of Georgia. These is inappropriate for a developing industry in a free market economy. For instance article 64, paragraph D of the Georgian Tax Code, requires that 4% of the value of the whole invoice is to be levied on non-residents who provide transport international transport services to residents. This article is hardly conducive to encouraging international trade, and it was asserted that this law contributes no additional funds to the state budget. Another Article, of the same code, that is also

[13] Source: Trade Facilitation in the Caucasus. Final report. The World bank, Washington, DC, October, 2000.

considered to be obstructive is Article203, which imposes a tax on all vehicles exiting Georgia.

The provision of insurance in Georgia is regulated by the Law on Insurance (no. 690 dated May 2nd 1997). Paragraph 1 and sub-paragraph "a" of Article 14 of this Law, requires both the insured party and the insurance broker to follow certain defined limits in terms of coverage and required equity. These requirements prevent any Georgian Freight forwarder from joining the Federation International des Associations de Transitaires et Assimilies (FIATA), and other Georgian insurance companies are unlikely to take such high risks, ostensibly leaving the actors in the sector uninsured.

The following list represents a compiled summary, from various sources, of the most important international conventions and agreements signed by Georgia:

- Geneva Convention of 1982 "Agreement on the conditions of the control of goods at borders";
- Barcelona "Convention and statute of free transit" dated April 21, 1921;
- Convention "On the agreement of international road shipment of goods" (Geneva, 1956), CMR;
- "Geneva international convention on safe containers" of 1972;
- "International convention on road traffic" (Vienna, November 08, 1971);
- "Customs convention on the international shipment of goods" (TIR) (1975);
- "Vienna convention on the international purchase and sale of goods" (Vienna, 1980);
- "International convention on sea shipment of cargo" (Hamburg rules, 1978);
- "Agreement on the main transport arteries" (AGR) (1975);
- "International convention on the liability of transport terminal operators", 1994; and International convention on ensuring readiness in cases of pollution by oil, fighting them, and co-operation (OPRC, 1990).

Custom Services. The Georgian Customs Service currently has 17 inland terminals, and these are to be re-placed by three main regional terminals, one in each major district. The main border crossings are open 24 hours per day, and the inland terminals are open for the receipt of consignments for a similar period, but only open for clearance during the period 9.00 – 19.00. The Georgian Customs service has no authority in the semi-autonomous regions of Abkhazia, and only limited authority in the South Ossetia and Adjaria regions. Main Georgian customs offices are Poti border station, Lilo inland terminal, the Sadakhlo border station.

The Customs Station in Poti covers the port of Poti on the Black Sea, together with the surrounding regions of Gori and Svaneti. The station is open for 24 hours per day. The regional headquarters building was a substantial two-storey office building, which appeared in reasonable condition. It was located at a distance of approximately 2 kilometers from the main cargo port The total number of employees amounts to 120 customs officials, of which 60 cover the port of Poti, and the remainder cover the surrounding regions. The normal shift last for 24 hours. Customs clearance is undertaken as soon as a ship berths in the port.

Lilo inland terminal is located to the east of the city of Tbilisi, and serves the local region. The facility consists of a large two-storey building, which serves as the regional customs office, together with a secure parking area for the consignments to the rear. Automated System of Customs Data and Management (ASYCUDA) has been operating in the inland terminal in Lilo for nearly six years, following significant support from the World Bank. Since this terminal presently handles nearly 50% of the total legal trade in Georgia, and assuming that it is all processed through the system, then the ASYCUDA system is already making a significant contribution.

All vehicles bound for domestic destinations are inspected, either at the border, or, more commonly, at the nearest inland terminal to the ultimate destination. The route between the point of entry and the ultimate inland terminal, is defined by the Customs Service, and passed to the driver.

The Sadakhlo border station is located on the Georgian and Armenian border, approximately one kilometer north of the Debed river which forms the actual border. The station comprises one building. The station is open 24 hours per day, and the total number of staff is 61, although this group actually covers this crossing, the neighboring rail border crossing and station and two minor road stations. The staffing on any one shift, at this station, is four, and each shift is 24 hours. The number of vehicles that pass through the station is approximately 125-150 per month, and comprises 85% cars and light vehicles, and 15% lorries, of which the vast majority are transit consignments for Armenia. The official charge for clearance was quoted at 300 Lari (or approximately 150 USD).The time for clearance by mode normally fell within the following ranges: rail-12 hours; road 12 hours; and port 8 hours.

The documentation required by importers, depending on the type of good, are the following: Cargo declaration; Commercial Invoice; Certificate of Origin; Certificate of Quality (if necessary); and Certificate of Insurance.

The documentation required by exporters, again dependent on the type of goods, are usually the following: Cargo declaration; Bill of lading (or modal equivalent); Commercial Invoice; Certificate of Origin; Other certification (as necessary); and a copy of the Exporters License.

The following list details the different certificates that are necessary under certain circumstances, and the issuing organization, or department: Certificate of origin – Chamber of Commerce; Certificate of compatibility – State Standards Committee (required to confirm that the consignment meets Georgian standards); Hygiene and sanitary control – Ministry of Health; Veterinary Controls – Veterinary Department; and Phyto-sanitary certificates – Ministry of Agriculture.

Georgia introduced pre-shipment inspection, in 1999, with the dual objectives of reducing the movement of contraband, and increasing the amount of revenue for the state budget. The contract was awarded to a British Company, ITS. The requirement is that all import and export consignments into, and out of, Georgia, with an invoice value of least 5,000 USD, are required to undergo inspection. The cost of the service is 1.19% of the invoice value, with a minimum charge of 350 USD, plus VAT, where the value of the invoice must conform to the Customs minimum price lists.

Export promotion. The European Union has, through the TACIS program, supported the formation of a Georgian Export Promotion Agency (GEPA). This agency has been formed as art of a twenty-four month project, which is now approximately halfway. The project has been based on a successful initiative in one of the European regions. The explicit objective of the project is to increase exports, and make a concomitant contribution to the trade deficit. The Agency sees three key roles: training for prospective exporters, the provision of necessary information and export promotion, focusing on a number of key sectors; wines and spirits, foods, mineral waters, food processing, furniture, cement, stone facings and tiles and intellectual property. It has also, recently, formed an Association of Georgian Exporters.

Transit opportunities

Road infrastructure. The total length of road network is 20 215 km and average 44% of road have asphalt surface. 1474 km are international roads, 3326 km inter-state roads and 15415 km are local roads. The distances between transits checking-points in east-west directions are following:

- Sarpi (Georgian - Turkish border) - Poti - Khasuri - Tbilisi - Red Bridge (Georgian - Azerbaijan border) - 481km;
- Vale (Georgian - Turkish border) - Akhaltsihe - Khashuri - 103km;
- Tbilisi - Marneuli - Sadakhlo - (Georgian - Armenian border) 63km Road building in Georgia is difficult and costly, because 40% of the country's territory is mountainous.

The longest tunnel between west and east Georgia is 1700m (Rikoti). Highways operate during whole year. In frame of World Bank and Kuwait Foundation project of (total 45,000,000 USD) the reconstruction of 30 km of road section between Marneuli and Sadakhlo, is held in the period of 2002-2004. The construction of new road tunnel between Kobuleti and Batumi started in 2002.

Railway infrastructure. The railway is one of the main part of Georgian Transport system. The first link between Poti and Tbilisi was built in 1872. The next stage between Tbilisi-Baku and Batumi-Samtredia was completed in 1883, which gave direct access for Azeri Oil to the world markets. The total length of railway network is 1575 km. Approximately 90% railway lines are electrified. Approximately 290 km consists of double track line. 1285 km is one-track line and 37 km is narrow gauge (the link between Borjomi and Bakuriani track line). Railway network includes 126 stations. The maximum speed allowed is 120 km/hour and minimum - 25km/hour. There are total 45 railway tunnels and 1714 long and short bridges. The maximum downhill on the main direction is 29%. The signaling system in general conforms to European standards. The signaling equipment used for the various lines is appropriate for the type of traffic, line capacity and speed applying. Trains are fitted with secure radio system.

The distance between main TRACECA border-crossing points are following: Poti-BeiuKiasik (367km); Poti-Sadakhlo (388 km); Batumi-BeiuKasik (405 km);Batumi-Sadakhlo (426 km). The cargo turnover on railways during 2001 was following:

- Export- 478, 472 tones (4%)
- Import - 768,711 tones (6%)
- Transit - 10, 094,347 (77%)
- Local - 1,795, 470 (14%)
- Total -13,137,000 (100%)

Compare to year 2000 cargo turnover increased on 15%, mainly due to transit. The reconstruction of railway link between Shulaveri and Sadakhlo is planed to be financed from TACIS National budget (about. 1.000.000 Euro) in the next year.

Port infrastructure. *Port of Poti*- period of navigation is 12 months. Working regime-24 hours. Port has 15 berths, equipped with 26 portal cranes, (23 cranes- 20 tone capacity and 3 cranes-40 tones capacity). One floating crane with maximum 100-tone capacity. Total length of the berths is 2,860m. Maximum depth is 12.5m and minimum is 6.1m. The length of the channel is 1900m. The total inland area 1, 260sq.km Open storage area is 230,000 sq.m. and 5000 sq.m are covered warehouses. Cargo turnover in 2001: dry bulk cargo-1.327.000 (39%); general cargo-1.270.000 (37%); liquid cargo -843.000(25%); total -3.440.541 (100%)

Total container handling 46,000 TEU The berth N2 is equipped with Russian standard gauge rail bridge. The rail ferry between Poti -Varna -Illyichevsk operates weekly (maximum capacity 108 wagons, operator UKFERRY). The Ro-Ro Lines operate between Poti and Burgas, and Poti and Trabzon. Container Lines operate (Maersk, MSC, CMA, CMN) between Poti and Istanbul, Giao-Tauro, Pireus, Cyprus, Malta.

Port of Batumi.Period of navigation is 12 month. Working regme-24 hours. Port has 11 berths, equipped with 10/20 portal cranes (11 units), vacuum-cranes (2 units). Total length of berths is 2.300m. Maximum depth is 12 m and minimum 8 m. The total inland area is 1.73 sq.km. Open storage area is 11, 500 sq.m and covered warehouse area is 5.000 sq.m. Port Specializes in handling of crude oil and oil products, massive cargoes, general cargoes, grain, cars, timber, containers. Cargo turnover in 2001 was following: dry bulk cargo-205.000 tones (2%); general cargo-515.0000 tones (6%); liquid cargo -7.675.0000 tones (91%); total cargo-8.390.300 tones (100%)

The berth N6 is equipped with Russian standard gauge rail bridge. The rail ferry between Batumi - Constanca operates twice in a month (maximum capacity 108 wagons, operator MARFA). Batumi-Illyichevsk operates weekly (capacity 108 wagons, operator UKFERRY). The new multi-purpose container terminal is under construction (berth 5). Under TACIS National budget the reconstruction (2.2 million EURO from TACIS and the technical support of the Government of Romania and Moldova) of new European standard gauge rail bridge will be completed at the end of 2002.

Port of Supsa.Transportation of Caspian crude oil Baku -Supsa pipeline via Supsa terminal (capacity 160.000 tones) within offshore buoy. During 2001 about 5,9 million tones were handled (operator bp).

Port of Kulevi. The construction of the deep port and oil terminal in Kulevi (10 km north to Poti) with final total capacity 200.000 tone started in 2002 and will be completed in 2003.The rail link between Poti and Kulevi is under construction.

ARMENIA

The nature of consumer market is to be considered the mirror of the country's economic achievements or failure (retail trade turnover and volume of services rendered to population). The point is not merely a propos consumer market volume other than the latter's structural advancements too.

The growth of retail trade turnover and volume of services rendered to population in Armenia was 168.8% in 2002, comparing with 1997 data, i.e. the population went to 68.8% of more expenses in 2002 (784 billion AMD) to purchase goods and services than that of 1997 (464 billion AMD). Furthermore, since 1999 even higher rates were recorded re the growth of retail trade turnover and volume of services rendered to population in Armenia.

