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# **SCALING UP TRADE POTENTIAL IN SOUTH CAUCASUS**

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ACSES (Armenian Center for Socio-Economic Studies), Armenia

**ANALYSIS**

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# Table of contents

|   |           |
|---|-----------|
| <b>Introduction</b>                                       | <b>4</b>  |
| <b>Executive summary</b>                                  | <b>5</b>  |
| <b>Methodology</b>  | <b>6</b>  |
| <b>1. Overview of External Trade in the Region</b>        | <b>7</b>  |
| 1.1 Armenia   | 7         |
| 1.2 Azerbaijan  | 11        |
| 1.3 Georgia   | 14        |
| <b>2. Identification of Trade Potential in the Region</b> | <b>17</b> |
| 2.1 Armenia-Azerbaijan                                    | 19        |
| 2.2 Armenia – Georgia                                     | 21        |
| 2.3 Georgia – Azerbaijan                                  | 23        |
| <b>Conclusions &amp; Recommendations</b>                  | <b>26</b> |
| <b>Bibliography</b>                                       | <b>27</b> |
| <b>About the Authors</b>                                  | <b>28</b> |

# Introduction

Armenia, Georgia, and Azerbaijan are neighboring countries; however, Armenia and Azerbaijan have closed borders and do not trade with each other, while trade between Azerbaijan and Georgia, as well as between Armenia and Georgia, is limited to a few commodities.

On the other hand, although all three countries import a wide range of commodities from around the world, however their trade is significantly concentrated on a few specific countries. For example, as the analysis shows, the Eurasian Economic Union (EAEU)- specifically Russia- stands out as one of the crucial trading partners in the region, a situation particularly significant for Armenia, given its membership in the union. This means that if the countries in the region can strategically focus on the products with the highest trade potential and reduce barriers to trade with one another they could mitigate their import dependency as well as decrease the costs of the imports given the proximity of countries.

ACSES (Armenian Center for Socio-Economic Studies) with support from the Friedrich Naumann Foundation for Freedom conducted a study to assess the prospects for

increasing regional trade, as well as to identify the preliminary list of commodities that can be exported from one country in the region to another.

The study consists of two sections, an introduction, an executive summary, a methodology, and conclusions & recommendations.

The first section presents the overview of the external trade in the region, the structure of exports and imports of Armenia, Georgia, and Azerbaijan by partner countries, and commodities in the last five years.

The second section presents the trade potential in the region. Particularly it presents the measurement of trade complementarity among the countries and lists of products (Trade Complementarity Index) and the list of products for each country that could be potentially imported or the imports of which could be potentially increased from another country in the region.

The study's main findings and suggestions are presented in the "Conclusions & Recommendations" section

# Executive summary

To assess the potential for trade between Armenia, Georgia, and Azerbaijan, the project team compared the similarities between their trade structures and calculated the countries' Trade Complementarity Index (TCI). The analysis shows that overall, there is a low level of overlap between the export profile of one country and the import needs of the other country in the region.

The generally low TCI values indicate that there is limited potential for expanding trade based purely on existing export and import profiles. However, this also implies that if the countries in the region strategically focus on the products with the highest trade potential, implement trade policies that incentivize mutual trade, and reduce existing barriers, they could leverage existing complementarities

and address gaps to increase trade benefits in the region.

In the frame of this study, ACSES has conducted a preliminary assessment of potential trade gaps in the region and identified the products with the highest potential to be exported from one country in the region to another. Identification of an exhaustive list of specific products with the highest export potential requires detailed market analysis. This study serves as a preliminary assessment, laying the groundwork for more in-depth and comprehensive analysis in the future.

# Methodology

To assess to what extent the export profile of one country in the region matches the import profile of the other, the research team calculated the Trade Complementarity Index (TCI) which has been widely used in assessing the potential for trade among partners in different regions (UNCTAD and WTO, 2012). The TCI assesses the degree to which two countries are "natural trading partners" by measuring the overlap between one country's exports and the other country's imports and can provide useful information on prospects for regional trade.

The TCI between countries  $i$  and  $j$  shows the match of  $j$ 's export supply to  $i$ 's import demand. The formula is as follows:

$$TCI_{ij} = 100 * \left[ 1 - \sum_{k=1}^m |m_k^i - x_k^j| / 2 \right]$$

Where  $m_k^i$  is the commodity  $k$ 's share in the total imports of the country  $i$  from the world and  $x_k^j$  is the commodity  $k$ 's share in the total exports of the country  $j$  from the world. The indices are calculated based on the UN Comtrade database for the year 2023 aggregated on HS 6-digit level. TCI index values range between 0 and 100. Values close to 0 indicate very low compatibility between the export profile of one country and the import needs of the other country and values close to 100 indicate a high or perfect level of complementarity.

In order to identify the products with potential for trade between countries  $i$  and  $j$ , the research team analyzed the export and import profiles of countries for the year 2023 aggregated on HS 6-digit level, as well as used the insights from local experts to identify and eliminate the re-exported products from the list. The project team set a limitation for the exports of country  $j$ , particularly the exports of the given commodity must be higher or equal to USD 2 million. This criterion was applied to select commodities that have the highest export potential for the country  $j$ .

The project team analyzed the export and import patterns of each country, as well as used the knowledge of the domestic production in the region to identify whether the given commodity may be a foreign export and not a domestic export. Further, the identified long list of products that could be potentially traded between given

two countries was discussed with local experts to identify the products with the highest potential to be exported and imported for the given country.

One of the primary limitations of the data is the high levels of re-exports in all three countries. Moreover, following the outbreak of the Russo-Ukrainian war and the implementation of Western economic sanctions on Russia, re-exports in the region significantly increased in 2022 and 2023. Given that, not all countries in the region fully report their domestic and foreign exports, and some do not report comprehensively to all partner countries, the analysis of the TCI and potential trade based on 2023 data has constraints. However, the expertise of local specialists who possess detailed knowledge of the production structures, export profiles, and recent developments in the respective economies helped to identify the commodities that are possibly re-exported and mitigate this limitation.

In the final stage, the project team estimated the value of additional or potential trade between the countries based on the analysis of the products with the highest potential to be exported and imported for the given country. Specifically, the project team compared the imports of one country from the world and the exports of the other country to the world for each commodity. During the detailed analysis of traded commodities, the team identified and excluded goods that were not domestic exports. In the following step, the smaller number for each commodity was selected and then the selected numbers were added up. In order to calculate the overall additional potential trade, the project team subtracted the value of current imports in the given group of countries.

It should also be noted that the project team does not intend to provide an exhaustive list of products with the highest potential for trade between the countries in the region. We acknowledge that identifying specific products requires detailed market analyses. However, this study serves as a preliminary assessment, laying the groundwork for more in-depth and comprehensive analysis in the future.

