

Export potential of Armenia's textile and apparel

Veronika Movchan, Emily Haentschel

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1. Motivation

- In January 2022, ARM graduates from the EU GSP+
- Earlier studies by the German Economic Team on the GSP+ graduation show a substantial negative impact on ARM apparel producers and exporters
- Export diversification is among key mitigation measures for this shock
- In this briefing, we explore export potential of ARM textile and apparel globally
- Time perspective: short- to medium-term, i.e.
 - Focus on products which ARM already exports

Key questions:

- Which textile and apparel products have the highest export potential?
- Which destinations have the highest potential?

2. ARM exports of textile and apparel

ARM gross exports of textile and apparel



Source: WITS

ARM gross exports of textile & apparel:

- Nominal value, 2020: USD 133 m
- Share of re-exports, 2020: 48%
- Growth, 2020/2019: - 22%
- Growth, 2020/2016: +40%
- Share in total exports, 2020: 5.3%

➤ Export expansion recently halted

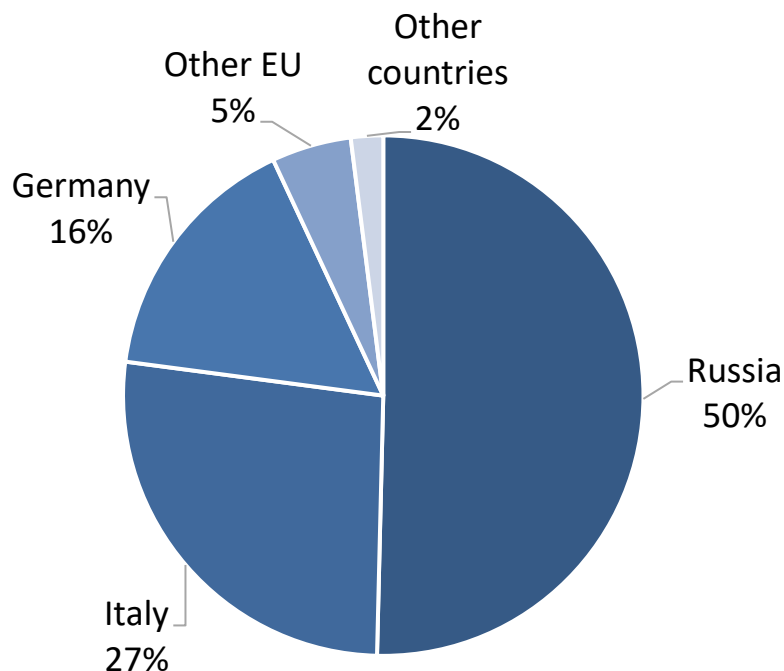
Main export products:

- Women's overcoats, man-made fibers (19% of total)
- Men's trousers, synthetic fibers (9%)
- Men's overcoats, man-made fibers (7% of total)

➤ Exports dominated by final products

Geography of ARM exports of textile and apparel

Geography of ARM gross exports of textile and apparel



ARM exports of textile & apparel, 2020:

- EAEU: 51%,
 - *incl. RUS: 50%*
- EU: 48% (re-exports)
- Other countries: 1%
- **Exports split between RUS and EU**
- **Exports to EU = re-exports**

Dynamics of exports in 2020 vs. 2019:

- RUS: -25%
- EU: -19%
- Other countries: +55%
- **Drop in exports to both key markets**

Source: WITS

3. ARM access to global markets

Import duties

- WTO membership: since 2003
 - Membership in the Eurasian Economic Union (EAEU): since 2015
 - FTAs:
 - Concluded before 2015: GEO, MDA, UKR, TKM, CIS FTA 2011
 - Concluded since 2015 as the EAEU member: VNM, SRB, IRN
 - Preferential arrangements: GSP (CAN, JPN, NOR, CHE, USA, GBR)
 - BUT: graduation from EU GSP+ since January 2022
- **Preferential access to key neighboring markets, expect the EU**

