

NEWSLETTER

ARMENIA

Dmitry Chervyakov

Armenia vehicle re-exports: how high is the economic relevance?

Since the beginning of the war in Ukraine, Armenia's vehicle re-export business has rapidly gained momentum. The sector currently contributes significantly to employment and tax revenues, with its overall economic importance estimated at around USD 552 m or 3.7% of GDP in 8M2023. However, not all of this is directly reflected in official statistics, as the shadow economy is a major problem in this sector. With new Western sanctions coming into force and Chinese manufacturers continuing to fill the gap in the Russian domestic car production and imports, the overall outlook for 2024 is rather negative. Questions remain as to how to deal with the already considerable number of vehicles stocked in Armenia and how employment in sub-sectors such as vehicle maintenance and repair can be harnessed.

Introduction

Armenian companies were able to rapidly increase the re-export of vehicles to Russia immediately after the start of the war in Ukraine. This is hardly surprising, given that Armenia already re-exported almost 100,000 cars to Russia and Kazakhstan back in 2018/2019. At that time, Armenian companies saw an opportunity in the accession process to the EAEU: Armenia temporarily had a lower tariff duty for cars than other EAEU countries, while being able to re-export to EAEU members without further duties. This experience has helped Armenian companies to build an extensive business network in the region. As many car manufacturers withdrew partially or completely from Russia immediately after the start of the war, there was a massive decline in the supply of vehicles on the Russian car market. In conjunction with Western sanctions, which completely banned the export of certain types of vehicles to Russia, both production and imports decreased significantly. As such, there was a significant excess demand for vehicles in Russia – a business opportunity that Armenian companies were happy to take advantage of.

Armenian vehicle re-exports: routes and value chain

Most of the vehicles and parts imported into Armenia entered the country via Georgia, where mainly damaged vehicles were shipped from the USA. New cars and electrical vehicles were imported from the UAE and transported through Iran before reaching Armenia. Numerous dealers and brokers were involved in this process, not only purchasing the vehicles at auctions, but also

transporting them to Armenia and handling the customs procedures.

Armenia's vehicle re-export value chain



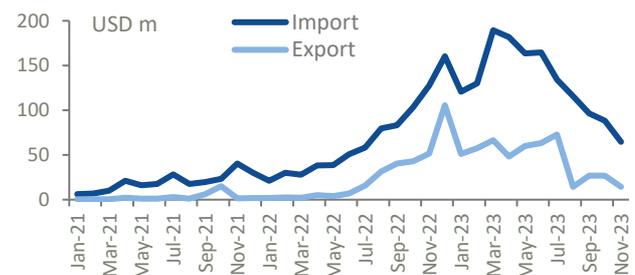
Source: own display

After arriving in Armenia, the vehicles were repaired in the country (also using the imported parts) before being transported through Georgian territory to Russia via the Upper Lars checkpoint, with the re-exported cars either being driven with temporary license plates or loaded onto trucks. As such, there was an extensive value chain behind the re-export business.

Current developments

Armenian imports and exports of vehicles and parts increased significantly after the start of the war in Ukraine. In 2022, imports amounted to USD 0.8 bn (+245% yoy), while exports reached USD 0.3 bn (+786% yoy). This trend accelerated even further: imports amounted to USD 1.4 bn in 11M2023 (+120% yoy) and exports to USD 0.5 bn (+146% yoy).

Armenia's external trade of vehicles and parts



Source: UN Comtrade, HS87 (vehicles and parts)

However, it is also clear that the current trend in both exports and imports is pointing sharply downwards. The decline in exports since August 2023, which is mostly due to the entry into force of the 11th EU sanctions package and the stricter regulations at the Georgian-Russian border crossing, is particularly evident. Although there are some alternative routes through Iran and then by ship to Russia, these are far more costly and therefore reduce the already low profit margins, making the business of re-exporting vehicles far less profitable. Moreover, Russia has recently introduced policies (e.g., increased motor vehicle utilisation fees) that aim to contain re-exports in favour of developing

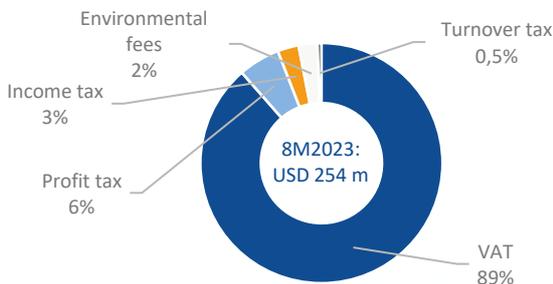
domestic car production. With the re-export business slowing down significantly, it is important to understand what impact this could have on the Armenian economy.

The role for the economy

The German Economic Team has analysed the overall economic importance of the Armenian vehicle business. This includes all companies active in the sale of vehicles and parts, the maintenance of vehicles and their imports and exports.

At the end of 2022, 6,892 enterprises were active in this sector, while in August 2023 the number increased to 7,313. This corresponds to roughly 7% of all non-financial enterprises in Armenia – quite a significant figure. However, most of these companies are small 1-2-person micro-enterprises, which also reflects in the overall low share in total employment of roughly 1% (Aug-23: 12,437 employed persons). Nevertheless, the sector generated a significant amount of turnover: USD 0.9 bn in 2022 and USD 1.2 bn in 8M2023. This also translates into a significant amount of taxes paid into the Armenian budget. In 2022, the taxes paid by the vehicle business amounted to USD 183 m or 4.1% of total tax revenues; in 8M2023, it increased to USD 254 m or 7% of tax revenues. Most of it comes in the form of VAT.

Taxes paid by the vehicle business (8M2023)



Source: GET calculations, Armstat, State Revenue Committee

Considering the previously described value chain and combining it with assumptions regarding prices and profit margins based on in-depth interviews with participants in the sector, GET also calculated the overall size of the sector in terms of gross value added. It should be stressed, however, that a considerable amount of it (close to 50%) lies in the shadow economy and thus is not reflected in the official statistics.

Estimated size of Armenia vehicles business



Source: GET calculations, Armstat, State Revenue Committee

For 2022, the estimated size of the Armenian vehicle business was USD 520 m or 2.7% of GDP. For 8M2023, it further expanded to USD 552 m or 3.7% of GDP. While these estimates should be treated with a grain of salt due to the role of the shadow economy, it is a unique estimation that allows to grasp the overall relevance of this sector – which is quite significant.

Outlook

Armenia's vehicle re-export business has rapidly gained momentum in 2022. GET estimates show that it is by no means a sector whose economic importance can be overlooked. However, current developments point to a negative outlook for the sector in 2024. On the one hand, profit margins are shrinking because new re-export routes are more expensive. In addition, supply in the Russian car market is already recovering as Chinese manufacturers fill the gap in both domestic production and imports. These factors have already led to a significant decline in Armenian re-exports of vehicles, a trend that is expected to continue in 2024. While this is likely to have a negative impact on tax revenues in the current year, there is also the question of how to deal with the already substantial vehicle stocks in Armenia and whether it is possible to keep some of the businesses operational even after re-exports collapse (e.g. by leveraging maintenance and repair skills in the public transport sector).

This Newsletter is based on the Policy Study "[The Armenian vehicle re-export business: role for the economy and outlook](#)".

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

*Advisory activities in Belarus are currently suspended.