German Economic Team

GET

ARMENIA

Export potential of Armenia's leather and related products

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1. Motivation

- Manufacturing of leather and related products is a small, but growing sector of the ARM economy

- ARM exports were negatively affected by Covid-19 and could be further deterred by the ARM graduation from GSP+ in 2022

- Export diversification is among key mitigation measures for the shocks

- In this briefing, we explore export potential of ARM leather and related goods globally

- Time perspective: short- to medium-term, i.e.

  – Focus on products which ARM already exports

Key questions:

- Which leather and related products have the highest export potential?

- Which destinations have the highest potential?

2. ARM exports of leather and related products

ARM gross exports of leather and related products

USD m

Legend:
- Re-exports of exports and related products
- Exports of leather and related products
- Share in ARM exports, %
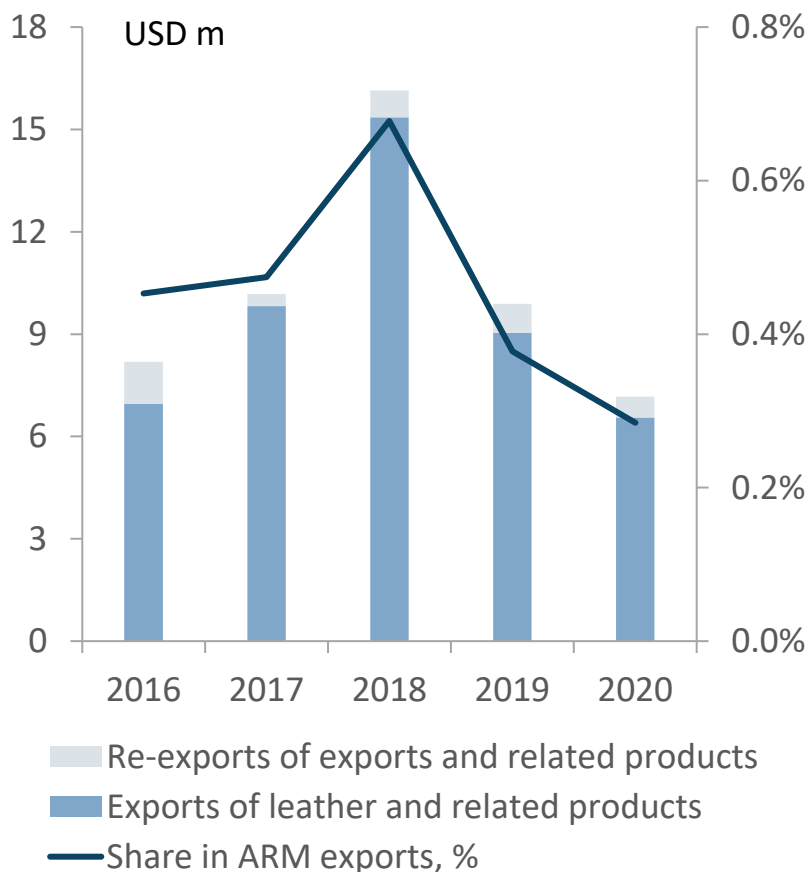
Source: WITS; coverage: HS 42, 64, 65

ARM gross exports of leather & related products:

- Nominal value, 2020: USD 7 m
- Share of re-exports, 2020: 8%
- Growth, 2020/2019: -27.5%
- Growth, 2020/2016: -12.4%
- Share in total exports, 2020: 0.3%

➢ **Negative export trends**

Main export products:

- Leather apparel (20% of total)
- Leather handbags (12%)
- Footwear with outer soles and uppers of rubber and plastics (8% of total)

➢ **Exports dominated by final products**

Geography of ARM exports of leather and related products

Geography of ARM gross exports of leather and related products

Other EU
1%

Other countries
2%

Belarus
4%

France
7%

Russia
86%
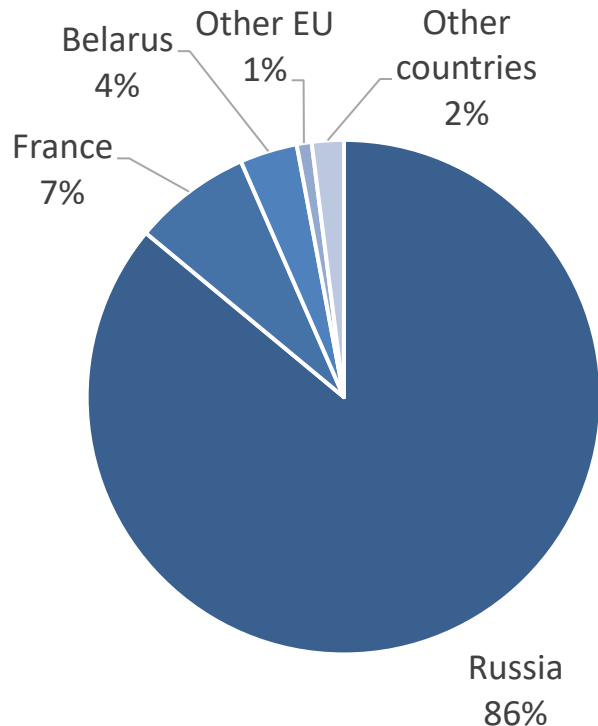
Source: WITS

ARM exports of leather and related products, 2020:

- EAEU: 90%,
  - *incl. RUS: 88%*
- EU: 8% (re-exports)
- Other countries: 2%

➢ **Exports split between RUS and EU**

➢ **Exports to EU = re-exports**

Dynamics of exports in 2020 vs. 2019:

- RUS: -26%
- EU: -30%
- Other countries: -38%

➢ **Drop in exports to all markets**

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 <u>modified</u> 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-10 products with the highest export potential
- **Stage II (based on dimension ii. and iii.)**
- Identification of top-10 importing countries for each of top-10 products

5. Export potential on global markets

Stage I

- Identification of 10 products with the highest potential on global markets ('top-10')

Stage II

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

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

Stage I: top-10 products

Rank	Composite score (max=100)	HS2012	HS 2012 Product Description	ARM exports, 2020, USD m	WLD imports, 2020, USD m
1	56	420310	Articles of apparel, of leather	1.4	2,094
2	56	420221	Handbags, with outer surface of leather, composition leather or patent leather	0.9	13,856
3	50	420222	Handbags, with outer surface of plastic sheeting or textile materials	0.5	9,705
4	50	640399	Footwear with uppers of leather, excl. covering the ankle	0.4	23,709
5	49	640299	Footwear with outer soles and uppers of rubber or plastics	0.6	15,793
6	49	640419	Footwear with outer soles of rubber or plastics and uppers of textile materials	0.2	19,889
7	48	640411	Sports footwear with uppers of textile materials	0.0	15,848
8	47	420212	Trunks, suitcases, with outer surface of plastics or textile materials	0.4	4,259
9	46	640391	Footwear with uppers of leather, covering the ankle	0.1	11,869
10	44	420329	Gloves, mittens and mitts, of leather	0.4	1,253

Source: own estimates

Stage II: Destinations with highest export potential

Result of stage II

- 10 tables with top-10 countries for each product; see TN 04/2021

- Here only map with most promising export destinations

Most promising export destinations for top-10 leather and related products of ARM

Country	Frequency
Belarus, Russia	10
Ukraine, Poland	7-9
Kazakhstan, Serbia, China, Greece	5-6
Georgia, Saudi Arabia, Kuwait, Moldova	3-4
Kenya, Morocco, Peru, United Arab Emirates, Albania, Belgium, Botswana, Bulgaria, Burkina Faso, Czech Republic, Denmark, Dominican Republic, Ethiopia, Hungary, Latvia, Luxembourg, Malta, Montenegro, Nicaragua, Nigeria, Norway, Qatar, Romania, Vietnam	1-2
Other countries	0

Source: own estimates

Stage II: Destinations with the highest potential

Map with the highest export potential for ARM leather and related products

Sources: Own estimates
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-10 products

Conclusions

- In January 2022, ARM graduates from the EU GSP+ which adversely impacts producers and exporters

- To mitigate the shock, it is important to promote export diversification

- This policy briefing provides answers to two key questions:

  - Which leather and related products have a realistic export potential?

  - Which destinations should be targeted for each identified product?

- The study shows the strongest export potential for different footwear

- As for export geography, the research confirms the high potential of RUS

- At the same time, a significant potential was identified in other destinations, including GEO, the EAEU (BLR, KAZ) and several EU member states (POL, GRC)

- PB/06/2021 complements the study with the list of key bottlenecks for exports of leather and related products

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.

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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.

  <u>Note</u>: 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	420310	420221	420222	640399	640299
HS subheading 6-digit description	Leather apparel	Leather handbags	Plastic or textile handbags	Footwear with uppers of leather	Footwear with outer soles and uppers of rubber or plastics
Score EXP value average 2016-2019	98	96	94	77	89
Score EXP value average 2020	98	96	92	87	94
Score EXP growth 2019/2016	77	75	0	0	0
Score EXP growth 2020/2019	0	0	0	85	74
score RCA2020	98	0	0	0	0
Score growth RCA 2020/2016	72	0	0	0	0
score RCA 2016-2019	98	0	0	0	0
Score share in WLD EXP, 2016-2020	98	77	75	49	62
SUPPLY, max = 100	80	43	33	37	40
Score IMP value average 2016-2019	68	89	85	98	94
Score IMP value average 2020	62	89	85	98	92
Score IMP growth 2019/2016	0	94	96	51	49
Score IMP growth 2020/2019	0	0	0	0	0
Demand, max = 100	33	68	67	62	59
Compound, max = 100	56	56	50	50	49
RANK	1	2	3	4	5

Example of stage II scoring

Product: HS 420310 'Articles of apparel, of leather or composition leather (excl. clothing accessories, footwear and headgear and parts thereof)'

	Belarus	Poland	Ukraine	Serbia	Latvia
Score IMP value 2016-2019	0	0	0	0	0
Score IMP value 2020	68	92	76	66	77
Score IMP CARG 2019/2016	93	90	93	77	91
Score IMP CARG 2017/2016	85	82	0	0	81
Demand, max = 100	61	66	42	36	62
Score UV ratio 2020	0	85	97	88	81
Score UV ratio 2016-2019	93	58	48	82	91
Score distance	88	82	95	87	80
Score distance advantage	57	73	59	73	0
Score duty	99	99	99	99	99
Score duty advantage	96	0	93	98	0
Trade costs, max = 100	72	66	82	88	58
Compound, max = 100	67	66	62	62	60
RANK	1	2	3	4	5