It also should be noted that the methodology used in this study differs from that applied by Azerbaijan in assessing the trade potential in the region, which explains the differences in the results between the two assessments.

# 1. Overview of External Trade in the Region

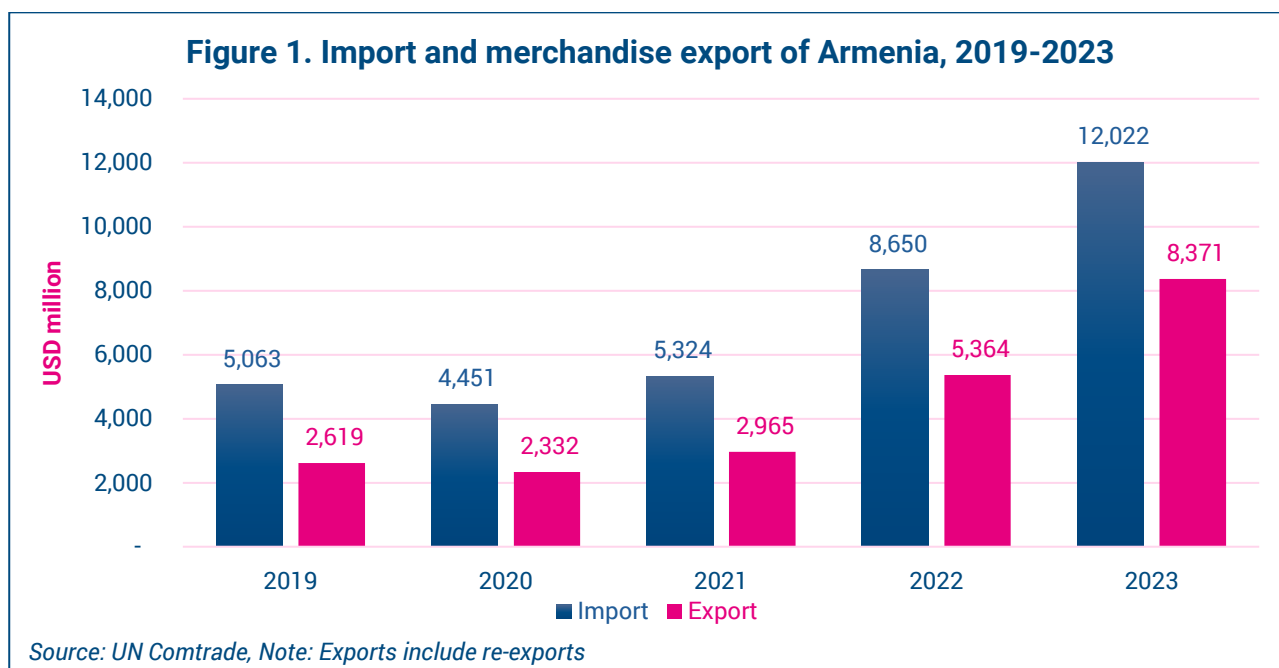
## 1.1 Armenia

Armenia has generally open trade policies and actively engages in international trade. In the last five years, Armenia's imports increased by 2.4 times and reached USD 12.0 billion in 2023, while exports grew by 3.2 times and amounted to USD 8.4 billion. However, it must be mentioned that over the last few years, Armenia's foreign trade has been positively affected by several external factors.

In 2015, Armenia joined the Eurasian Economic Union (EAEU) with preferential transition terms, which granted Armenia free access to the EAEU market while allowing for lower import tariffs until 2020. This opened a window of opportunity for importers and exporters (e.g. in the case of the trade of vehicles). For example, in 2019 Armenia imported 189,000 cars (versus 64,000 in 2018, which was already significantly high) worth USD 559 million, 2.3 times more than the previous year (GET & Modex, 2023). These vehicles were further re-exported mainly to Russia and Kazakhstan. This boosted the imports and exports of the

country in 2018 and 2019.

In 2022, Russian war of aggression on Ukraine and Western economic sanctions on Russia created an opportunity for Armenian exporters and led to significant growth both in foreign and domestic exports of the country. Many Armenian exporters started importing goods from third countries and re-exporting them to Russia. Similarly, as in 2018 and 2019, a significant part of the re-exports were vehicles, as well as smartphones, data processing machines, communication apparatus, and so on. Driven by the increase in re-exports, Armenia's exports grew by 80.9% in 2022 and 56.1% in 2023. Several publications have explored the shifts in trade dynamics of Armenia, Georgia, Kazakhstan, Kyrgyzstan, and other countries following Russia's war of aggression against Ukraine and the subsequent Western sanctions, including the circumvention of sanctions through the supply of restricted products (S&P, 2024; Reuters, 2023; ADB, 2023). However, this study does not address that specific topic.



Despite Armenia's trade openness, the geographical structure of its imports and exports has been traditionally highly concentrated. In 2023, 52.6% of the country's imports came from only 3 countries: Russia (32.3%), China (13.5%), and Vietnam (6.8%). It must be mentioned that Vietnam is not one of the main traditional import partners for Armenia (its share has been generally around 1% in Armenia's imports). The growth in imports from Vietnam in 2023 was conditioned by growth in imports of telephone sets from this country (about 30 times higher than in 2021), which was further re-exported to Russia. Over the last five years, Armenia mainly imported from Russia (with

2019-2023 average annual share of 31.7%), China (14.7%), Iran (6.4%), Germany (4.4%), and Italy (3.5%). Armenia imports mostly petroleum gases and oil from Russia and Iran, China supplies Armenia with a diverse range of products from electrical machinery and equipment to clothing and footwear. From Germany the country imports vehicles, medicaments, instruments, and appliances used in medical services, etc.

Russia is also the primary export destination for Armenia. In 2023, 67.0% of Armenia's exports were directed to only two countries: Russia (40.4%) and UAE (26.6%). It is