Consumer Market of the Republic of Armenia

Table 50. Retail trade turnover and volume of services rendered to population

	1998	1999	2000	2001	2002
Retail trade turnover and volume of services rendered to households (including food goods turnover), Total, bln. AMD	506.6	563.1	601.1	691.9	784.3
Growth rate, 1997. = 100%	109.1	121.3	129.5	149.0	168.8
Million US dollars	997.0	1048.2	1108.8	1238.7	1368.2

In fact, Armenian consumer market present capacity is 1.4 million US dollars annually. Therefore, the total retail trade turnover was 1.028 billion US dollars, which means that finished goods market capacity of Armenia is slightly more than annual volume of 1 billion US dollars. Incidentally, that constitutes about 2.8 times less than Azerbaijan's market capacity and approximately 1.5 times less from Georgian one.

A range of changes are recorded in retail turnover structure. In particular, the share of foodstuff that made up 68.5% comparing with 1997 data (86.0%), and the share of non-foodstuff increased up to 31.5% from 13.7% comes to definitely assert the growth of population welfare.

The share of bread and potato being the main characterizers of population with living low standards has reduced in foodstuff structure in 2001 comparing with 1997, correspondingly, from 62.8% to 37.9% and from 0.5% to 0.2%. While have the share of sausages (from 0.4% to 1.1%), vegetable oil (from 0.2% to 0.9%), egg (from 0.1% to 0.2%), sugar (from 0.3% to 0.6%), confectionery (from 0.5% to 0.7%), alcohol drinks (from 1% to 2.8%).

The structure of non-foodstuff goods possessed increased shares of cotton stuff (from 0.03% to 0.1%), clothes and linen (from 0.2% to 0.7%), toilet soup and perfume (from 0.01% to 0.3%), tobacco (from 0.3% to 1.1%), electric stuff (from 0.1% to 2.0%), cars (from 0.6% to 0.7%), furniture (from 0.1% to 1.4%), construction materials (from

2.4% to 2.8%). Already set trends affirm for the long-term, convenient for everyday use goods to be much preferred by population

Some positive advancement is made in the structure of services offered to the population in 2001, relative to 1997. That is the increase of service share in life (from 1.1% to 1.2%), education (from 5.2% to 9.5%), culture (from 0.4% to 0.7%), healthcare (from 1.7% to 3.1%), that asserts the satisfaction of people, their spiritual demands and health protection as well as the boost of capability and eligibility.

In accordance with data, the dynamics of retail trade turnover volume of 1997-2001 shows that civilized trade relations become more predominant in the course of time. Specifically, the share of retail shops has increased by 84.0% in goods turnover volume (from 25.7% to 47.3%), while decreased the share of consumer goods markets (from 37.7% to 29.2%) and stores (from 33.5% t 17.3%), accordingly by 22.6% and for 2.2 times.

Table 51. The dynamics of retail market turnover volume according to forming sources

		1998	1999	2000	2001	2002
Total, % *Including*		100.0	100.0	100.0	100.0	100.0
1.	Retail Shops	25.7	35.0	38.8	47.3	49.6
2.	Catering organizations	1.1	0.7	0.8	1.1	1.0
3.	Consumer goods markets	35.9	36.8	32.1	29.2	32.2
4.	Agricultural goods markets	2.3	5.0	5.6	5.1	4.3
5.	Stores	35.0	22.5	22.7	17.3	12.9

In order to present the existing character of Armenian consumer market let us study the level of 25 product groups, e.g. local production, import, export, local consumption as well as prices, that makes up more than the half of consumption basket.

Table 52

N	Name of Products	Unit	Imported (I)	Exported (E)	Produced (P)	(P)+(I)-(E)	Retail Average Price AMD	USD	
1	Beef	ton	7663.4	0	24432	32095.4	1113.4	$1.94	(kg)
2	Pork	-//-	620	19	6934	7535	1197.1	$2.09	(kg)
3	Chicken	-//-	11754.9	0	3695	15449.9	871.9	$1.52	(kg)
4	Fish	-//-	218.9	453.6	746.3	511.6	156.2	$0.27	(piece)
5	Butter	-//-	3303.4	0.3	27.8	3330.9	1405.5	$2.45	(kg)
6	Cheese	-//-	180.4	96.2	4812.2	4896.4	1143	$1.99	(kg)
7	Coffee	-//-	10586.6	607.4	-	9979.2	2338.4	$4.08	(kg)
8	Wheat	-//-	330519	30.4	284673	615161.6	128.7	$0.22	(kg)
9	Bread	-//-	0	0	294349	294349	230	$0.40	(kg)
10	Rice	-//-	14071.4	0	-	14071.4	301.8	$0.53	(kg)

11	Flour	-//-	14241.3	0.8	108489	122729.5	170	$0.30	(kg)
12	Egg	million units	2.9	15.5	477.7	465.1	431.1	$0.75	(10 units)
13	Vegetable oil	ton	12097.2	0.2	1167.2	13264.2	841.1	$1.47	(litre)
14	Margarine	-//-	3249.1	0.6	-	3248.5	786.5	$1.37	(kg)
15	Sugar	-//-	68400.2	0	-	68400.2	257.9	$0.45	(kg)
16	Macaronis	-//-	1254.4	0.1	847.7	2102	240.8	$0.42	(kg)
17	Wine	thousand litre	62	710.9	6534.8	5885.9	889.3	$1.55	(0.7 litre)
18	Ethyl alcohol	-//-	0	0	1912	1912	-		-
19	Cognac	thousand litre	1.8	5898.6	6144.8	-	3353.1	$5.85	(0.5 litre)
20	Vodka	-//-	640.5	108.4	10598.4	-	1243.8	$2.17	(0.5 litre)
21	Tobacco (Cigarette)	thousand packs	84482.5	8017.7	140755	217219.8	194.3	$0.34	(pack)
22	Petrol	ton	178138.3	0	-	178138.8	260.4	$0.45	(litre)
23	Diesel oil	-//-	87150.3	0	-	87150.3	177.4	$0.31	(litre)
24	Electric energy	thousand km/h	297040.1	695838.5	5510300	5111502	25	$0.04	(km/h)
25	Plastic stuff	ton	7749.2	249.8	215.3	7714.7	-		

The dynamics of aforementioned consumer basket constituting the major part of consumer market asserts on more than 30 percent of import substitution for domestic products in 2002 consumption structure, comparing with that of 1996 recorded. However, as the picture of 2002 shows, the internal consumer market of Armenia keeps on providing considerable demand for imported goods. The product groups that mainly are going to be imported (at least coming 5-10 years) given to climatic conditions and recourses provision possess huge share in consumer basket. For instance, rice, wheat, vegetable oil, sugar, petrol and diesel oil, etc, are one of those groups being basically imported. Actually, Armenian import structure comprises a range of product groups that actually can be imported right from neighbouring countries, which will cut the price level in internal market meanwhile cheapening the transportation expenses.

The aforementioned table info brings to hereby conclusion:

About 68.5 thousand tons of sugar is being annually consumed in Armenia, 1 kg by 45 cent of average retail price. Entirely imported;

About 180 thousand tons of petrol is being annually consumed in Armenia, 1 liter by 45 cent of average price. Entirely imported;

About 87 thousand tons of diesel oil is being annually consumed in Armenia, 1 liter by 31 cent of average price. Entirely imported;

About 615 thousand tons of wheat is being consumed in Armenia, thus 1 kg by 22 cent of average price. Imported more than the half.

Consequently, the above enumeration can be continued.

At the same time, the domestic market capacity is small enough to encompass some of the economy sectors products, e.g. agriculture, processing industry, light industry, mining, etc, whilst export becomes the focal precondition for the latter.

AZERBAIJAN

Table 53. Dynamic of consumption expenditures of population (%)

1990	1995	1996	1997	1998	1999	2000	2001	Consumption expenditures
100	100	100	100	100	100	100	100	Total of whicfi:
53,4	76,0	76,1	77,6	77,1	72,2	66,3	68,3	food
36,4	17.1	17,1	15,2	16,2	17,5	23,2	7,1	non-food commodities
1.3	0,9	0,8	0,6	0,9	1.1	1,2	2,6	alcoholic beverages
8,9	6,0	6,0	6,6	5,8	9,2	9,3	22,0	services

Table 54. Consumption expenditures and its structure by living place in 2001

All households		Urban households		Rural households		
manat	%	manat	%	manat	%	Consumption expenditures total
158900	100	157260	100	160777	100	
108540	68	99672	63	118808	74	Food expenditure
4123	3	4169	3	4070	3	Alcohol and tobacco
5199	3	5509	4	4840	3	Clothes and footwear expenditure
7378	5	7009	4	7805	5	Housing, water, electricity, gas and other fuels expenditure
5996	4	9296	6	2175	1	Furnishings, household equipment and routine maintenance of the house
2999	2	3655	2	2239	1	Health expenditure
6516	4	7449	5	5435	3	Transport expenditures
1820	1	2270	1	1298	1	Communications expenditures
3803	2	3575	2	4068	3	Recreation and culture expenditures
1858	1	2201	1	1462	1	Education expenditures
6385	4	7632	5	4942	3	Restaurants, cafes and accommodation expenditures
4283	3	4844	3	3635	2	Miscellaneous goods and services expenditures

Table 55. Dynamic of consumption of food products (annual per capital, kg)

1990	1995	1996	1997	1998	1999	2000	2001	Food products
32	15	16	15	19	22	22	21	Meat and meat products calculated as meat (including fat and offal)
295	138	171	142	145	152	154	178,3	Milk and milk products (calculated as milk)
144	76	78	76	77	110	112	117,0	Eggs, piece
35,0	12,2	13,2	14,1	13,9	16,1	16,8	22,2	Sugar
2,5	2,1	1,6	2,3	1,7	2,7	3,1	5,8	Vegetable oil
4,2	1,3	1,0	1,6	3,1	2,7	2,7	4,5	Fish and fish products
27	23	25	27	31	38	47	55	Potatoes
68	60	84	73	76	109	129	135	Vegetables and market garden products
33	62	63	60	68	64	60	62	Fruit and berries, grape (excluding Wine production)
153	141	150	143	143	150	158	160	Cereal products (flour, groats, pulses: bread and macaroni calculated as flour)

Table 56. Consumption of main food products in 2001 (annual, kg)

Total	Purchased	Received	Items

consumption		free	
70,1	54,0	16,1	Bread high class of flour
70,2	68,6	1,6	Flour wheaten
8,1	8,1	0.1	Groats rice
1.1	1,1	0,0	Buckwheat
1,1	1,0	0,1	Peas
3,3	3.3	0,0	Vermicelli
3,9	3,9	0,0	Macaroni
9,6	9,3	0,3	Beef and veal
4,5	1,8	2.7	Chicken
2,6	2,3	0,3	Mutton and goat
3,2	2,4	0,8	Fresh fish
15,0	3,4	11,6	Milk crude
3.1	1.6	1,6	Kefir
11,5	4,9	6,6	Curdled milk
2,5	1,4	1,1	Cottage cheese low-fat
4,1	2.9	1,2	Cheeses firm
117,0	68,0	49,0	Eggs chicken, piece
1,9	1,9	0,0	Oil sunflower
1,5	1.5	0.0	Margarine
1,5	1,5	0,0	Vegetable oil
4,5	3,4	1,1	Butter
8,2	6,9	1,4	Cabbage fresh
13,8	12,5	1,3	Onions
1,4	1,3	0,1	Carrots
7,3	5,3	2,0	Cucumbers
11,8	8,4	3.4	Tomatoes
15,0	9,7	5,3	Other fresh vegetables
8,4	6,2	2.2	Apples
1,1	0.5	0,6	Pears
1,1	0,3	0,7	Peach
2,1	1,7	0,4	Citrus
2,0	0,8	1,2	Grapes
10,0	7,7	2,3	Water-melons and melons
7,1	4,8	2,3	Other fresh fruit
1,3	0,7	0,6	Nuts
35.4	29,4	6,0	Potatoes fresh
1,3	1,3	0,0	Tea black
12,5	12,4	0.0	Sugar-sand
12,2	12,2	0,0	Sugar-lump sugar
2,3	2,2	0,1	Sweets candy
4.0	4.0	0.0	Salt

Table 57. Consumer durable goods of households by household size (unit per 100 households)

1 person	2 persons	3 persons	4 persons	5 persons	6 and more	
52	49	37	44	50	56	Black and white TV
35	47	63	56	53	49	Color TV
2	6	10	11	14	12	Satellite dish
0	0	1	0	0	0	PC
2	2	3	3	2	2	Stereo
23	39	54	52	52	53	Taps recorder
10	18	27	26	22	20	VCR
1	1	1	1	1	1	Video camera
3	8	12	11	10	8	Photo camera
16	16	18	16	14	10	Air conditioning
82	90	91	89	88	91	Cooler
14	21	27	24	23	22	Washing machine
15	22	30	26	22	20	Vacuum cleaner
20	27	24	22	23	28	Sewing machine
0	0	0	0	0	0	Dish waster
0	1	1	1	1	1	Kitchen unit

0	0	1	1	1	1	Motor cycle
0	1	2	2	2	1	Bicycle
9	13	17	18	19	20	Car

GEORGIA

According to SDS data in 2000 the share of expenditure on household items, healthcare, fuel and electricity, transportation, education and recreation, savings or lending increased in total consumption expenditures, while consumption of food items, alcohol, tobacco, cloth and footwear items decreased. However, food stuff remain the important item of consumption (42.7%), as well as expenditures on household items (12.2%), savings or lending (8.9%), fuel and electricity (7.1%), transportation (6.1%), and cloth and footwear (5.7%).