4. Methodology for export potential assessment

- Export potential assessment is based on the modified International Trade Centre (ITC) methodology
- Three dimensions of export potential assessment; see also Annex 1
 - i. Supply side dimension:* export performance of ARM
 - ii. Demand side dimension:* import performance of potential partners
 - iii. Trade cost dimension:* indicators for costs associated with ARM exports to a particular partner compared to other destinations
- **Stage I (based on dimension i. and ii. + sector verification)**
 - Identification of top products based on dimensions i. and ii.
 - Verification of the list of top products using sectoral information, in particular existence of price advantage at least several partner markets
 - Selection of top-20 products with the highest export potential
- **Stage II (based on dimension ii. and iii.)**
- Identification of top-10 importing countries for each of top-20 products

5. Export potential on global markets

Stage I

- Identification of 20 products with the highest potential on global markets ('top-20')

Stage II

- Identification of top-10 destinations globally for each of top-20 products*

*Note: *Azerbaijan and Turkey are excluded from the sample*

Stage I: top-20 products (1/2)

Rank	Composite score (max=100)	HS2012	HS 2012 Product Description	ARM exports, 2020, USD m	WLD imports, 2020, USD m
1	81	610342	Men's or boys' trousers, bib and shorts of cotton, knitted or crocheted	0.6	3,562
2	78	611610	Gloves, impregnated, coated or covered with plastics or rubber, knitted	0.7	2,715
3	78	620343	Men's or boys' trousers of synthetic fibres	11.3	6,510
4	77	610462	Women's or girls' trousers, bib and shorts of cotton, knitted or crocheted	1.0	6,346
5	76	610510	Men's or boys' shirts of cotton, knitted	0.7	4,138
6	76	620333	Men's or boys' jackets and blazers of synthetic fibres	2.6	1,613
7	74	620433	Women's or girls' jackets and blazers of synthetic fibres	0.8	2,036
8	73	610610	Women's or girls' blouses of cotton, knitted or crocheted	0.3	1,554
9	73	611120	Babies' garments and clothing accessories of cotton, knitted	7.3	5,426
10	73	620332	Men's or boys' jackets and blazers of cotton	1.2	770

Source: own estimates

Stage I: top-20 products (2/2)

Rank	Composite score (max=100)	HS2012	HS 2012 Product Description	ARM exports, 2020, USD m	WLD imports, 2020, USD m
11	73	620349	Men's or boys' trousers of textile materials	0.4	949
12	71	611693	Gloves, mittens and mitts, of synthetic fibres, knitted or crocheted	1.2	1,036
13	70	610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	0.5	3,313
14	69	630790	Made-up articles of textile materials, incl. dress patterns	1.7	76,337
15	69	610721	Men's or boys' nightshirts and pyjamas of cotton, knitted or crocheted	0.2	718
16	69	611521	Pantyhose and tights of synthetic fibres, knitted or crocheted, measuring per single yarn < 67 decitex	1.3	993
17	68	620449	Women's or girls' dresses of textile materials	0.3	1,566
18	65	611030	Jerseys of man-made fibres, knitted	2.7	18,995
19	65	620590	Men's or boys' shirts of textile materials	0.2	755
20	63	620469	Women's or girls' trousers of textile materials	0.5	3,027

Source: own estimates

Stage II: Destinations with highest export potential

Result of stage II

- 20 tables with top-10 countries for each product; see TN 03/2021
- Here only map with most promising export destinations