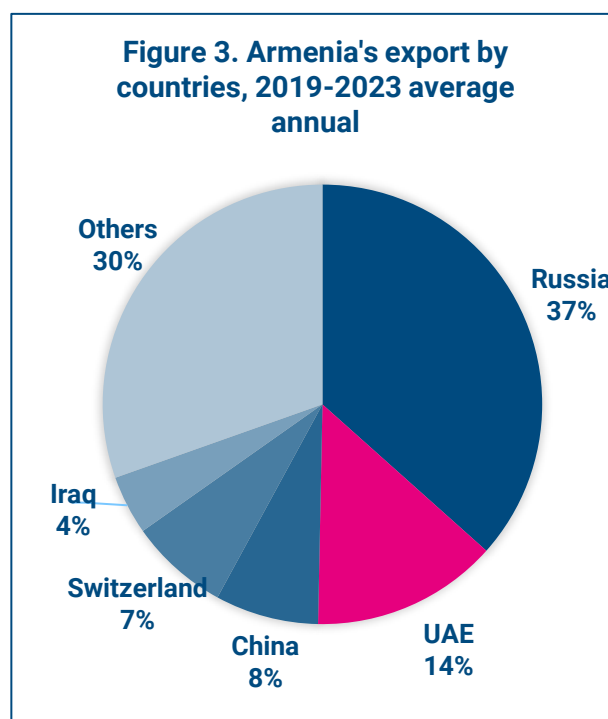
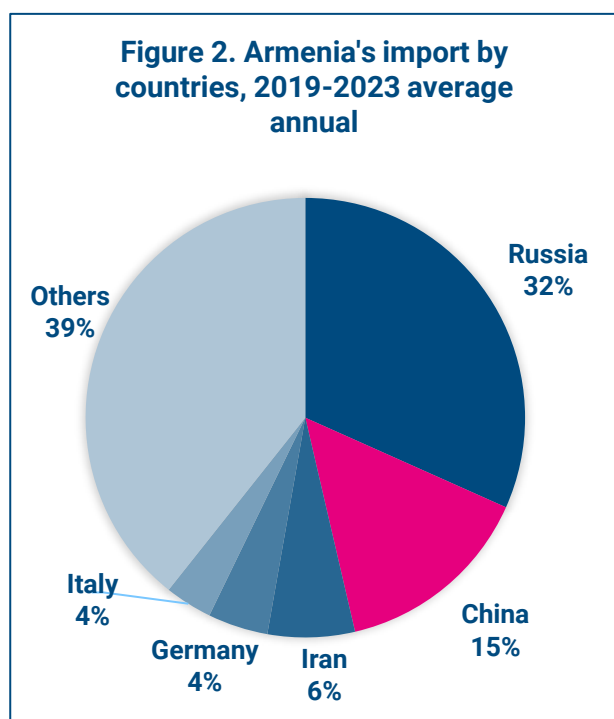
important to note that while Armenia's export geography has historically shown high concentration, the 2022 and 2023 picture is notably different, reflecting significant growth in re-exports to these two countries. Moreover, due to the increase in re-exports of jewelry of precious metals and unwrought gold, the exports from Armenia to UAE increased 39 times between 2018 and 2023, while its share reached 26.6% from only 2.2% five years before. Historically Armenia was exporting to Russia mainly beverages, diamonds, fish, and tomatoes. However, in 2022 and 2023 vehicles and telephone sets dominated the exports.

Over the last five years, other main destinations for Armenian exports have been China, Switzerland, and Iraq. Armenia mainly exports copper ores and concentrates to China, gold in powder form, and copper ores and concentrates to Switzerland and tobacco to Iraq.

When discussing the geography of Armenia's exports and

imports, it is essential to consider its membership in the EAEU. Armenia became an EAEU member in 2015 and as a member, the country enjoys free trade with other EAEU countries—Russia, Belarus, Kazakhstan, and the Kyrgyz Republic—without tariffs, quotas, or other trade barriers. Additionally, the EAEU maintains a common external tariff policy for trade with non-member countries. An exception to the common external tariff policy applies to countries with which EAEU members had free trade agreements before joining the union. For instance, Armenia maintains a free trade agreement with Georgia, allowing for tariff-free trade between the two countries despite Armenia's EAEU membership.

Membership in the EAEU makes trade within the union more attractive but also limits Armenia's trade with non-EAEU countries, as the common external tariff policy and regulatory alignment can restrict Armenia's ability to independently negotiate trade agreements and cooperate with other countries.<sup>1</sup>



Source: UN Comtrade; Note: Exports include re-exports. The shares represent the 2019-2023 average annual exports/imports of countries in Armenia's average yearly total exports/imports.

Similarly to its geographic distribution, Armenia's export structure by commodity is also highly concentrated. In

2023, 20.9% of Armenia's exports accounted for unwrought gold (not in powder form), followed by non-

<sup>1</sup> The EAEU's influence on free trade in the region is conditioned by the fact that Armenia is a member of the Union and cannot negotiate independently free trade with third countries. The fact that Armenia and Georgia have free trade agreement is because that FTA was signed before Armenia's accession to the EAEU.

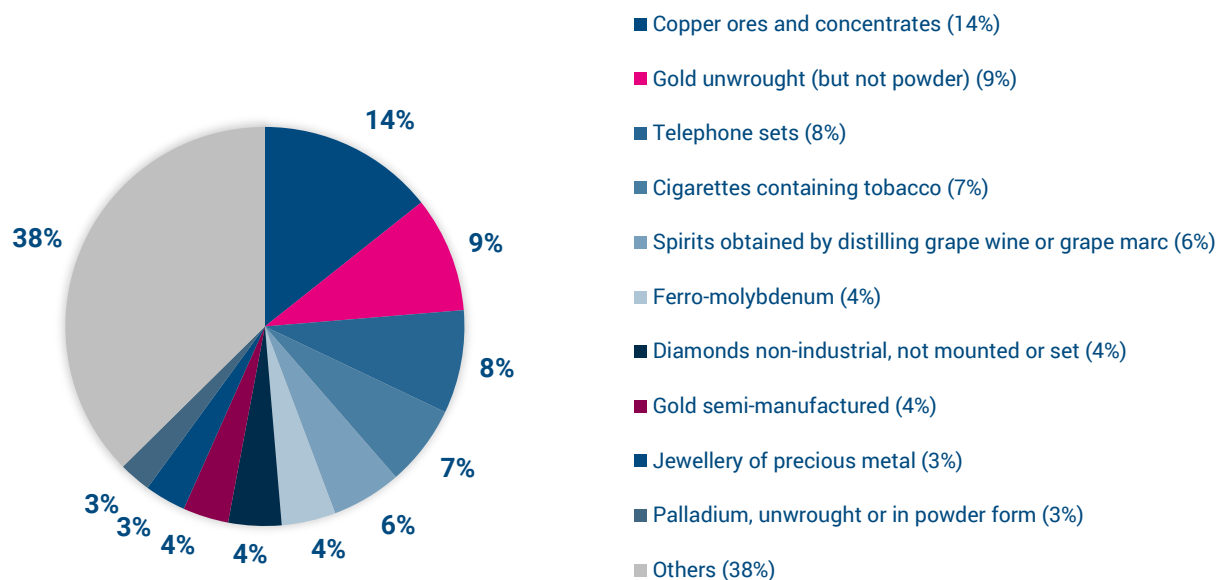
The inclusion of all three countries to the same political-economic union will solve the issue of different customs regulations, however, it is obvious, that there is no unilateral attitude among the South Caucasus countries where they are interested to integrate to. However, it should be noted, that this was not within the scope of this work.



industrial diamonds (6.6%), telephone sets (5.9%), jewelry of precious metals (excluding silver) (5.9%), copper ores, and concentrates (5.8%). However, it must be mentioned that most of these exports constitute re-exports. Historically Armenia's exports have been dominated by copper ores and concentrates, cigarettes containing

tobacco, spirits obtained by distilling grape wine (brandy), semi-manufactured gold, and ferro-molybdenum: in 2019-2021 the share of annual average exports of these commodities in average annual total exports were 24.7%, 9.4%, 8.4%, 7.5%, and 5.3%, respectively.