Table 58. Average monthly expenditure of population, 1999-2000

	1999		2000	
	Mln. GEL	*%*	*Mln. GEL*	*%*
Total cash expenditure on consumption, of which	***204.4***	***91.6***	***218.0***	***88. 4***
Food items	110.6	49.6	105.3	42.7
Alcohol	1.5	0.7	1.8	0.7
Tobacco	4.3	1.9	4.6	1.9
Clothing and foot wear	13.4	6.0	14.0	5.7
Household items	23.9	10.7	30.0	12. 2
Healthcare	7.2	3.2	11.3	4.6
Fuel and electricity	14.2	6.4	17.5	7.1
Transportation	12.7	5.7	15.1	6.1
Education and recreation	5.9	2.6	7.7	3.1
Other cash expenditures on consumption	6.1	2.7	5.4	2.1
Other expenditure- total, of which	***18.8***	***8.4***	***28.7***	***11.6***
Agriculture	4.8	2.2	6.2	2.5
Social transfers	0.4	0.2	0.5	0.2
Savings or lending	13.5	6.2	22.1	8.9
Total cash expenditure	**223.1**	**100**	**246.7**	**100**

Reduction in expenditures on food stuff was mainly due to decrease in consumption of bread, vegetables and melons, sugar. During this period increased consumption of potatoes, cabbage, fruit and grape, milk and milk products, eggs, margarine and other fats.

Table 59. Consumption of selected food stuffs in households (kg per capita during year)

Items	**1999**	**2000**
Bread (bread and macaroni products in terms of flour), flour, groats and legumes	141.1	130.3
Potatoes	47.6	48.5
Cabbage, fresh and pickled	11.6	12.6
Vegetables and melons	55.2	51.9
Fruit and grape (incl. diet fruit) in terms of fresh	43.5	51.3
Sugar, incl., used in confectionery and canned fruit	24.8	21.2
Meat and meat products (in terms of meat)	19.8	19.8
Fish and canned fish (in term of fish)	1.3	1.2
Milk and milk products (in terms of milk)	209.0	213.5
Eggs, pieces	124.6	129.2
Margarine and other fats	0.8	1.0
Vegetable fats	8.2	8.0

The SDS data[14] on consumer durables suggest that more than 75% of the Georgian population has TV sets and refrigerators, approximately half of the population has

[14] The consumer behavior barometer. State Department of Statistics of Georgia, Tbilisi 2002.

washing and sewing machines, almost25 %has radio receivers, record players, VCR audio cassette recorders.20% has cars, and about 2-3% has PC, electro engines, tractors, tracks or mini vans.

Table 60. Consumer durables in households (unit per 100 household)

	1999	**2000**
Refrigerator	71	86
Washing machine	49	57
Radio receiver	21	22
TV set	75	92
Vacuum cleaner	19	21
Sewing machine	43	51
Record player	4	5
VCR	11	14
Audio cassette recorder	28	34
Piano	21	26
Photo camera	11	15
Bicycle	4	4
Motorcycle	1	1
Car	15	20
Country cottage	3	5
Track	2	3
Mini-tractor	3	4
Tractor	1	2

ARMENIA

Table 61. Production Account Brunches For 2000 (at current prices, mln. drams)

Production of goods	**1056632.3**
industry	458171.1
agriculture	411324.6
forestry	707.9
construction	183655.4
other types of activity on production of goods	2773.3
Production of services	615603.0
market services in branches	495617.3
transport	87905.0
communication	36501.5
trade and catering	167525.7
material supply	7405.0
procurement	1231.8
computer and related activities	370.5
real estate activities	1757.4
general commercial activities on the provision of the functioning of market	4249.0
geology and mineral prospecting, geodesic and hydro meteorology services	411.3
housing resources	51337.4
public utilities and non-production types of personal services of population	74170.1
finance, credit, insurance	26746.7
science and scientific services	3889.1
health care, physical training and sport, social security	10734.2
education, culture, art	19171.5
management	2211.1
public unions	2211.1
non-market services in branches	119985.7
maintenance of road	1714.4
housing resources	699.4
public utilities	2348.6
science and scientific services	1420.2
health care, physical training and sport, social security	11576.9
education, culture, art	29962.0
finance, credit, insurance	653.4
general administration and defense	70325.4
public unions	1285.4
Total by branches	1672235.3

AZERBAIJAN

Since 1997 the realized reforms provide the permanent development of production. If in 1997 production volume was increased for 0,3%, next years these inclinations being increased, took the persistent nature. In 1998 increasing was for 2,2 %, in 1999 - 3,6 %, in 2000 -6,9 % and in 2001 -5,1 %. Production volume was increased in oil and gas extraction for 5,9 %, in power industry - 1,9 %, machine construction - 19,5 %, construction materials industry -1,8 %, food industry -7,6 %, flour-milling and cereals industry - 13,4 %

Production of most significant industry products: crude oil, electric power, motor gasoline, nitrogen, isopropyl alcohol, chloride acid, cast iron, steel, cement, separate types of oil-mining equipment, household refrigerator, meat and meat products, whole milk flour, strong drinks, tea, tobacco and etc., was increased. In 2001 crude oil extraction - main product of industry, made 14,9 mil. ton, and that is corresponding to level of 1979. Thus, after 60-th in oil extraction field it was prevented the regress continuing every year because of objective reasons.

Every year increasing of importance of non-governmental division plays the great role in the development of production. Increasing of new formed household structures, widening and dynamic development of small ownership brought to rise of nongovernmental sectors role. So that, in total production the specific gravity of non-governmental sector was increased from 5,5% of 1995 to 26,4% in 1998, 43,7% - 2000, and 46,7% -2001.

Table 62. Structure of production by economic types of activity (as percent of total)

1997	1998	1999	2000	2001	
100	100	100	100	100	Total
31,2	32,3	46,8	53,4	58,6	Extraction of crude oil and natural gas, service by extraction refining oil and gas
0,01	0,01	0,01	0,01	0,0	Extraction of metal resources
0,1	0,3	0,2	0,1	0,1	Work of mining industrial and quarrying of stare
3,7	3,7	3,1	2,6	3,2	Manufacturing of the food and drink
0,4	0,2	0,2	0,5	1,6	Manufacturing of tobacco goods
3,7	2,5	1,3	0,9	0,7	Manufacturing of sewing goods
0,2	0,4	0,1	0,2	0,2	Manufacturing of clothes, decoration and fur
0,2	0,3	0,1	0,1	0,1	Dressing and processing of leather, production of suitcases, bags, harness and foot-ware
0,1	0,2	0,1	0,1	0,1	Production of wood, cork and straw, furniture, production of straw and wicker wares
0,02	0,01	0,02	0,01	0,02	Production of pulp, paper and paper products
0,2	0,3	0,4	0,2	0,3	Publication paleography industry 1 and printed materials publishing
34,0	28,6	18,2	18,4	14,9	Production of coke, oil-refining and nuclear fuel fl products.
2,9	3,4	3,5	3,4	3,4	Production of chemical products
0,4	0,4	0,2	0,1	0,2	Lots production of plastic and rubber manufacturing
1,2	1,5	0,9	0,8	1,0	Production of other non-metal 1 mineral substance
0,7	0,6	0,2	0,1	0,5	Production of principal materials
0,5	0,7	0,6	0,3	0,3	Production of ready made metal product not including car and equipment
1,8	1,9	1,0	1,1	1,0	Production of car and equipment not including other categories
0,05	0,03	0,01	0,01	0,0	Production of office, accounting and computing machinery
0,3	0,5	10,2	0,2	0,2	Production of electro car and deice not including other categories
0,1	0,04	0,1	0,04	0,03	Production of devises and equipment of the TV set, radio, communication
0,2	0,2	0,1	0,06	0,07	Production of medical devise, optical instruments and photographic equipment, watches and the other kind of clocks
0,01	0	0	0,01	0,01	Production of automobile, trailers and semi trailers
0,9	0,7	0,8	1.9	1,19	Production of other transport equipment
0,2	0,2	0,2	0,2	0,14	Manufacturing of furniture and ready made products not included in other categories
0,01	0,01	0,06	0,06	0,04	The repeated processing
16,9	21	21,6	15,2	12,1	Supply electric energy, gas and water

Table 63. Average price and tariffs of paid services for population (end of year, manat)

1995	1996	1997	1998	1999	2000	2001	
0.13	0.13	0.13	0.13	230	103,72	77.0	Expenditures on maintenance of dwellings,1sq.m
216	1612	2468	2493	2660	2291,7	2227	Water supply payment, per capita
19	635	885	885	929	1092.0	1101	Gas supply payment, per capita
24	50	96	96	96	96,02	96	Payment for electricity, 1 kw/h
850	850	3000	3000	3567	3416,8	3398	Subscriber's payment for telephone apparatus
285	436	449	545	524	528,54	492	One trip by city transport
314	354	364	364	160	159.16	160	Municipal kinder garden, 1 child-day

Table 64. Wholesale price indices of industrial products by branches (% change from previous year)

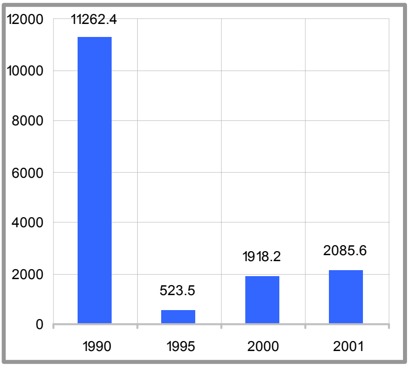
1990	1995	1996	1997	1998	1999	2000	Sectors
106,0	560,7	195,7	129,8	87,6	93,9	127,4	Industry-total
100,0	553,8	111,9	106,8	101,1	92,1	89,3	Electricity
102,2	432,1	143,8	133,0	78,2	92,2	154,3	Fuel industry
101,2	154,3	100,0	100,0	100,0	100,0	75,0	Ferrous metallurgy
100,0	302,7	122,2	100,0	100,3	95,6	72,5	Bright metallurgy
101,3	829,0	184,2	150,8	112,6	99,9	89,6	Manufacture of machinery
100,0	1364,8	212,1	113,6	107,6	98,4	93,5	Chemical industry
101,3	521,3	174,0	133,7	112,0	110,5	102,1	Petrol-chemical industry
109,0	894,4	185,7	104,5	97,8	99,3	82,2	Forestry, wood and pulp-paper industry
100,0	515,3	123,4	99,9	100,4	100,3	150,3	Construction material industry
105,6	411,9	166,4	105,1	99,6	100,9	92,4	Light industry
117.5	1462.9	392.5	115,1	110.3	102.4	85,4	Food industry

GEORGIA

The dynamics in Georgian production sector can be divided into two phases during the period of 1991-2001: the descending and ascending. In 1995 the production output accounted for only 14% of its level in 1990. During this period the significant decline underwent mining and quarrying (96.8%), building materials industry (96.2%), light industry (95.9%), chemical and petroleum industry (91.2%), wood-working, pulp and paper industry (90.8%), ferrous metallurgy 89.1%), machinery and metalworking (87.0%), food industry (86.9%)mill and groats industry (78.6%).

