

Export promotion in the textile sector

Armenia's graduation from the EU GSP+ status poses problems for the international competitiveness of its textile products. To provide recommendations on export promotion measures, we interviewed Armenian textile exporters. We identified three major bottlenecks limiting the sector's international competitiveness: low productivity, complicated customs procedures, and unstable export transportation.

The sector's labour productivity needs to be improved in order to increase the sector's competitiveness. Here, we propose to introduce a dual system of vocational training. Customs procedures can be facilitated by digitalisation and using the transaction value method as the first option for customs valuation. Export transportation can be improved by negotiating air cargo routes with major trading partners.

We recommend focusing on Russia and Ukraine as major trading partners. These markets have the highest export potential for Armenian wearing apparel.

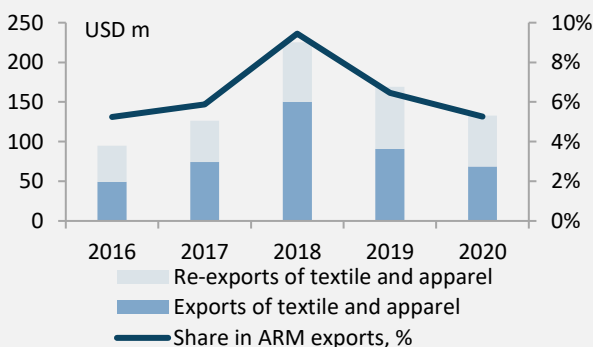
Armenia's graduation from GSP+

In January 2022, Armenia graduated from the EU GSP+ status, which allowed for duty-free exports to the EU for most products. Earlier studies by the German Economic Team on the GSP+ graduation show a substantial negative impact on Armenian textile exporters.

Import tariffs for wearing apparel rose from 0% to 11.8%. The room for companies to reduce prices is minimal. Profit margins are only between 3% and 5%. Consequently, long-term contracts with EU partners might be lost. Exports of apparel are estimated to decrease by USD 39 m in the short term.

Overall, in the medium and long term, the GSP+ graduation reduces Armenia's opportunities for new exports to the EU. Therefore, improved sector competitiveness is needed to mitigate this shock.

Armenian gross exports of textile and apparel



Source: WITS

Measures to improve international competitiveness

To better understand factors limiting the producers' international competitiveness, we interviewed 18 Armenian textile and leather producers. The main bottlenecks for textile producers are a lack of labour, customs clearance problems, and transportation routes to export markets.

Similar bottlenecks are reported by leather and footwear producers. These are, however, less affected by Armenia's GSP+ graduation. Only 8% of their exports go to the EU. Removal of these bottlenecks could thus not only help mitigate the shock of the GSP+ graduation but increase export prospects in general.

Lack of labour

Textile and apparel production is labour intensive, with some processes hardly replaceable by fully automatic machines. In addition, deficiencies in the educational system lead to a lack of trained employees. Consequently, the sector's productivity is relatively low compared to international competitors. Low productivity only allows for low wages. This in turn makes it again difficult to attract high-quality employees, leaving the sector's productivity at a low level.

We, therefore, recommend developing a dual system of vocational training. This would comprise both on-the-job training at a company and classes at a vocational school. Training programs should be targeted at the youth to ensure the supply of qualified employees in the long run. With a higher qualification of employees, the sectors' productivity and wages will rise, helping to attract additional labour.

Problems with customs clearance

The interviewed companies reported problems when importing production materials or intermediate products. Customs officers often refuse to use the optimal valuation method, the so-called 'transaction value'. Instead, customs values are increased for taxation purposes. We recommend improving the customs valuation procedures by using the 'transaction value' method as the default option for customs clearance.

Moreover, excess paperwork increases the time to prepare customs clearance documents up to one week. Documentary requirements should be streamlined. We propose to increase automatization by digitalising the process and using electronic records.

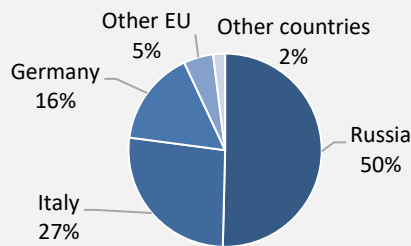
Unstable transportation routes

When exporting to Russia, products are mainly transported by road. The Upper Larsi crossing is used in this case. This makes the shipping duration highly dependent on weather conditions. The shipment duration varies from one week up to one month.

This situation pushes exporters to use air shipments, even though transport by air is three times more expensive than by road, and no regular routes exist. Transportation costs could be lowered by negotiating regular air cargo routes with major trading partners such as Russia.

Moreover, the Georgian-Russian efforts to build the tunnel at the Larsi crossing could be supported. This could be done by emphasising the importance of this tunnel for Armenia vis-à-vis international financial institutions.

Geography of Armenian gross exports of textile and apparel



Source: WITS

Highest export potential

To alleviate the GSP+ graduation consequences in the short to medium term, we recommend Armenia to focus on exports of products with high export potential and a few key markets. Products with the highest export potential are wearing apparel, especially knitted and crocheted. Regarding the export countries, Armenian textile products have the highest potential in the Russian and Ukrainian markets.

Highest export potential for Armenian textile



Sources: Own estimates, drafted with Datawrapper

Conclusion

Overall, the negative impact of Armenia's GSP+ graduation on exports to the EU market can be a good incentive to redress the bottlenecks of lack of labour, customs clearance, and transportation routes. This can consequently have a broader positive effect on Armenian exports, including for other products and export countries.

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