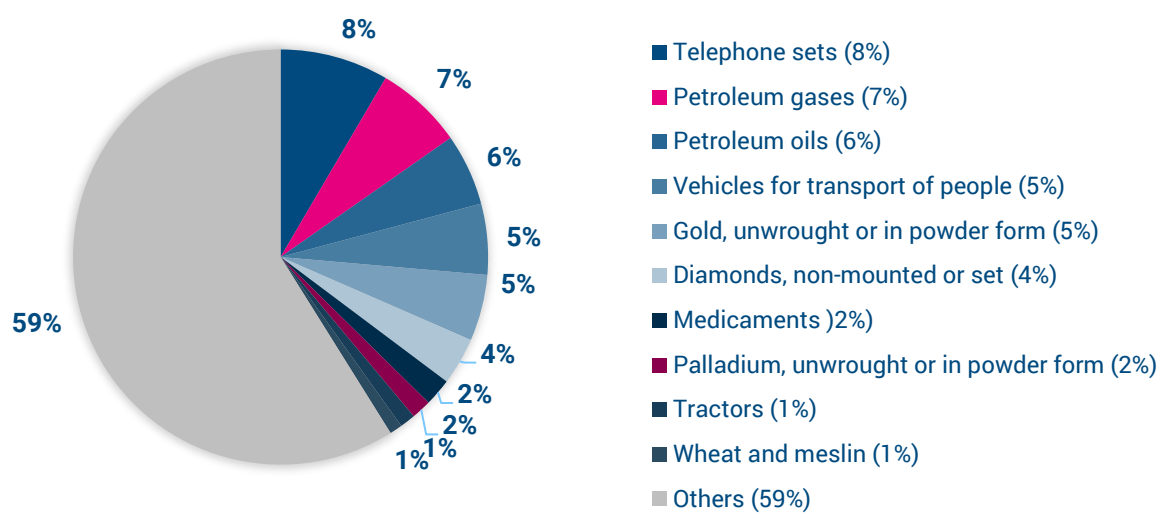
**Figure 4. Armenia's export by products, 2019-2023 average annual**



Source: UN Comtrade; Note: Exports include re-exports. The shares represent the 2019-2023 average annual commodities exports at an HS 6-digit level in Armenia's average yearly total exports.

In 2023, Armenia's top five imported commodities included gold (unwrought or not further worked than semi-manufactured or in powder form) (11.4% of total imports), vehicles for the transport of people (8.9%), telephone sets (5.9%), petroleum gas (4.3%) and petroleum oil (4.1%). This picture (except for oil and gas) reflected increased demand for re-exports. For example, historically Armenia's imports

were led by petroleum oil and gas. In 2019-2021, the share of annual average imports of oil and gas commodities in average annual total imports was 15.3%, followed by medicaments (3.0%) and gold (unwrought or not further worked than semi-manufactured or in powder form) (1.5%).

**Figure 5. Armenia's import by products, 2019-2023 average annual**

Source: UN Comtrade; Note: The shares represent the 2019-2023 average annual commodities imports at an HS 4-digit or 6-digit level in Armenia's average yearly total imports

## 1.2 Azerbaijan

Azerbaijan is a net exporter. In 2023, the country's exports amounted to USD 33.9 billion, and imports were USD 17.3 billion. As a net producer and exporter of oil and gas, the

country increased exports in 2022 by 71.8% owing to rising global oil and gas prices and demand associated with the effects of the sanctions on Russia. In 2023, the exports moderated.

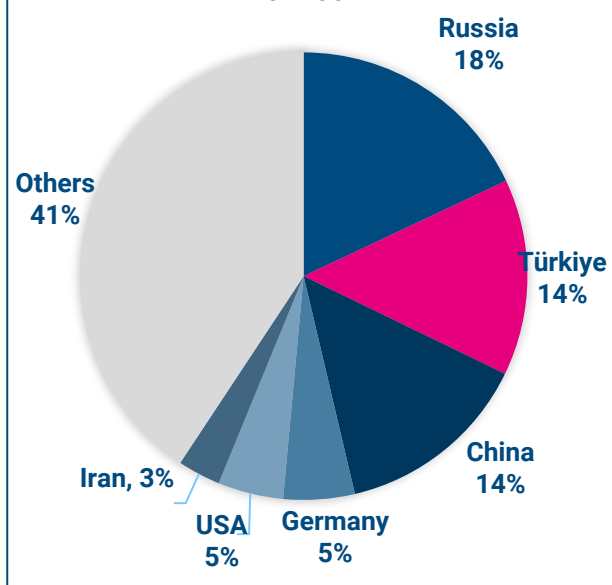


The geographical structure of the country's exports is highly concentrated. In 2023, only two countries accounted for 60.7% of the total exports: Italy (44.9%) and Turkey (15.8%). Oil and gas constitute nearly the entire exports to Italy and more than 85% of exports to Turkey. Although these countries have historically been the two main destinations of Azerbaijani exports, exports to Italy and its share in total exports of Azerbaijan in recent years increased sharply (by 2.7 times and 16.1 percentage points compared to 2019). Several factors affected the export growth. For example, the operationalization of the Southern Gas Corridor, including the Trans Adriatic Pipeline (TAP) which transports Azerbaijani gas to Europe via Italy, has significantly boosted the capacity for Azerbaijan to export natural gas to Italy. Europe's efforts to

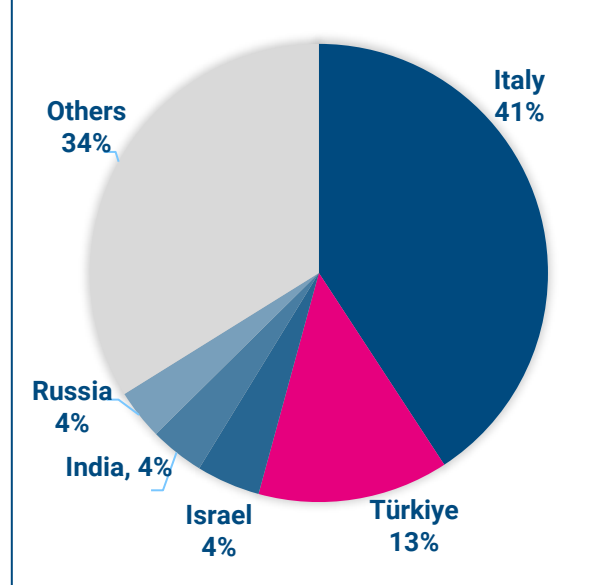
diversify its energy sources and reduce dependency on Russian energy, especially in light of geopolitical tensions and the ongoing Russian war of aggression in Ukraine, also played a crucial role.