The period of 1996-2001 is characterized by ascending dynamics of production output. During this period output grew with 4.5% annual rate and reached 30.2% total growth rate in 2001 as compared to 1995. Mining industry's growth rate accounted for 117% and manufacturing industry grew by 36.2%.

Figure 57. production output (mln GEL), 1990-2001



However, the positive developments that took place in production sector in the recent period has not compensated the deep decline occurred at the beginning of the decade. In 2001 production volume declined by more than five times as compared to1990. The dynamics of sales of own products in local markets reflects almost 40% increase in sales volumes in 2000 as compared to 1996.

Figure 58. Sales of own produced products in local market, (mln GEL) 1996-2000

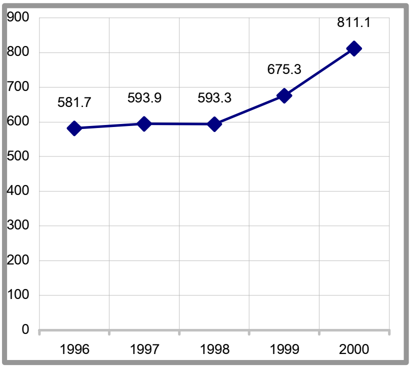


Table 65. Output of products and services by kinds of economic activities, thsd. GEL

	1998	**1999**	**2000**
Total industry, including production of informal economy	1219.4	1753.2	1918.2
Basic industry, of which	809.4	975.1	1051.9
Mining and quarrying, of which	*19.2*	*28.6*	*69.2*
Mining of coal	0.4	0.8	0.3
Mining of crude petroleum and natural gas	11.0	15.2	36.4
Mining of metal ores	4.8	9.5	29.5
Other mining and quarrying	3.0	3.1	3.0
Manufacturing, of which	*470.1*	*558.2*	*575.5*
Manufacture of food products and beverages	251.8	283.0	299.5
Manufacture of tobacco products	1.5	5.4	4.0
Manufacture of textiles	2.9	2.6	1.2
Manufacture of wearing apparel	5.0	4.9	2.1
Manufacture of leather products and footwear	1.1	6.6	5.7
Manufacture of wood products	3.6	5.4	5.1
Manufacture of pulp, paper and paper products	1.6	2.5	1.7
Publishing and printing	16.5	18.6	12.6
Manufacture of coke, refined petroleum products and nuclear fuel	9.2	14.8	11.1
Manufacture of chemicals and chemical products	28.0	28.5	30.5
Manufacture of rubber and plastic products	7.8	6.9	7.5
Manufacture of other non-metallic mineral products	28.9	41.9	44.7
Manufacture of basic metals	55.2	71.4	65.7
Manufacture of fabricated metal products	5.4	5.8	5.0
Manufacture of machinery and equipment	4.5	6.4	4.7
Manufacture of office machinery and computers	0.4	0.5	0.3
Manufacture of electrical machinery and apparatus	3.2	4.0	9.0
Manufacture of radio and TV, and communication, equipment	0.3	0.7	1.3
Manufacture of medical, precision and optical instruments, watches	0.9	0.5	0.3
Manufacture of motor vehicles, trailers	5.5	7.0	6.6
Manufacture of other transport equipment	31.5	36.4	52.9
Manufacture of furniture; other manufacturing	5.2	4.2	3.6
Recycling	0.1	0.5	0.4
Electricity, gas and water supply, of which	*320.1*	*388.3*	*407.2*
Electricity, gas, steam and hot water supply	301.3	368.3	378.7
Collection, purification and distribution of water	18.8	20.0	28.5

Table 66. Production of selected industrial commodities

	1998	**1999**	**2000**
Mining and Quarrying			
Coal, thsd. tons	14.7	12.0	73
Petroleum (including gas condensate), thsd. tons	119.2	91.3	109.5

Natural gas, mln. cubic m.	-	-	79.5
Manganese ore, thsd. tons	16.0	54.9	63.1
Non-ore building materials, thsd. cubic m.	446.2	267.9	281.0
Natural ceolit, tons	6	83	44
Manufacturing			
Meat, tons	178	6	66
Sausage, tons	1152	1423	987
Canned fruit and vegetables, mln. standard cans	2.9	6.6	11.2
Vegetable oil, tons	542	476	144
Dairy products, thsd. tons.	6.6	4.6	4.2
Butter, tons	265	1490	813
Fat cheese, tons	47	93	63
Flour, thsd. tons	148.0	114.4	103.5
Groats, tons	417	556	407
Bread and bakery products, thsd. tons	172.5	113.6	113.3
Confectionary products, tons	277	154	144
Macaroni, tons	860	470	270
Granulated sugar, tons	-	20012	35282
Packed high quality tea, thsd.tons	4.9	4.5	3.1
Brandy, thsd. decalitres	37.8	31.1	71.3
Vodka and liquor, thsd. decalitres	112.7	463.8	439.4
Wine, thsd. decalitres	2303.8	1939.3	1816.1
Sparkling vine, thsd. decalitres	40.3	66.9	87.7
Beer, thsd. decalitres	971.3	1257.6	2345.0
Mineral water, mln. half litres	61.3	49.7	72.3
Non-alcoholic beverages, thsd. decalitres	2902.6	2194.6	2866.6
Cigarettes, mln.units	601.2	1326.9	285.0
Silk thread, tons	-	-	-
Cotton yarn, tons	62	7	-
Wool yarn, tons	59	40	5
Fabrics, thsd. square m. of which:	247.6	167.9	-
cotton	95.9	25.0	-
wool	30.9	82.1	-
silk	120.8	60.8	-
non-woven fabrics	-	-	-
Rugs and carpets, thsd. square m.	-	-	-
Hosiery thsd. pairs	11.6	0.5	0.5
Knitwear articles, thsd. units	59.0	14.3	10.3
Leather footwear, thsd. pairs	95.4	101.3	89.8
Sawn wood, thsd. cubic metre	33.0	34.3	39.7
Paper, thsd. tons	0.03	0.04	0.04
School notebooks, thsd. units	316.1	370.3	190.7
Coke, 6% humidity, thsd. tons	-	-	-
Oil primary refining, thsd. tons	40.1	59.1	31.7
Petrol, thsd. tons	-	3.6	1.8
Diesel, thsd. tons	13.8	22.3	8.8
Fuel oil, thsd. tons	15.9	23.2	16.0
Petroleum asphalt, thsd. tons	-	-	-
Synthetic ammonia, thsd. tons	77.5	126.6	136.2
Electrolytic manganese dioxide, tons	534	390	-
Mineral fertilizers (in terms of 100% of nutrients), thsd. tons	55.4	95.1	100.2
Chemical fibers and threads, thsd. tons	0.3	0.3	0.03
White pigments (Lithopone), thsd. tons	-	0.4	0.5
Resin footwear, thsd. pairs	-	-	-
Synthetic detergents, tons	10.9	-	-
Packed paints, tons	276	186	162
Porcelain and faience dishware, thsd. units	274.2	320.5	185.9
Cement, thsd. tons	198.6	341.4	347.7
Masonry concrete and silicate blocks, mln. standard bricks	16.5	12.4	11.3
of which building bricks	13.2	7.7	4.7

Prefabricated reinforced concrete structures, thsd. cubic m.	8.7	9.3	10.3
Soft roofing materials and isol., thsd. square m	612	96	-
Pig iron, thsd. tons	0.1	-	-
Steel, thsd. tons	56.4	7.0	0.1
Steel pipes, thsd. tons	8.5	0.1	0.2
Finished rolled ferrous metals, thsd. tons	42.7	7.2	1.4
76% carbonated electro-ferromanganese, thsd. tons	3.4	4.9	0.6
Medium carbonated 80% manganese, thsd. tons	10.3	6.4	6.1
90% metal electro manganese, tons	-	-	-
82% silicon manganese, thsd. tons	31.8	26.2	20.5
Subversive electric motors, units	74	63	559
AC electric motors with 63-450 mm. height gyration spindle, thsd. units	-	-	-
Low power electric motors, thsd. units	0.02	-	-
Electric welding equipment, thsd. units	1	-	-
Metal-cutting machines, units	21	2	3
Column cranes, units	-	-	-
Main-line locomotives, units	-	-	4
Trucks (lorries), units	39	38	44
Mini-tractors, units	17	-	-
Galvanic cells and batteries, thsd. units	-	-	-
TV sets, thsd. units	1039	1310	1585
Electricity gas and water supply			
Electricity, mln.KWH	8088.4	8118.7	7446.5

Table 67. Average prices on selected good and services (end of year, GEL per kg)

	1998	**1999**	**2000**
Beef	4.10	3.90	3.90
Pork	4.20	3.90	3.90
Poultry	3.62	4.30	4.30
Frozen fish	1.96	2.80	2.70
Butter	6.20	6.00	5.60
Margarine	2.80	3.40	2.77
Fresh milk	1.08	1.12	1.20
Cheese	3.80	3.90	3.80
Hen's eggs, 10 pieces	1.56	1.58	1.54
Sunflower oil, liter	2.40	2.26	2.26
Sugar	0.97	0.79	1.00
Wheat flour	1.00	1.16	0.87
Wheat bread	0.66	0.67	0.70
Salt	0.48	0.30	0.30
Macaroni products	1.20	1.07	1.07
Rice	1.55	1.92	1.63
Potatoes	0.75	0.55	0.50
Onions	0.52	0.55	0.50
Beet	0.68	0.56	0.56
Carrot	0.82	0.72	0.62
Cabbage	0.32	0.27	0.32
Apples	0.45	0.72	0.62
Grape wine, per 0.7 liter	1.37	2.51	2.46
Running water monthly fee, per head	0.60	0.60	0.60
Electricity, 1 KWH	0.06	0.09	0.098
Natural gas, 1 cubic meter	0.214	0.250	0.250
Telephone monthly fee	0.88	1.75	1.75
Gasoline, 1 liter	0.49	0.97	0.99
Diesel fuel, 1 liter	0.23	0.72	0.72
Printing of color photograph (9*13), 1 unit	0.4	0.35	0.35

ARMENIA

Trade in energy

Electric power

Energy industry is considered as one of the most developed branches of the country's economy. The main energy resources, traditionally used in Armenia, are oil products, natural gas, nuclear energy, hydropower and coal.

During the period of 1985-1988, the consumption of these resources fluctuated at 8.5-9.0 million tons oil equivalent per year. The installed capacity of the Armenian Power System constituted about 3,600 MW.

The installed capacity of the Thermal Power Plants is 1754 MW. The capacity of the Armenian Nuclear Power Plant is 815 MW (2 units with VVER - 440).

The only indigenous source for power generation in Armenia is the hydro energy. The installed capacities make up more than 1000 MW.

Prior to 1988, up to 96% of the total fuel consumption was accounted for imported fuel. At the same time, the Republic of Armenia has respectable reserve of indigenous lie idle energy resources.

The hydro-energy potential of Armenia is estimated at 21.8 billion kWh/year. Technically available capacity is estimated at 7-8 billion kWh. The projected electricity generation of the operated 2 cascade HPPs and the small HPPs constitutes about 20% of the technically available capacity.