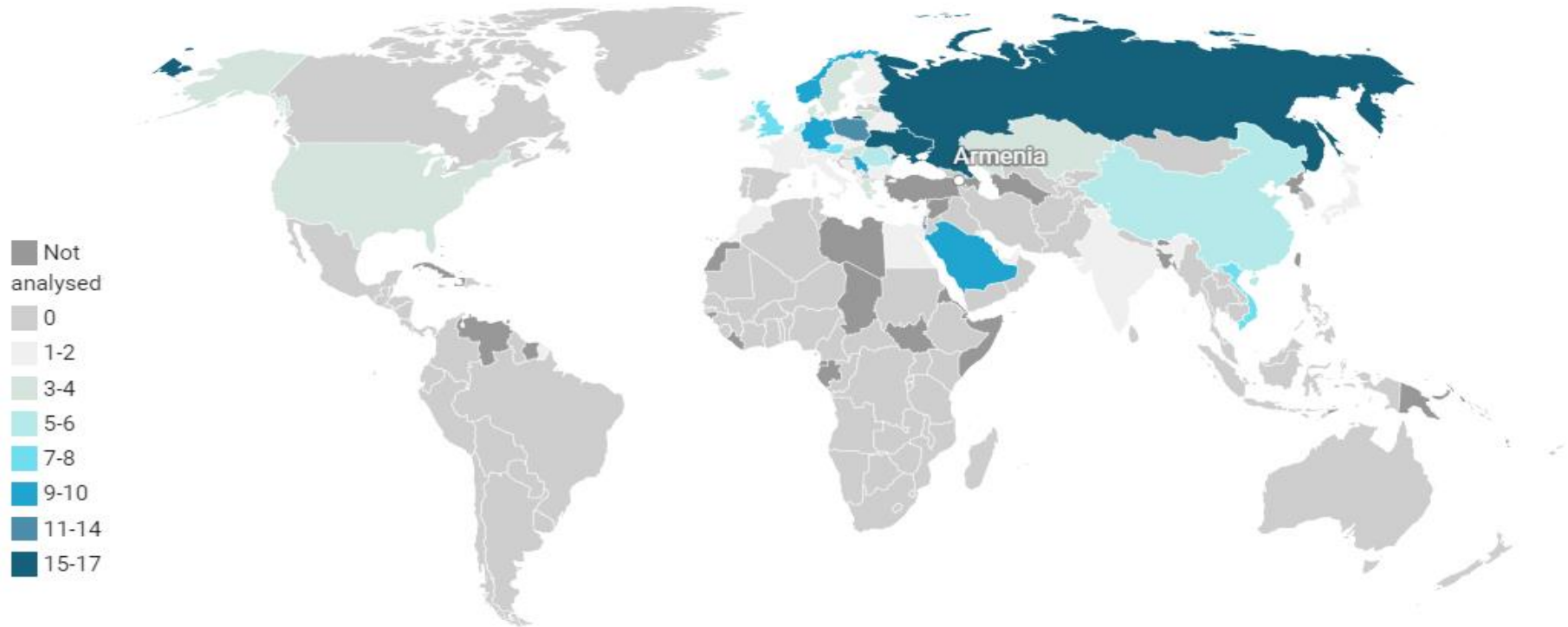
Most promising export destinations for top-20 textile and apparel products of ARM

Country	Frequency
Ukraine, Russia	16-17
Poland, Israel	11-14
Serbia, Germany, Norway, Saudi Arabia	9-10
United Kingdom, Austria, Vietnam	7-8
Netherlands, China, Romania	5-6
Denmark, Ireland, Kazakhstan, Lithuania, Moldova, Qatar, Sweden, Greece, Hungary, Iceland, United States	3-4
Belarus, Belgium, Egypt, France, Italy, Morocco, United Arab Emirates, Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, Estonia, Finland, India, Japan, Kuwait, Lebanon, Luxembourg, Slovak Republic, Slovenia, Switzerland	1-2
Other countries	0

Source: own estimates

Stage II: Destinations with the highest potential

Map with the highest export potential for ARM textile and apparel



Sources: Own estimates, drafted with Datawrapper

Note: The value assigned to each country refers to how often the country was mentioned in the Top-10 destinations calculated for each of the Top-20 products

Conclusions

- In January 2022, ARM graduates from the EU GSP+, which adversely impacts apparel producers and exporters
- To mitigate the shock, it is important to promote export diversification
- This policy briefing provides answers to two key questions:
 - Which textile and apparel products have a realistic export potential?
 - Which destinations should be targeted for each identified product?
- The study showed the strongest export potential for wearing apparel, especially knitted and crocheted apparel
- As for export geography, the research confirmed the high potential of RUS
- At the same time, a significant potential was identified in other destinations in the neighborhood (e.g. UKR, several EU member states) and countries, with which the EAEU recently concluded FTAs (SRB, VNM)
- PB/06/2021 complements the study with the list of key bottlenecks for exports of textile and apparel