Azerbaijan's import structure is also highly concentrated. In 2023, 59.5% of imports of the country came from only five partners: Russia (18.3%), China (17.5%), Turkey (13.3%), Germany (5.3%) and USA (5.1%). These countries have been historically the main importing partners for Azerbaijan. In 2019-2023, the share of annual average imports of Russia in average annual total imports was 18.0%, Turkey's share was 14.2%, followed by China (14.1%), Germany (5.1%), and the USA (3.1%).

**Figure 7. Azerbaijan's import by countries, 2019-2023 average annual**



**Figure 8. Azerbaijan's export by countries, 2019-2023 average annual**

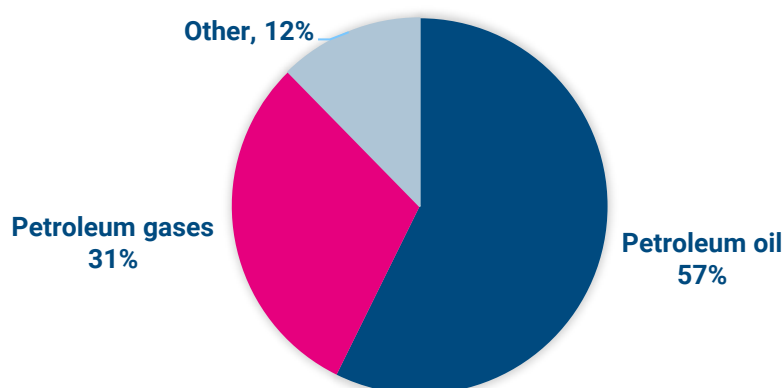


Source: UN Comtrade; Note: Exports include re-exports. The shares represent the 2019-2023 average annual exports/imports of countries in Azerbaijan's average yearly total exports/imports.

Azerbaijan's exports are highly concentrated in hydrocarbon products. In 2019-2023, the share of the annual average export of petroleum oil accounted for 57.3%, while the share of the annual average export of petroleum gas was 30.4% of the average annual total exports of the country. However, it must be mentioned that the non-mineral exports of Azerbaijan in the last five years have significantly increased, although re-exports have

played a role in it. This refers to commodities other than mineral products under HS27, which represents the category for mineral fuels, oils, and related products in the UN Harmonized System (HS) classification. For example, in 2023 the non-mineral exports of Azerbaijan increased by 57.0% compared with 2019 and the main contributors to this impressive growth were articles of plastic (26.9%), vehicles (16.8%), and fruits and nuts (14.4%).

**Figure 9. Azerbaijan's export by products, 2019-2023 average annual**



Source: UN Comtrade; Note: Exports include re-exports. The shares represent the 2019-2023 average annual commodities exports at an HS 6-digit level in Azerbaijan's average yearly total exports.

In the last five years, vehicles have been the most imported commodity in Azerbaijan. Moreover, their imports in dollar terms increased twofold in 2023 compared to 2019. The

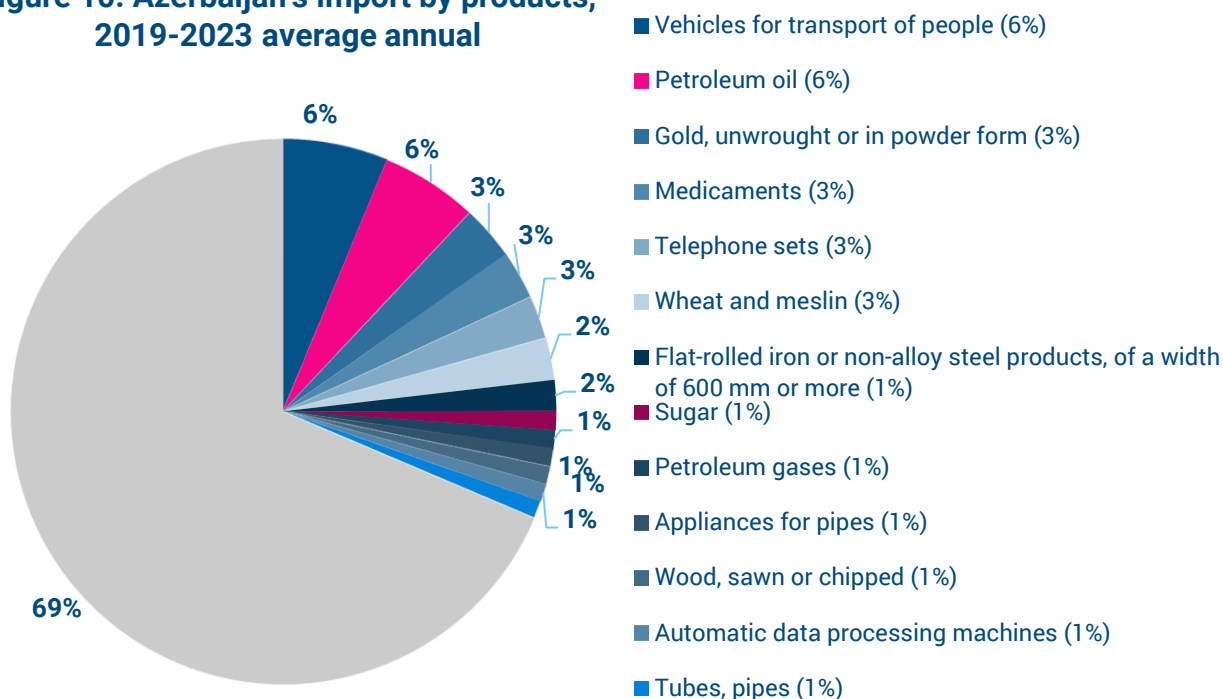
products under the category of machinery and mechanical appliance (HS84) and electrical machinery and equipment (HS85) are some of the other most imported products. In

2023, these three groups of products together were responsible for 32.0% of the total imports of Azerbaijan. It must be mentioned, however, that demand for re-exports was an important factor in the impressive import growth of these commodities.

If we look at the imports of Azerbaijan on a more detailed level) we observe that vehicles for the transport of people,

gold, petroleum oil, medicaments, and telephone sets are among the top imported products (Figure 10). However, it must be mentioned that gold (either unwrought or in powder form) had a significantly high share in total imports only in 2019 (15.5%), while in the subsequent years the share dropped to near 0%.