The high voltage transmission network composed of 220 kV network length 1323 km with 14 substations, and 110kV network length 3169 km with 119 substations. Armenian Power System has interconnections with all the neighbouring countries, including 65 km HVL-220kV with Georgia, 78.5 km HVL-220kV with Iran, 65 km HVL-220kV with Turkey and 100km HVL-330 kV with Azerbaijan. The capacity of high voltage network is sufficient for the forecasted loads.

As it has been admitted by the International Monetary Fund, Armenia is one of progressive CIS countries in implementation of Energy Sector reforms.

The tariffs for electric energy are being set by the independent Energy Regulation Commission. The commission has set the following tariffs for energy generation, transmission, consumption:

- Avg. generation tariff (w/VAT) = 2.4 c/KWh
- Avg. transmission tariff (w/VAT) = 0.4 c/KWh
- Avg. bulk-supply tariff (w/VAT) = 2.8 c/KWh
- Avg. retail tariff (w/VAT) = 4.1 c/KWh

The gas supply system consists of the main, ring shaped distribution networks. The total length of the main and gas distribution networks are 2 thousand and 9.3 thousand km respectively. The pipelines can receive and deliver to consumers about 450 million m^3 gas per day. In 1980s the maximum demand for natural gas in Armenia was above 5-6 billion m^3/year. There have been built five main gas pipe lines, which ensured the gas delivery from three sides: Georgia, North and West Azerbaijan. Today only the first one is operating.

Currently the natural gas demand is 1.5 billion m^3 per year, but the expected demand by the year 2015 is 5 billion m^3 per year. Gas distribution in Armenia is performed through the high, medium and low-pressure distribution networks.

Being a net importer of oil products, gas and other fuel, Armenia is exporting electric power. Currently the main exports of electric power are directed to Georgia. Nevertheless there is a more potential for exports of electricity to neighbouring countries.

AZERBAIJAN

Local trade

During 1999-2001 due to establishment of market economy, liberalization of prices, foreign economic activity, several forms of trade and new forms of provision of goods and services for population were formed, destroy of old system has led to reconstruction of branches of trade.

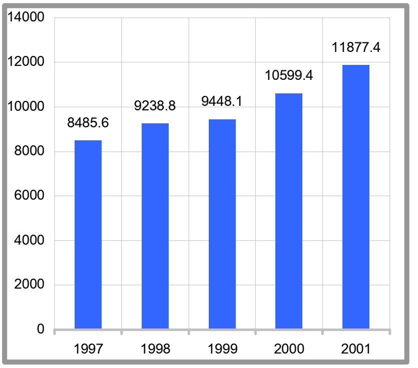
In 1990 by all types of trade and paid service there were sold consumer goods to population in the amount of 1,2 billion manat, in 2001-11877,4 billion manat and the paid services correspondingly made 0,1 and 2488,6 billion manat.

79,7 percent of the total volume of commodity turnover in 1990 was the share of the organized trade, in 2001 this indicator made 26,5%. Serious changes had occurred in the structure of organized trade during this period, state enterprises were gradually replaced by newly established private enterprises. Since 1990 non-state sector has been rapidly developed, until 2001 share of the state trade in total commodity turnover reduced from 32,9 to 1,6%.

The structure of trade commodity turnover by physical persons has been also significantly changed. In 1990 while 72,0% of trade commodity turnover by physical persons was the share of the food stuff, non food stuff and miscellaneous goods fairs, but 28,0% was the share of agricultural products market, in 2001 46,7% of the commodity turnover was the area of physical persons engaged in ownership activity without establishing a legal person. In this sphere the share of fairs and agricultural markets correspondingly was 35,2 and 18,1%.

In accordance with the dynamics of the physical volume index of commodity turnover during the last decade there was observed the decrease of the real volume of commodity turnover but since 1993-1994 this indicator has been increased every year. Although in 2001 in comparison with 1990 and 1991 physical volume index was correspondingly 68,4 and 75,3%, in comparison with 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000 this indicator was 170,5; 202,2; 197,7; 173,3; 150,8; 136,7; 120,7 and 109,9%.

Figure 59. Retail Trade Turnover (bln Manat)



During 1990-2001 the private sector was also dynamically changed in the market of paid services for population, although in 1990 only 0,9% of paid services was related to non-organized sphere, in 2001 year 65,3 % of paid services were formed by the private sectors.

In first year of XXI in comparison with 1990, 1991, 1992, and 1993 physical volume indices were correspondingly 10,3; 12,3; 36,0 and 58,6%, and in 1994, 1995, 1996, 1997, 1998, 1999 and 2001 this indicator correspondingly was 130,5; 172,6; 149,1; 134,2; 117, 8; 111, 7 and 105,6%.

Table 68. Main indicators of trade (bill. manat)

1990	1995	1997	1998	1999	2000	2001	
1,2	5293,4	8485,6	9238,8	9448,1	10599,4	11877,4	Retail trade turnover
1,0	1668,1	3115,7	3029,0	2812,1	2990,2	3143,3	Legal persons
0,2	3625,3	5369,9	6209,8	6636,0	7609,2	8734,1	Physical persons of which:
0,1	1072,4	1246,5	1339,1	1311,6	1431,9	1580,3	agriculture's markets
0,1	54,8	60,2	81,5	84,5	92,2	102,5	Turnover in public catering
166,8	699732	1099413	1185526	1201620	1336856	1486310	Turnover per capita, manat
0.6	3972,5	5956,9	6384,0	6490,9	7235,5	8036,2	Food goods including:
0,4	2734,7	4052,4	4483,3	4584,0	5041,3	5794,1	main foodstuffs
0,01	245,1	351,1	379,8	402,9	423,7	443,0	Retail turnover of alcohol beverages
0,6	1320,9	2528,7	2854,8	2957,2	3363,9	3841,2	Non-food goods
0,2	1318,1	2469,3	5358,5	5425,0	6015,6	6365,1	Turnover of wholesale trade

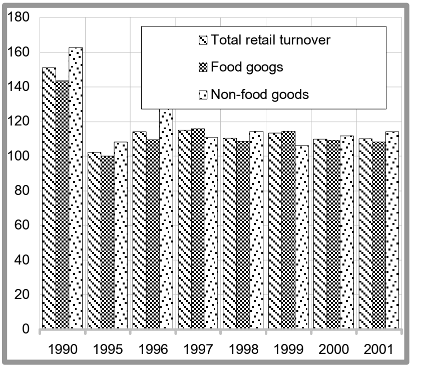
Table 69. Sale of durable goods in the state and cooperative trade (thsd. units)

1990	1995	1996	1997	1998	1999	2000	2001	Durable Goods
477,9	195,6	166,3	189,4	340,9	1359,9	1380,4	409,3	Clocks and watches
150,9	57,5	65,4	85,0	100,8	108.7	117,9	121,7	Radio-sets
123,6	8,8	16,5	19,4	46,8	51,9	58,9	67,6	TV sets
19,1	0,3	0,8	3.6	329,7	331,3	284,8	170,0	Camera
95,8	16,1	7.3	4,8	14,7	15,1	16,1	16,9	Refrigerators
69,3	1,5	1.4	3.8	10,9	13,9	14,0	14,3	Washing machines
51,9	0,4	2,0	5,0	10,5	13,0	15,7	17.3	Electric vacuum sweepers
6,3	0,0	0,03	0,1	0,1	0,1	0,1	0,1	Motorcycles and motor scooters
51,0	2,8	3.5	4.0	5.9	6,4	6,5	6,9	Cars
30,2	0,4	8,9	9,5	18,9	21.0	23,7	38,5	Bicycles and mopeds
28,1	0.1	0,1	0,02	0,01	0,7	0,5	0,2	Sewing machines
15,3	6300,5	6111,4	7447,2	8410,4	8990,0	9157,0	11418,9	Furniture, mil. manat
3,8	2910,4	2449,1	2758,2	3114,8	3156,0	3243,0	3205,9	Chins and faince kitchen glassware, mil. manat

Table 70. Sale of main foodstuff & alcoholic beverages and tobacco products

1990	1995	1996	1997	1998	1999	2000	2001	Items
156,9	106,1	110,8	112,0	114,4	128,5	137,9	146,9	Meat and meat products thsd tons
52,1	18,7	23,1	26,2	27,4	30,4	34,2	37,6	Butter, thsd tons
4,5	14,4	15,8	15,9	16,2	16,2	18,3	20,2	Vegetable oil, thsd tons
394,6	247,7	233,1	233,7	239,8	272,8	303,4	318,3	Milk and dairy products (calculated as milk), thsd tons
16,0	27,0	31,8	19,8	21,6	23,5	26,1	28,0	Cheese and white cheese, thsd tons
450,7	241,3	242,9	396,3	401,0	405,6	437,5	471,5	Eggs, mil. pieces
191,6	89,8	115,9	113,1	116,9	140,0	144,8	152,6	Sugar, thsd. tons
75,4	39,5	42,4	24,5	27,7	35,8	39,4	44,0	Confectionery, thsd. tons
905,3	854,3	870,1	848,9	851,5	868,3	893,9	924,1	Cereal products (calculated as flour), thsd. tons
106,1	902,2	1120	1291	1265	1272	1290	1316	Alcohol, thsd dkl including:
1,48	1,2	1,5	1,7	1,6	1,6	1,6	1,6	per capita, liter
13	78285 1	107084	192372	275483	322752	372634	389420	Tobacco products, mil. manat

Figure 60. Physical volume indexes of retail trade turnover (to previous year)



Tax policy

Following the break-up of the Soviet Union, a general overhaul of the tax laws in Azerbaijan was necessary in order to bring them in line with the demands of an emerging market economy. After a prolonged period of gradual reforms, a comprehensive Tax Code was adopted and became effective on January 1,2001. The new Tax Code is a major development in bringing the tax provisions into an integrated code.

Over the last few years Azerbaijan has enjoyed a relatively stable tax revenue to GDP ratio of about 15 %. The main revenue sources are VAT, income tax, and profit tax, which taken together accounted for 60 % of total tax revenue in 2000. Marginal income tax rates and social contribution rates remain high. In recent years, improvements in tax administration have accompanied the legislative effort Organizational reforms of the large taxpayer unit were completed in 2001. The Ministry of Taxes also began to introduce a no-contact filing process and started a reorganization of local tax offices, but most of the work in these areas are at initial stages.

Experience with the new Tax Code in its first year has been positive, with strong revenue gains facilitated by high economic growth. VAT collections were substantially above expectations due to the adoption of invoice based liability calculations and the elimination of several exemptions. These gains were partly offset by poor profit tax receipts related to the elimination of negotiated tax targets for state owned enterprises.1 In the second half of 2001 an amendment to the Tax Code was approved by parliament with the goal to simplify regulations and expand the tax base. Key elements are a reduction of income tax brackets and exemptions, the elimination of a double depreciation rule, streamlining of die simplified tax system for small businesses, and an expansion of VAT liability.

There are a number of areas where the new Tax Code could be improved. In the short run, amendments are required on a number of articles dealing with administration which appear overly prescriptive and inappropriate to a modem processing environment There also continues to be a practice of referencing administrative provisions in statutes and regulations developed by other bodies, when they could be more appropriately be incorporated within the Tax Code itself. In the long run, the high tax burden on wages will have to be addressed. Also, a more systematic control of exemptions should be pursued which can currently be granted by executive order. Finally, a major project for tax administration is comprehensive computerization, which would greatly facilitate the administrative reforms to date.