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus, Kosovo, Armenia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

CONTACT

Emily Haentschel, Project Manager Armenia
haentschel@berlin-economics.com

German Economic Team
c/o BE Berlin Economics GmbH
Schillerstraße 59
10627 Berlin

Tel: +49 30 / 20 61 34 64 0
info@german-economic-team.com
www.german-economic-team.com

Implemented by



Annex 1.1: Supply side

- *Total export value*. The larger the total exports of the country, the greater its potential for expansion
- *Total export growth (in volume)*. The faster the export growth, the better it is for export potential
- *World market share*. It is an indicator of the competitiveness of the product. While the total export value is biased towards large industries, the world market share could show the potential of smaller industries
- *Revealed comparative advantage (RCA)*. The RCA is traditionally used to evaluate competitiveness of exporters

Annex 1.2: Demand side

- *Total value of imports*. It shows the potential size of the market
- *Import growth (in volume)*. Higher import growth signals a demand expansion and thus could produce more opportunities for the exporter than a stagnant or declining market
- In this analysis, the calculations are done separately for:
 - Target market as a whole (here: world)
 - Individual countries (threshold at USD 1 million is applied to exclude 'shallow' markets)

Annex 1.3: Trade costs

- *Average tariff faced by ARM.* It allows comparing different markets putting the countries with more liberal tariff regime up.
Note: for the EU, we take MFN duties as starting January 2022, ARM graduates from GSP+
- *Average tariff advantage of ARM compared to the country's applied average.* It reveals the relative competitiveness of the exporter on the importing market
- *Relative unit value.* It shows whether the exporter can supply to the importing market cheaper than its competitors can. Markets with disadvantageous unit value are excluded from consideration
- *Distance to the country from ARM.* The distance is an important proxy of transportation costs
- *Distance advantage of ARM compared to the country's average distance of imports.* It reveals whether ARM is better off placed than its potential competitors if the distance of shipping is compared

Example of stage I scoring

HS2012 6d	610342	611610	620343	610462	610510
HS subheading 6-digit description	Men's or boys' trousers of cotton, knitted	Gloves, impregnated, coated or covered with plastics or rubber, knitted	Men's trousers of synthetic fibers	Women's trousers of cotton, knitted	Men's shirts of cotton, knitted
Score EXP value average 2016-2019	96	92	100	96	93
Score EXP value average 2020	96	96	100	97	97
Score EXP growth 2019/2016	94	0	88	96	93
Score EXP growth 2020/2019	91	97	0	90	94
Score RCA2020	94	96	99	94	93
Score growth RCA 2020/2016	93	92	88	95	95
score RCA 2016-2019	92	0	99	0	0
Score share in WLD EXP, 2016-2020	89	84	99	85	80
SUPPLY, max = 100	93	70	84	82	81
Score IMP value average 2016-2019	94	92	98	98	97
Score IMP value average 2020	95	93	98	98	98
Score IMP growth 2019/2016	87	78	91	90	93
Score IMP growth 2020/2019	0	85	0	0	0
Demand, max = 100	69	87	72	72	72
Compound, max = 100	81	78	78	77	76
RANK	1	2	3	4	5

Example of stage II scoring

Product: HS 610342 'Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. swimwear and underpants)'

	Serbia	Saudi Arabia	Moldova	China	Ukraine
Score IMP value 2016-2019	59	79	45	95	71
Score IMP value 2020	63	90	59	96	74
Score IMP CARG 2019/2016	82	84	95	71	91
Score IMP CARG 2017/2016	76	94	88	95	0
Demand, max = 100	70	87	72	89	59
Score UV ratio 2020	0	0	0	0	0
Score UV ratio 2016-2019	90	0	0	98	47
Score distance	85	90	93	44	93
Score distance advantage	85	84	57	0	80
Score duty	99	91	99	91	99
Score duty advantage	98	0	95	0	95
Trade costs, max = 100	76	44	57	39	69
Compound, max = 100	73	65	65	64	64
RANK	1	2	3	4	5