**Figure 10. Azerbaijan's import by products, 2019-2023 average annual**

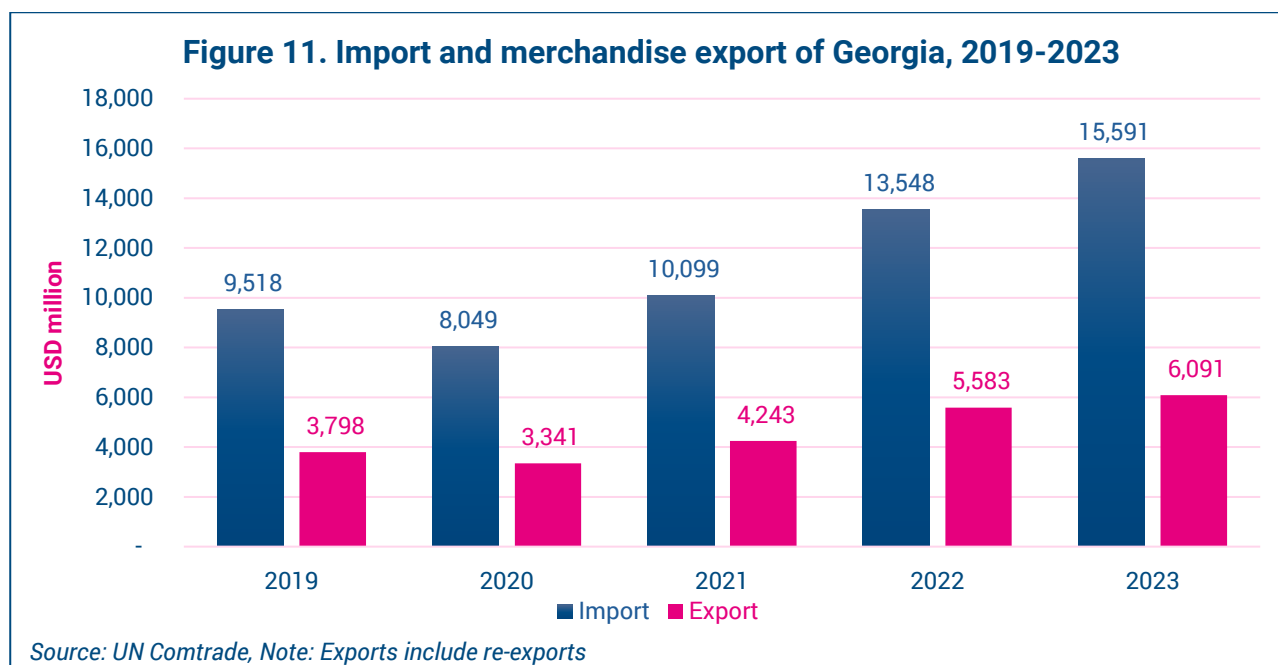


Source: UN Comtrade; Note: The shares represent the 2019-2023 average annual commodities imports at an HS 4-digit level in Azerbaijan's average yearly total imports.

### 1.3 Georgia

Georgia is a net importer of goods. In 2023, the country's merchandise exports amounted to USD 6.1 billion, and imports were USD 15.6 billion. In the last five years, Georgia's foreign trade has increased significantly. In 2023, the exports of the country increased by 60.4% compared with 2019 and the imports increased by 63.8%.

However, this growth was not entirely due to the increase in domestic exports, as re-exports also played a significant role. In 2022, growth in merchandise exports accelerated to 31.6% on increased re-exports of passenger cars (33.5 percentage points of growth), exports of fertilizer (12.1 percentage points) and of copper ore and concentrates (15.6 percentage points).

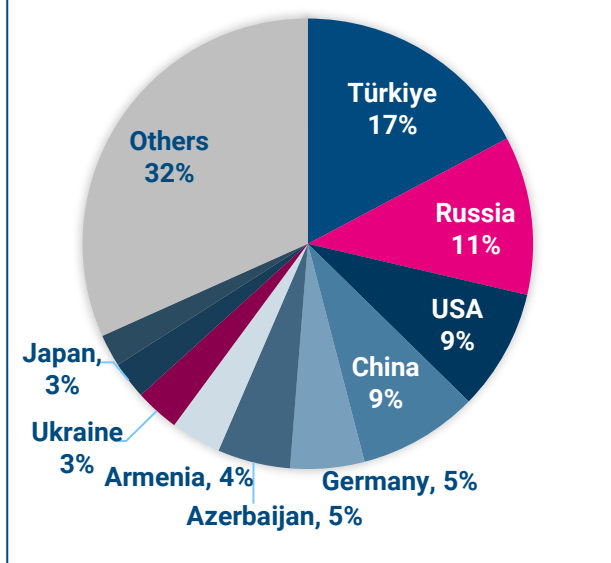


Azerbaijan has been one of the main destinations for Georgian exports over the last five years. Between 2019 and 2023, Georgia's exports to Azerbaijan accounted for an average of 13.1% of the country's total exports, followed by Russia (12.3%), China (10.2%), Armenia (9.7%), Turkey (6.8%), and Bulgaria (6.7%). Over the last five years, Georgia's merchandise exports to Kazakhstan and Kyrgyzstan have increased several times due to increased vehicle re-exports in 2023. In 2023 compared with 2019 exports to Kazakhstan increased 10.5 times, and exports to Kyrgyzstan increased 9.1 times, while the shares of these countries reached 11.5% and 11.4% respectively from around 2% five years before. Re-exports of vehicles have accounted for more than half of the exports to Azerbaijan over the last five years. Similarly with the case of Armenia in 2019, 2022 and 2023, a significant share of exports (62.8%, 29.6%, and 44.8%) came to the exports of vehicles. Georgia mostly exports beverages to Russia, copper ores are the primarily exported commodity to

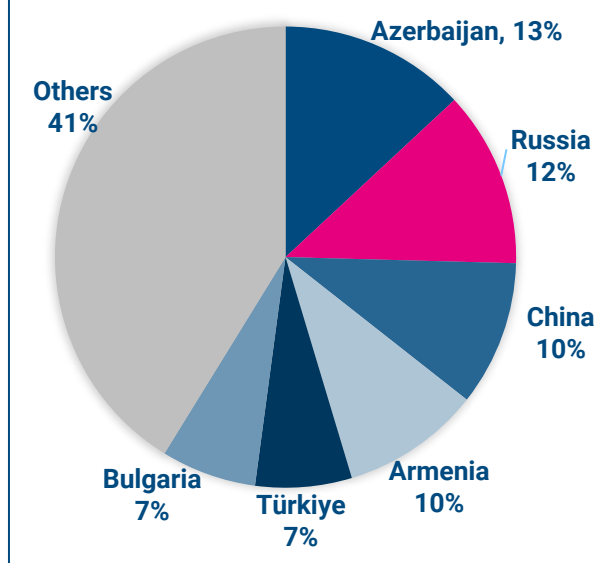
China, while apparel and clothing accessories have been the main exported products to Turkey.