Table 71. Summary of tax system

Type of Tax	Nature of Tax	Special Rules, Exemptions, Allowances, and Deductions	General Rates
1. Personal Income Tax *	Resident and non-resident physical persons are taxpayers of the income tax. Residents pay taxes on worldwide income, non-residents on income from domestic sources. Income is defined as (i) wages including the monetary value of in-kind compensation and life insurance premia, and (ii) income from non-employment activity, interest, dividends, royalties, and (iii) all other income which is not specifically exempt.	The following forms of income or persons are exempt: State transfers, pensions, scholarships and allowances, alimony, and income from the supply of non-precious tangible movable property. Income from insurance premia, supply of real estate if occupied for at least three yean. Compensatory payments in connection with damages, gifts, financial aid and inheritance if given threshold not exceeded Income from agricultural production. Income from individual producers of copper, tin, pottery, utensils etc. Income of military servants. Winning prize from state lottery. Official representatives of foreign states. Income of the state oil fund. Other exemptions can be implemented by the appropriate executive authority such as a 3 year tax holiday for owner- operated farms.	The following rates apply January 2002 for different income brackets: 0% under 100.000 12% 100,000-,000,000 25% 1,000,001-5,000,000 35% 5,000,001 and above
	Tax on gross wage income is collected at the source through withholding from wage, salary, dividend and interest income. For interest and dividend income a withholding tax of 10 % is applied which rally covers the tax obligation from these sources. Resident physical persons	(educed income base by 20 times non-taxable amount of wages: National heroes, veterans, widows of servicemen, people with illnesses related to Chernobyl accident. deduced income base by 5 times of non-taxable amount of wage: 1 and 2 categories of invalids other than war invalids. Reduced income base by 3 times non-taxable amount of wages:	

	who receive income from entrepreneurial activity file tax returns and make advance payments within the 15th day after the end of each quarter.	Parents and widows of veterans. Afghan war veterans. Infernally displaced persons. 'amities with at least 3 children in guardianship can deduct 1 times the non-taxable amount of wages.	
2. Profit Tax	The profit tax is paid by resident and non-resident enterprises at the same rate. Profits are defined as the difference between income and allowed deductions specified in the tax code. Tax payments are made quarterly within IS days after the end of each quarter and a final adjustment is made after the end-year income statement has been submitted. Quarterly tax payments are determined by using one of two alternative methods: (i) by multiplying the volume of income times the ratio of last year's profit tax over income, or (ii) by using 1/4 parts of last year's paid profit tax.	Exemptions Charitable organizations, donations, gratuitous transfers, non-commercial membership fees. Profits of the national bank, income from international organizations, and from state authority and budgetary organizations. Concessions Taxes are half rate for organizations with 50% of employees from social organizations. Deductions Expenses connected with earning income. Certain types of bad and doubtful debt Allocations to a reserve fond for insurance companies with exceptions Expenses on scientific-research, experimental construction, and costs incurred by geological exploration, and expenses on intangible assets. Depreciation of capital stock with accelerated schedule for some items. Repair expenses and costs incurred for geological exploration. Carry over of losses exceeding income of a given year to the next year for up to 5 years.	Profits are uniformly taxed at 27%.
3. Value Added Tax (VAT)	The VAT is implemented through a credit-invoice mechanism and applies to goods and services within the country as well as to imports. VAT registration is required if the value of transactions exceeds 300 times the minimum tax-exempted wages. VAT applicable activities include brokerage fees and gratuitous transfer of goods and financial assistance. .	*The following activities or items are exempt from VAT.* Property purchase at the process of privatization. Financial services including leasing. Supply of national and foreign currency. Imports of gold, foreign currency and similar items. Imports of capital investments. Services of state and other official authorities. Purchases or sales connected to mass media products, editing, publishing, printing, services related to funeral ceremonies. Activities of international organizations. Import of property for financial leasing. Imports by national bank. State oil fund. Other imports can be exempted by appropriate executive authority such as agricultural products. *Zero-rated items or activities.* Goods and services of foreign official establishments and representatives. Activities related to humanitarian aid. Exports. International transportation of car; non passengers. Dispatch of gold and other values to ANB.	18% uniform

4. Excise Taxes	All enterprises and physical persons producing or importing excisable goods are taxpayers. The tax code defines drinking alcohol, tobacco products and oil products as excisable goods.	*Exemptions* Imports of less than 3 liters of alcohol, three packs of cigarettes and fuel in car for personal use. Imports related to humanitarian aid. Goods in transit or intended for re-exports and temporary imports. *Zero-rated items or activities.* Export of excisable goods.	The relevant executive authority body determines the excisable tax rates.
5. Royalty Tax	Tax based on utilization of .underground mineral resources payable by resident and non-resident individuals and enterprises.	Royalty is not paid on oil or gas exports from the international consortium of oil producers (AIOC).	26% on value of crude oil 20% on value of natural gas Other minerals and materials: 3-8%
6. Land Tax	Tax levied on land plots owned by resident and non-resident physical and legal persons.	*Exempt are* Land in common use of residential areas. Land of state authority bodies and budgetary organizations and national bank. Lands of state forestry and water funds. *Land tax reduced by 50%, if owner exempt from income tax*	Rates differ by region, type of site and value of land.
7. Property Tax	Paid by resident and non-resident physical persons and enterprises on the value of property owned including constructions and vehicles.	*Exempt are* Buildings of the state authority, national bank, and public organizations of invalids. Workshop premises of physical persons who are engaged in a list of activities such as making pottery, tin etc. Buildings with a value of less than 300 times the non-taxable amount of monthly income. *Concessions* For military service men, pensioners and people who receive income tax concessions the amount of property tax is reduced by 1.5 times the non-taxable amount of wages. Small-scale entrepreneurial activity of physical persons. *Deductions for enterprises for the property value of* buildings used for environmental protection, civil defense, fire safety, pipelines, railways, roads, hind irrigation, communication, vehicles trolley buses and trams, buildings for health, education, and sport and fixed asset depreciation. *Property tax is reduced by 50% if exempt from income tax.*	Property tax obligation: Buildings: 0.01% of die value of a building. Water and air transportation: 0.02% times non-taxable monthly wages per 1 cm3 of engine; 1% of market price for motorless water and air facilities. Cars and tracks: 0.01% (0.02% for trucks) of non-taxable monthly wages per 1 cm^3 of engine.
8. State Road Tax	Tax for use of roads levied on vehicles from foreign stales entering the country.		Rates depend on type of vehicle, distance driven, and cargo of trucks.
9. Simplified Tax	Taxpayers are enterprises not registered for VAT purposes due to low turnover except for credit and insurance institutions, investment funds and enterprises with similar activities.	Taxpayers of the simplified tax do not pay VAT and profit tax.	2% of gross turnover
10. Export Tax	Tax paid by exporter of crude oil.	Legally not part of the tax code. Applies only to SOCAR.	20% of price difference between domestic and world price.

Trade in energy

Electric power

Table 72. Resources and consumption electricity energy (mil. Kwh)

1994	1995	1997	1998	1999	2000	2001	
24904	17943	18479	19137	19812	19571	20612	Resources - total
21548	17444	17676	18135	18926	19193	19646	Domestic consumption – total of which:
8905	4442	3747	3780	2844	2671	3881	industry
872	175	99	72	60	36	75	construction
2142	2603	2051	1681	903	803	827	agriculture
807	663	762	710	632	537	551	transport
1065	4075	5903	7268	9147	9902	10172	population
4648	3043	1654	1713	2559	2474	1580	other
3109	2443	3460	2911	2781	2770	2560	losses
3356	499	803	1002	886	378	966	export

There are 63 enterprises in the electric power sector. The production volume constitutes 188,58 billion manats. It's 15% of FEC and about 12% - of industry. The main share of electric power is produced with thermal power stations (91); the production share of HPS is 9%. The main kinds of fuel for thermal electric stations are gas and black oil. The general volume of electric power production was 18969,6 mil. kwh.

Table 73. Tariffs per 1kwh

	manat
Population	96
Agriculture	138
Railway	198
Urban electric transport	140
Commercial enterprises	264
Industry	144 - 240

The present level of electric power production because of the large losses and inadequacy of production powers don't provide the satisfaction of joint industrial and consumer needs. The electric power import takes place since 60-th years – 0.14% to the volume output, 15% to 1998 and 10.7% to 2000 year. The republic annually buys the some quantity of electric power: in 1999 year – 163622.7 thsd. kwh in the sum of 44925.6 thsd. USD where 61.6% belonged to CIS; in 2000 year 1357255.7 thsd. kwh in the sum of 35584.7 thsd. USD in the price 0.03 USD for one kwh was imported. From the general volume of import electric power the Russia share was 41.2%, Iran – 32.8%, Turkey – 25.9%, Georgia – 0.1%. The part of electric power is destined for Nakhichivan (blockade conditions). In 2001 the import volume of electric power constituted 27609.2 thsd. USD where 52.2% was the Turkey share, 27.75% - Iran, 20.1% - Russia, 0.15-Georgia.

The republic began exporting the electric power from the middle of 50-th years (5,1% of volume production). After 1993 that indicator didn't increased the 3%. The electric power in the sum of 9963,6 thsd. USD was exported in 2001 year. Russia and Georgia (77,9% and 22,1% accordingly in the general volume of production) were the head trade partners.

Natural gas

Table 74. Resources and consumption natural gas (mil. m^3)

1990	1995	1997	1998	1999	2000	2001	
24904	17943	18479	19137	19812	19571	20612	Resources - total
21548	17444	17676	18135	18926	19193	19646	Domestic consumption

							of which:
8905	4442	3747	3780	2844	2671	3881	industry
872	175	99	72	60	36	75	construction
2142	2603	2051	1681	903	803	827	agriculture
807	663	762	710	632	537	551	transport
1065	4075	5903	7268	9147	9902	10172	population
4648	3043	1654	1713	2559	2474	1580	other
3109	2443	3460	2911	2781	2770	2560	losses
3356	499	803	1002	886	378	966	export
1579	401	445	513	421	388	323	Stock to the end of year

The prospected stores of natural gas are estimated in 241 billion m^3. From the general stores the land takes only 1,4%. In expert's opinion else about 7 trillion m^3 of natural gas is held in the non-prospected areas of Caspian Azerbaijan sector.

The gross production of gas area structures makes 2% of FEC production and 0,9% of industry. The length of gas pipelines is some 3 thsd. km. Annually the state loses 1,4 billion m^3 of gas in the output and distribution process.

The industry, population and communal sector are the head consumers of gas. There are two underground stores in Gazach (it supplied Armeniya on the whole till 1991 years) and Garadach. From them gas is delivered in Baku, Sumgayit and 9 regions of country. The other regions are provided with local resources.

The gas requirement of republic is 14 billion m^3. The improvement of gas area structure can much reduce this indicator. At present Azerbaijan provide only more 40% of requirement. The deficit is covered with import. All imported gas is spent for needs of electric power stations. It makes conditional upon the problems of main consumers. Some 80% population was deprived of importance to use the gas last years. Turkmenistan, Khazachstan and Russia are main importers of natural gas to Azerbaijan. In 2001 year 3336.8 mil. m^3 in the sum of 170732.7 thsd. USD were imported in Azerbaijan (78.4% - from Turkmenistan, 21.6% - from Khazachstan).

Table 75. Tariffs per 1000 m^3

	Manat
Population	35560
Communal services	108103
Energy	198000
Commercial enterprises & Industry	140000

Oil & petroleum products

Table 76. Resources and consumption fuel oil (thsd. ton)

1990	**1995**	**1997**	**1998**	**1999**	**2000**	**2001**	
7054	4323	3942	4250	4214	4240	2790	Resources
6843	4220	3868	4028	3871	4072	2648	production
-	-	-	141	238	51	-	import
211	103	74	81	105	117	142	stock to the beginning of the year
3237	4112	3685	3995	3975	4096	1961	consumption
3594	127	176	150	122	2	493	export
223	84	81	105	117	142	336	stock to the end of the year

Table 77. Resources and consumption diesel fuel (thsd. ton)

1990	**1995**	**1997**	**1998**	**1999**	**2000**	**2001**	
4132	2355	2278	2158	2053	2061	1705	Resources
3899	2213	2157	2057	1895	1957	1562	production
50	-	69	40	8	10	7	import
183	142	52	61	150	94	136	stock to the beginning of the year
1259	368	412	409	346	584	532	consumption
2733	1889	1805	1599	1613	1341	1089	export
140	98	61	150	94	136	84	stock to the end of the year

Table 78. Resources and consumption kerosene for aviation and other kind (thsd. ton)

1990	1995	1997	1998	1999	2000	2001	
1378	599	719	728	784	796	668	Resources
1310	594	710	698	689	755	624	production
34	-	3	21	.	-	-	import
34	5	6	9	95	41	44	stock to the beginning of the year
455	211	353	346	224	292	296	consumption
823	379	357	287	519	460	342	export
100	9	9	95	41	44	30	stock to the end of the year

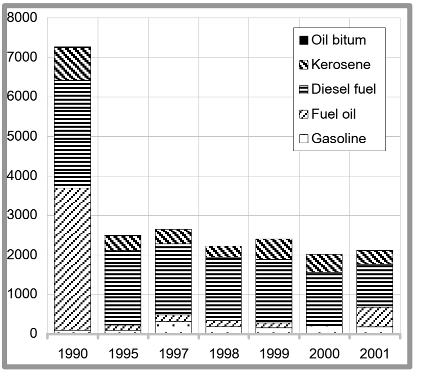
The powers of oil processing make 22 mil. tons. The counted stores of oil make 7 billion tons. Azerbaijan oil is classified as unique sorts. It is competitive to the oil of countries OPEK that is valued as standard on the world market. The head problem of branch is a replenishment technological equipment and improvement of production process.

Oil is a main origin of Azerbaijan export potential. Since 1995 the share of oil and oil products in export volume has more than 60% every year. Oil and oil products of Azerbaijan are exported in the different countries. The main partners are Italy, Georgia, Israel, Russia, Turkey, France and the other.

Table 79

Routs of oil export	Traffic capacity
Operational pipelines	
Baku - Novorosiysk	17 mil. ton
North, by-passing Chehnya	0,6 mil. bar per 1day
Baku - Supsa	6,5 mil. ton
Baku - Batumi	5 mil. ton
Under-construction pipeline	
Baku – Tbilisi - Geyhan	40 mil. ton
Prospective	
Transcaspian:Turkmenistan - Azerbaijan - Georgia - Turkey	

Figure 61. Dynamics and structure of exported oil products (thsnd tons)



Trade with countries in region

Azerbaijan historically had closed trade connections with neighboring countries in region. However, after the beginning of Karabakh conflict the trade connections with Armenia were interrupted remaining unrealized till present.

In import operations with Georgia its share has a constant tendency to reduce from 4.6% in 1997 to 0.3% in 2001 year. From 1997 to 2001 Georgia annually was a member of six main partners of Azerbaijan in export.

Figure 62

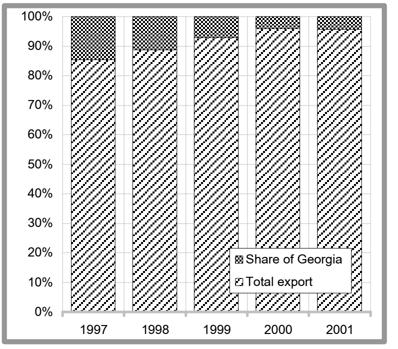


Table 80. Import of main commodities in 2001 from Georgia

Names of goods	Value, thsd USD	Quanity
Fresh fruits, ton	13.8	51.2
Cement, cement clinkers, thsd. ton	750.0	17.4
Electric power mil. kwh	42.9	0.9
Nitric fertilizers, ton	1618.5	15244.1
Longitudinal sawn timber, m3	4.6	65.0
Line pipe of kind used for oil & gas	140.2	788.9

Table 81. Export of main commodities in 2001 to Georgia

Names of goods	Value, thsd USD	Quantity
Fish, ton	1.3	20.0
Tea, ton	1067.7	466.1
Wheat flour, ton	519.6	2471.8
Plant oil, ton	1312.1	2636.3
Raw-oil, thsd. ton	28494.6	180.5
Motor petrol, thsd. ton	37799.4	183.2
Kerosene, thsd. ton	4972.9	25.0
Diesel fuel, thsd. ton	19974.1	104.0
Oil and smearing, ton	882.4	5492.9
Metal oxide, ton	497.2	2261.1
Polyethylene, ton	287.3	533.0
Petroleum resins, ton	275.0	2500.0
Coats of sheep and lambs, thsd. pieces	52.9	48.5

For the last decade economic relations among three South-Caucasian republics were reduced or interrupted because of the regional conflicts, blockades and civil confrontation. One should notice the past economic relations of three republics were more conditional on ideological reasons and political pressure than the interests of profit. These circumstances extremely limited the importance of economic including trade partners' choice and reduced potential importance as the trade way between Europe and Asia.

Besides the known political barriers on the way to integration there is a certain important hindrance. In spite of isolated attempts the consistent and systematic comprehension has not begun yet. The society understands the given status as apriory though the real integration can be successful if they have a will and striving. The world experience shows in the most of cases the professionals begin the consideration process of new problem and conceptions developed namely by them create the basis of important political solutions.

Regional economic integration Azerbaijan, Armenia and Georgia can be as a strong support for development of general investments space. In the first instance the individual market is too small so as to provide a lot of national producers with the adequate marketing space and only the market of regional scale ensures the real importance. Further, integrating into the world economy through the region, the country, apparently, will be stronger economic player. The South-Caucasus countries have very good preconditions for such a solution. These countries are close to each other not only territorially but also with historically formed cultural connections (they are strong to this day) and the general economic development in the soviet stage. From that perspective one can appreciate the economic integration as socially natural and economically profitable.

GEORGIA

Tax policy

The Tax Code, Customs Code and relevant legislative acts regulate taxation in Georgia. These documents define the types of taxes, the rules of payment, tax allowances and regulate the legal relationship between taxpayers and the state. Georgia introduced a personal income tax, value added tax, enterprise profits tax, and excise taxes in 1992. These taxes were enacted in an attempt to broaden the tax base—although Georgia's tax rates were broadly in line with those of its neighbors' the tax revenue was significantly lower—5.1 percent of GDP in 1995 while the rest of the FSU averaged 27 percent. However, considerable strengthening of tax administration is necessary, especially to cover private business (including informal activity, insofar as is possible), which should be the primary growth sector of the economy. The tax code itself in Georgia is well designed with uniform tax rates and relatively few exemptions. VAT is generally 20 percent while business income taxes have been unified at 20 percent with three specific exceptions: 10 percent for interest from enterprise securities, 60 percent for large concerts, and 70 percent for gambling proceeds. Customs and excise taxes are equally straightforward. The following taxes operate in Georgia. National taxes are as follows:

- Income tax;
- Profit tax;
- Value added tax (VAT)
- Excise tax
- Property tax
- Land tax;
- Motor transport owners tax;
- Property transfer tax;
- Social security tax;
- Tax on natural resources utilization;
- Tax on environment pollution with poisonous substances;
- Tax on motor transport entering the territory of Georgia.

Local taxes are as follows:

- tax on entrepreneurial activity;
- tax on gambling business;

- tax on resorts;
- hotel tax;
- advertisement tax;
- tax on car parking;
- local symbolic utilization tax.

Table 82. Tax administration matrix

TAX	RATE	COMMENTS
Profit/ Income Tax	20%	For personal income exceeding GEL 600 the income tax is levied at GEL 89 plus 20% of the amount over GEL 600
VAT	20%	Exemptions from the VAT are as follows: the import of wheat has a 0% VAT; the import of goods used in the activity of diplomatic representative offices and other institutions of Georgia in foreign countries, the import of goods intended for official and/or personal use of foreign diplomatic representative offices; delivery or import of baby food products and baby hygiene articles; import of materials, semi finished products as well as packing materials intended for the production of export oriented goods; transit through Georgia; delivery or import of national or foreign currency (excluding those for numismatic purposes) and of securities; imported fixed assets and spare parts; financial services; re-export of goods; supply of raw crops before industrial procession; medical services; import of energy-oriented equipment; delivery of state property according to the privatization program; import of mazut.
Customs Duty	5% and 12%	Exemptions from Customs Duties are as follows: re-export of goods brought into Georgia for the exportation; import of materials, semi-finished products as well as packing materials intended for the production of export oriented goods; transit goods and imported goods stored at customs warehouses; the import of goods that are given to the state bodies of Georgia for liquidation of natural disasters, accidents, and catastrophes, or for the purposes of humanitarian aid;- the import of goods financed by grants or concessional loans, containing a minimum 25% grant element, made by international organizations; the temporary entry of goods onto the territory of Georgia; the import of wheat, baby food products and baby hygiene articles, some pharmaceutical products, and diabetic food products; import of mazut.
Excise Tax	15% to 100%	the exemptions from excises are as follows: re-export of excised goods; transit of excised goods through territory of Georgia; imported excised goods stored at customs warehouses; imported excised goods, temporarily brought to Georgia
Property Tax	1%	Of the property - annually
Medical Insurance Fee		- Legal entities - 3% of the salaries to be paid - all employed natural persons: 1% of salary Exemptions: compensation surplus annual leave; additional salaries; awards; pensions and allowances
Social Insurance	27%- 1% -	- employers (plus 1% of the salaries to be paid to the Fund of Employment) - employees
Road Fund		- entrepreneurs engaged in the transport of passengers or goods: 2% of the revenue; - commercial banks: 0.5% of revenue on services; - entrepreneurs engaged in commerce and broker's business: 0.1% of turnover; - others: 1% of turnover
Customs Fee	0.3%	

There is no tax imposed on exports of in Georgia and non-tariff restraints actually are not considered by trade policy. However imports is subjected to customs duty, excise tax, VAT, and customs service tax.

Table 83. Tax Rates for Various Products Imported into Georgia

Name of Product	Customs Service Tax, %	Custom Tax, %	Excise Tax, %	VAT, %	Total, %
Infant Food and Baby Hygiene Articles	0.3	-	-	-	0.3
Wheat	0.3	-	-	-	0.3
Diabetic Food Products	0.3	-	-	-	0.3

Mazut	0.3	-	-	-	0.3
Pharmaceuticals	0.3	5	-	-	5.3
Wheelchairs	0.3	5	-	-	5.3
Fixed Assets, their spare parts	0.3	5	-	-	5.3
Goods for Industrial Designation	0.3	5	-	20	26.3
Flour	0.3	12	-	20	34.7
Milk powder, sugar, vegetable oil, butter, sausages, pasta, cheese, eggs, chicken, fish, honey, cocoa, salt, chewing gum, sweets, chocolate, cake, tea, coffee, non-alcoholic drinks, citrus, vegetables, ice-cream	0.3	12	-	20	34.7
Towels, diapers, feminine hygiene products, soaps, washing soda, toilet paper	0.3	12	-	20	34.7
Clothes, shoes, furniture, toys, carpet, electric products, sewage systems, china ware, natural leather products, cut-glass wares	0.3	12	-	20	34.7
Fuel (excl. petrol and mazut)	0.3	12	-		34.7
Transport means (excl. cars), spare parts and aggregates	0.3	12	-		34.7
Grape wines and wine materials	0.3	12	15		54.86
Beers	0.3	12	15		54.86
Car tires	0.3	12	15		54.86
Petrol for cars	0.3	12	15		54.86
Grape sparkling wines	0.3	12	20		61.58
Sturgeon and salmon caviar and sea food delicacies	0.3	12	20		61.58
Jewelry	0.3	12	35		81.74
Ethyl Petrol	0.3	12	50		101.9
Vermouth, fruit wines, fruit sparkling wines, strong wines, wine material and other drinks	0.3	12	50		101.9
Brandy, vodka	0.3	12	50		101.9
Champagne wines	0.3	12	100		169.1
Cognac, whisky, gin, rum, balsam, liqueur	0.3	12	100		169.1
Ethyl spirits	0.3	12	100		169.1

Trade in energy

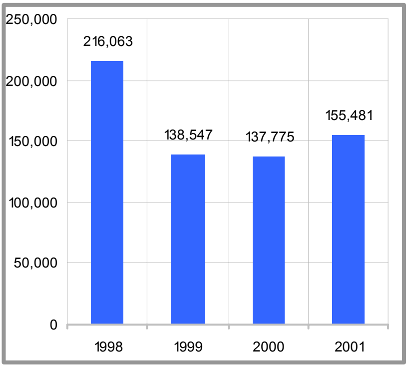
Energy flow. Trade in energy has a great importance for Georgia as long as its economy is very dependent on petroleum and natural gas imports. The disruption of fuel supplies at the beginning of 1990s brought Georgian economy to the brink of collapse. However, it should be noted that Georgia export and import electric power on a swap basis in order to smoothen seasonal and peak differences. The major energy flows of Georgia can be described in a following way. Georgia imports natural gas from Russia, oil and petroleum products from Azerbaijan, Iran, and the Gulf states. Georgia exports electric power to Turkey, Azerbaijan, and a very small amount to Russia, and imports electricity from Armenia, Turkey, Azerbaijan, Russia (it is, in fact, a net importer). According to the balance of electricity, electric power import adds up to 8.5% of Georgian energy consumption. Despite the fact that Georgian electric energy production exceeds its consumption there is still an urgent need for the imports, which is conditioned on seasonal factors. During winter season local electric capacities are not enough to satisfy needs in electric power. The efficiency would be increased if the South Caucasus countries and their neighbors operated as one system. This would economize particularly on generation capacity investments. It would also allow for more economic dispatch.