Turkey, Russia, USA, China, Germany, and Azerbaijan have been some of the main suppliers of Georgia over the years. Turkey as the main importing partner of Georgia has been supplying the country with a wide range of commodities including medicaments, different structures of iron and steel, tubes, pipes, as well as vehicles, etc. Although the imports from Russia have declined over the last five years (by 78.6% between 2019 and 2023), the country still is one of the main suppliers of Georgia with petroleum oil being the leading imported commodity from Russia. Georgia imports primarily vehicles from the USA (around 90% of yearly imports) most of which are assumedly re-exported to the third countries. More than 60% of yearly imports from Azerbaijan to Georgia account for petroleum oil and gas.

**Figure 12. Georgia's import by countries, 2019-2023 average annual**



**Figure 13. Georgia's export by countries, 2019-2023 average annual**

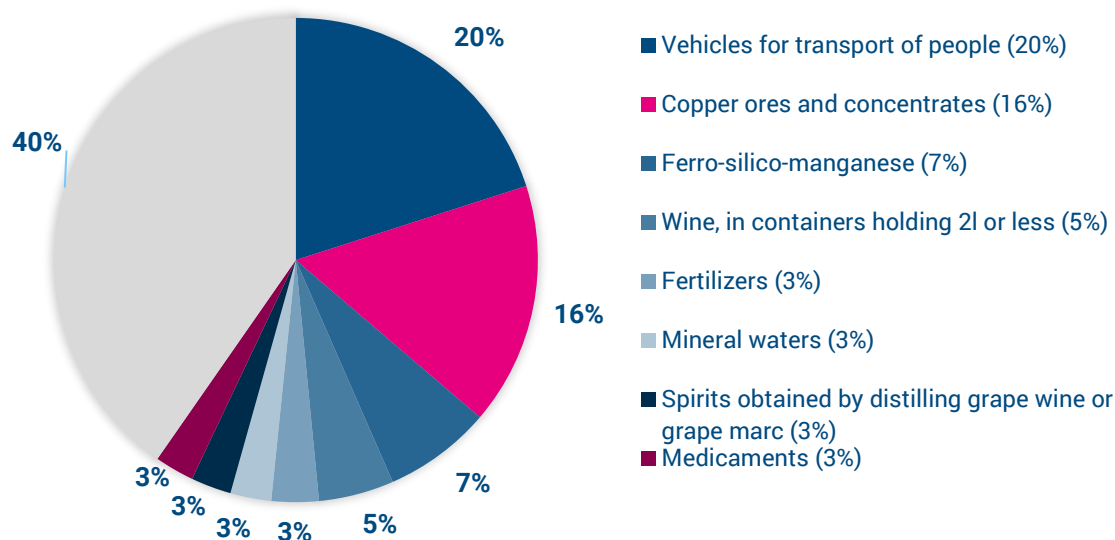


Source: UN Comtrade; Note: Exports include re-exports. The shares represent the 2019-2023 average annual exports/imports of countries in Georgia's average yearly total exports/imports.

Like in the case of Armenia, re-exports play a significant role in the exports of Georgia. For example, over the last five years, the re-export of passenger cars (HS 8703) constituted a significant share of Georgia's exports fluctuating from 10.8% (2021) to as high as 34.9% (2023). Over the last years, the next most exported commodity from Georgia has been copper ores and concentrates. In 2019-2023, this commodity on average made up 16.2% of total exports each year. Wine is one of the most important

export commodities for Georgia. Between 2019 and 2023 its share in total exports increased from 5.7% to 6.7%. Over the last few years, Georgia has also expanded its fertilizer (HS 3102) exports. In 2023, the country exported around 901 thousand tons of fertilizers, 1.8 times more than in 2019. In 2022, fertilizer exports more than doubled from the year before and its share in total merchandise exports of the country reached 5.0%.

**Figure 14. Georgia's export by products, 2019-2023 average annual**

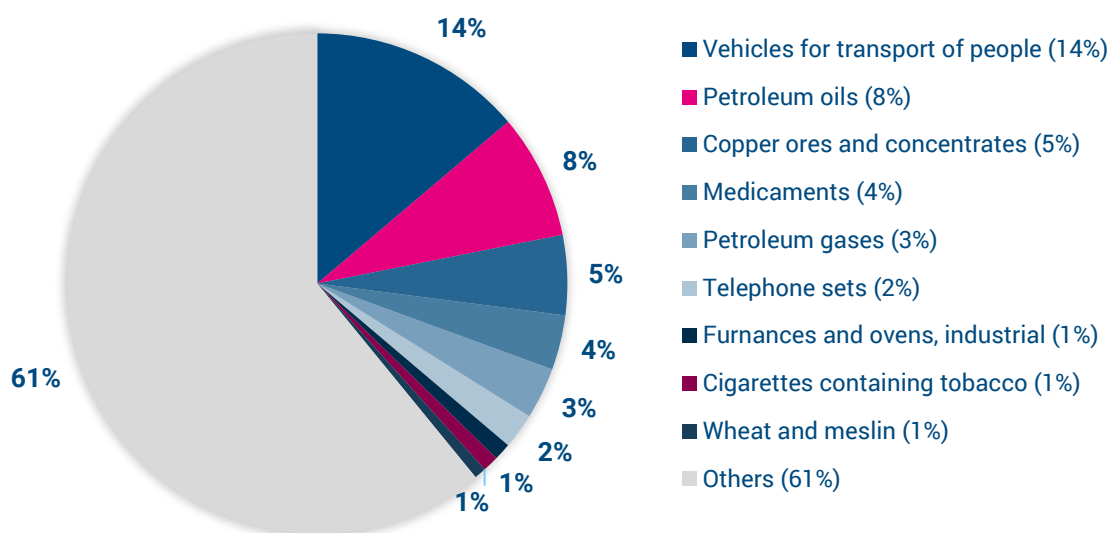


Source: UN Comtrade; Note: Exports include re-exports. The shares represent the 2019-2023 average annual commodities exports at an HS 6-digit level in Georgia's average yearly total exports.

Given the substantial share of car re-exports in Georgia's total exports, it is unsurprising that vehicles also dominate the country's imports. In 2023, the share of this commodity reached 21.2%, nearly double its share in 2019 (11.6%). Georgia also imports petroleum oils and gas which together on average constitute 11.4% of average annual imports. Although the country produces and exports copper ores and concentrates, it also imports significant

quantities of copper ores, primarily from Armenia, for re-export purposes. Overall, in 2019-2023, the this commodity made up on average 5.2% of total imports. Medicaments are the next most imported commodity for Georgia. In the last five years, the share of this commodity in total merchandise imports has increased from 3.7% to 5.7%. The main supplier of medicaments for Georgia is Turkey.