Table 84. Balance of electricity, (1995-2000) (Mln. KWH)

	1995	1996	1997	1998	1999	2000
Generation	7082,0	7232,9	7172,2	8088,4	8118,7	7446,5
Imports	754.1	409,7	612,8	810,4	433,9	599,5
Consumption	5843,6	5986,5	6449,0	7677,8	7483,5	7013,3
Losses	1992,5	1332,4	1059,3	1101,2	925,3	828,1
Exports	-	323,7	276,7	119,8	143,8	204,6

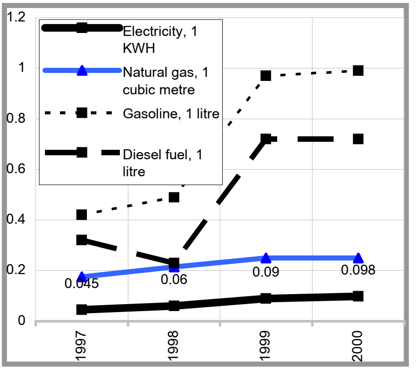
The main gas and oil products suppliers to Georgia are Russia and Azerbaijan. In 2001 total exports of crude oil and oil products, car petrol, kerosene, and diesel form Azerbaijan amounted almost to 70 mln. US$, and imports of natural gas from Russia sum up to 80 mln. US$. The dynamics of the imports of this products reflects almost 29% decrease of imports in 2001 as compared to 1998.

Figure 63. Imports of Natural Gas and Oils (thousands USD)



Energy prices. The dynamics of energy prices is characterized by a substantial price increases of almost all energy commodities mainly due to devaluation of GEL in1998. According to this figure during the period of 1997-2000, electricity, gasoline, and diesel price increased more than twice, while natural gas price raised by 30%.

Figure 64. Energy prices dynamics, 1997-2000, (in GEL)



Pipelines. Currently the only existing pipeline in South Caucasus runs through Georgia. In October 2000, Azerbaijan and a group of foreign sponsors (including companies from the UK, Norway, Turkey, Japan, and the U.S.) signed an agreement of financing oil pipeline from Baku through Georgia to the Turkish Mediterranean port of Ceyhan for transporting Caspian oil. The 2.4 billion dollar pipeline with the annual capacity of 17 million tons of crude is expected to be completed in 2004. The Trans-Caspian gas pipeline that traverse Turkmenistan, the Caspian Sea, Azerbaijan, Georgia and Turkey is also under construction.

Trade with other countries in the region

Armenia and Azerbaijan still remain main trade partners of Georgia. Georgian export volumes and dynamics to Armenia and Azerbaijan had a similar patterns. In 2001 exports volume to both of the countries reduced more than twice, and the their share in total exports shrunk almost three times. However, the Armenian share in Georgian total imports was almost ten times less than this of Azerbaijan in 2001. The import volume from Azerbaijan increased by 25% and its share in total imports reached 10.8% in 2001, while imports flows from Armenia decreased by almost the same rate and its share in total imports sum up to only 1.5% for the same period.

Table 85. Export and Imports with Armenia and Azerbaijan, 1998-2001

	1998		**1999**		**2000**		**2001**	
	US$ thous.	%	US$ thous.	%	US$ thous.	%	US$ thous.	%
Total Export	192,346	100	238,168	100	329,873	100	320,029	100
1. Azerbaijan	18,475	9.6	19,201	8.1	21,270	6.5	10,598	3.3
2. Armenia	17,832	9.3	15,008	6.3	13,672	4.2	12,353	3.9
Total Imports	880,387	100	601,939	100	650,733	100	678,702	100
1. Azerbaijan	73,529	8.4	41,511	6.9	55,367	8.5	73,175	10.8
2. Armenia	10,055	1.1	11,845	2.0	13,475	2.1	10,365	1.5

The table below shows that the Georgia exports oils petroleum, durum wheat, natural gas, wood sawn, flour to Armenia and electricity, cement, drilling ferrous pipes, and mineral water to Azerbaijan. Georgia import electricity, cement, liqueur, spirits, cigars, cigarettes, aluminum foil from Armenia and crude oil and oil products, car petrol, kerosene and diesel from Azerbaijan.

Table 86. Main commodity flows in South Caucasus[15]

Georgia	Armenia	Azerbaijan
Exports	oils petroleum, durum wheat, natural gas, wood sawn, flour	electricity, cement, drilling ferrous pipes, and mineral water
Imports	electricity, cement, liqueur, spirits, cigars, cigarettes, aluminum foil	crude oil and oil products, car petrol, kerosene and diesel

[15] Source: E. Polyakov. Changing Trade Patterns after Conflict Resolution in South Caucasus. The World bank, Washington, DC, 2000.

Consequently, not only the export/import structures of the three Caucasus countries were discussed but also current economic development trends as well as the recent results of ongoing structural reforms were analyzed. These allow to understand the structure and volumes of the three countries' current exports/imports and to predict the future priorities and trends of their development.

Thus, 'unrealized potential' of foreign trade in the Caucasus (particularly between Azerbaijan and Armenia) has become more concrete. This applies not only the three countries' current possibilities for foreign trade but also the main trends and directions of their future realization.

Hereby, as an example, we would like to introduce our comparative analysis for a few of foreign trade product groups between Armenia and Azerbaijan that we suggest to make anyone affiliated/interested in whichever specific sphere of economy (we consider the report grants that very opportunity):

- **"Milk and dairy produce; bird's eggs; natural honey; edible products of animal origin"**

  The spheres of national economy, producing items of the aforementioned category, have been rapidly developed in Armenia. In these very spheres the domestic products have not only captured a significant share of the Armenian market but also indicate growing export potential. For instance, in 2001 Armenia exported products and goods of this category for more than half a million US dollars. This amount can be multiplied due to appropriate demand. At the same time Azerbaijan imported the same products and goods for more than 15 mln. US dollars.

  Obviously, the mutual trade re these items would increase the exports from Armenia and significantly reduce the import costs for Azerbaijan.

- **"Edible fruits and nuts; peel of citrus fruit or watermelons"**

  The Armenian consumer is traditionally familiar with this products imported from Azerbaijan. In particular, during 1980's, prior to Azerbaijani watermelon and kinglet were the best popular edible fruits in Armenian marketplaces.

  Exports of these products from Azerbaijan keep on growing, i.e. in 2001, Azerbaijan exported "edible fruits and nuts; peel of citrus fruit or watermelons" group items for about 12 mln US dollars. Noticeably, the traditional 'customer preferences' in Armenia would promote trade with the aforesaid products between two countries. The ultimate beneficiaries would be both Armenian customers and Azerbaijani suppliers.

- **"Alcoholic, non-alcoholic drinks and vinegar"**

  Privatization of Yerevan Brandy Company to the French "Pernod Ricar" (1999) highly promoted production of world famous Armenian brandy. A range of new *production facilities were established and successfully operated besides the acting company being renewed and equipped. At the same time high quality vodka production was launched in Armenia; numerous popular brands have been created. Old technologies and capacities of the traditional Armenian vine production were reserved and developed. As a result, only in 2001 Armenia exported alcoholic and non-alcoholic drinks for about 40 mln. USD (about 12% of the total annual exports). On the other hand, Azerbaijan imports significant volumes of alcoholic and non-alcoholic drinks. Consequently, Armenian exporters and Azerbaijani consumers would merely benefit while trading with the aforementioned products.*

'Customer preferences' should also be taken into consideration at this point as the Armenian consumer still remembers the taste of famous Azerbaijani champagne.

- **"Mineral fuels, mineral oils and products of their distillations; bituminous substances; mineral waxes"**

The oil refining and pipelining industries are of key importance within the Azerbaijan industrial structure. The export of Caspian oil is continually growing and hence, has a huge potential. In 2001, Azerbaijan exported mineral fuels, mineral oils and products of their distillations; bituminous substances; mineral waxes for more than 2 bln. USD.

Meanwhile, Armenia is a 'fuel importing country' and can be considered as an accessible market (with low transportation costs) for Azerbaijani oil producers.

- **"Natural and cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof"**

Since 1990 gold mining, jeweler's art and diamond cutting have become quite important branches of the Armenian economy. In particular, diamond cutting is considered to be the most important 'country specialization' of Armenia not only within the region but also in NIS. In 2001, Armenia exported natural and cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof for about 123 mln. USD. Thus, there is a huge potential for mutual trading with these articles (especially jeweler's art products) between the two countries as Azerbaijan is also producing jeweler's art products.

- **"Cotton"**

Cotton growing and processing traditionally are an important component of agriculture in Azerbaijan and a significant constituent of its export structure (more than 15 mln. USD in 2001 and around 40 mln. and 50 mln. in 1999 in 2000 respectively).

On the other hand, textile industry has been rabidly growing in Armenia during the last half a decade. A wide range of joint ventures have been established in cooperation with Western companies that won even international tenders. Accordingly, demand for cotton (as a raw material for textile industry) in

Armenia could easily promote mutually beneficial trade between Armenia and Azerbaijan. (In 2001, Armenia imported cotton for 4,5 mln. USD).

- **Construction materials**

  A wide range of construction materials are currently produced in Armenia. The competitive advantages of the latter are high quality and low price. Tufa mining and cement production have traditionally been export oriented branches of Armenian economy. Meantime, Azerbaijan imports construction materials from abroad for millions of dollars.

  Due to high transportation costs of large distances, currently export of construction materials from Armenia is not vast enough, yet it has huge potential for neighboring countries, and Azerbaijan could be a beneficiary.

- **"Coffee, tea and other spices"**

  During the Soviet period Azerbaijan was supplying high quality tea to Armenia by relatively low price for decades. 'Consumer preferences' in Armenia are still in favor of Azerbaijani tea despite the wide range of various tea products available in Armenian market.

  On the other hand, coffee processing industry is currently growing in Armenia. Therefore, cooperation between Armenian producers and Azerbaijani suppliers also has a growing potential.

Evidently such enumeration can easily be continued. Even more, it could be realized in more details (in terms of products instead of 'product groups' or more narrow categories). However, in terms of any of the ten above mentioned categories we discovered at least 3-4 mln. USD 'lost potential' for each per annum, that could have been realized. Taking into consideration the wide range of these 'product categories' we can easily assert that the 'lost potential' of the 'unrealized trade' between Azerbaijan and Armenia comprises hundreds of millions US dollars annually.

Coming to Georgia, one could argue that it currently 'gains' from the ongoing lack of trade relations between Armenia and Azerbaijan. Whilst obviously, in long term perspective, Georgia will also loose, as lack of mutually beneficial economic/business relationship between two nearest neighboring countries will cause lack of confidence and will contribute to intensity within the region. These, in tern, will slow down business activities and economic development of the entire region.