**Figure 15. Georgia's import by products, 2019-2023 average annual**



*Source: UN Comtrade; Note: The shares represent the 2019-2023 average annual commodities imports at an HS 4-digit or 6-digit level in Georgia's average yearly total imports.*

As the analysis of the trade structures of Armenia, Georgia, and Azerbaijan reveals, the EAEU stands out as a crucial trading partner in the region. For example, in 2019-2023, EAEU countries made up an average of 38% of Armenia's exports, and 22% of Georgia's exports every year. In the same period, the share of EU countries in Armenia's exports averaged 17% and Georgia's exports accounted

for 16% on average. In the same period, the share of EAEU countries in the average annual imports of Azerbaijan was 21.3%. For comparison, the EU countries made up 17%. Moreover, Russia dominates the trade flows to and from the EAEU, a situation particularly significant for Armenia, given its membership in the union.



## 2. Identification of Trade Potential in the Region

To assess the potential for trade between Armenia, Georgia, and Azerbaijan, the project team compared the similarities between their trade structures and calculated the countries' Trade Complementarity Index (TCI). The results of the analysis show that overall there is a low level of overlap between the export profile of one country and the import needs of the other.

The highest level of trade complementarity among the selected groups of countries was registered between Georgia and Armenia. However, the TCI value between 21 and 40 indicates low trade complementarity and suggests that the overall trade relationship between Georgia and Armenia has some potential but is not highly complementary. This means that while there are areas where each country can meet the other's needs, there is considerable room for improvement. The import compatibility analysis between these countries indicates that there is a higher potential for Armenia to export to Georgia ( $TCI_{GeAm}=39.9$ ) than for Georgia to export to Armenia ( $TCI_{AmGe}=30.2$ ).

The overall trade complementarity between Georgia and Azerbaijan was revealed to be low, especially regarding Georgia's import needs and Azerbaijan's export profile. The  $TCI_{GeAz}=7.9$  indicates significant challenges for Azerbaijan in finding products that meet the import needs of Georgia. This is conditioned by the very high concentration of Azerbaijan's exports. The import compatibility analysis between these countries indicates that there is a higher potential for Georgia to export to Azerbaijan ( $TCI_{AzGe}=27.8$ ), than vice versa.

The trade complementarity between Azerbaijan and Armenia is also very low. Similarly to Georgia's import profile and Azerbaijan's export profile, Azerbaijan has minimal potential to meet Armenia's import needs ( $TCI_{AmAz}=9.2$ ). The export compatibility analysis between these countries indicates that there is a higher potential for Armenia to export to Azerbaijan ( $TCI_{AzAm}=24.5$ ). While the potential is still low, it indicates some areas where trade could be enhanced.

**Table 1. Summary of TCI values for Armenia, Georgia, and Azerbaijan**

| Country group | TCI value         | Trade Complementarity Level                          | Complementarity Interpretation   |
|---------------|-------------------|--|--|
| ARM-GEO       | $TCI_{AmGe}=30.2$ | Low Complementarity                                  | There is some overlap between the export profile of Georgia and the import profile of Armenia, but it is limited, meaning that Georgia has limited potential to meet Armenia's import needs.                                       |
|               | $TCI_{GeAm}=39.9$ | Low Complementarity (on the higher end of the range) | There is a noticeable but still limited overlap between the export profile of Armenia and import profile of Georgia. The potential for increased trade is somewhat higher, but still not substantial.                              |
| GEO-AZE       | $TCI_{GeAz}=7.9$  | Very Low Complementarity                             | There is minimal overlap between the export profile of Azerbaijan and the import profile of Armenia. Trade potential is very limited as only a small portion of exports match the imports.   |
|               | $TCI_{AzGe}=27.8$ | Low Complementarity                                  | There is some overlap between the export of Georgia and import of Azerbaijan, but it remains limited.  |
| ARM-AZE       | $TCI_{AzAm}=24.5$ | Low Complementarity                                  | Like the other values in the low complementarity range, there is limited overlap between Azerbaijan's import needs and Armenia's export profile and there are a few opportunities for increasing trade based on the current trade. |
|               | $TCI_{ArAm}=9.2$  | Very Low Complementarity                             | There is minimal overlap between what Azerbaijan exports and what Armenia imports. The potential for trade increases is very limited based on the current trade profiles.  |

Note: The indices are calculated based on the UN Comtrade database for the year 2023 aggregated on HS 6-digit level. TCI index values range between 0 and 100. Values close to 0 indicate very low compatibility between the export profile of one country and the import needs of the other country and values close to 100 indicate a high or perfect level of complementarity.

The generally low TCI values indicate that there is limited potential for expanding trade based purely on existing export and import profiles. However, this also implies that if the countries in the region strategically focus on the products with the highest trade potential, implement trade policies that incentivize mutual trade, and reduce existing barriers, they could leverage existing complementarities

and address gaps to increase trade benefits in the region.

Identifying specific products with the highest growth potential requires detailed market analysis, starting with a preliminary assessment of potential trade gaps in the region.

## 2.1 Armenia-Azerbaijan

Armenia and Azerbaijan have closed borders and currently, there is no trade between the countries.

Recently, Azerbaijan and Armenia have been engaged in discussions to establish a peace treaty. In December 2023, the two countries even released a joint statement, where they reconfirmed their intention to normalize relations (Office of the Prime Minister of Armenia, 2023). However, discussions have not led to any significant results yet. It is important to note that as long as tensions persist between the two countries, the establishment of a business-to-consumer (B2C) trade relationship, where businesses sell their products directly to individual consumers, remains challenging. Given the current situation, it appears that B2C trade will be unattainable in the medium term, likely

for at least the next three years. However, there is significant untapped potential for trade between the two nations. If the governments can reach an agreement on business-to-business (B2B) trade, particularly in specific sectors or goods (e.g. not alloyed, unwrought aluminium), both countries stand to benefit considerably from such cooperation. In B2B trade, the customers are other businesses, and the products or services are often used to create other products, provide services, or support business operations.

Based on an analysis of export and import profiles, production structures of both countries, and insights from local experts, the following list of products with potential for trade between Armenia and Azerbaijan has been identified.

**Table 2. Top 15 potential commodities for Armenia to export to Azerbaijan**

| HS code | Description of the commodity   |
|---------|--|
| 180690  | Chocolate and other food preparations containing cocoa; n.e.c. in chapter 18   |
| 010410  | Sheep; live  |
| 030211  | Fish; fresh or chilled, trout ( <i>Salmo trutta</i> , <i>Oncorhynchus mykiss</i> , <i>Oncorhynchus clarki</i> , <i>Oncorhynchus aguabonita</i> , <i>Oncorhynchus gilae</i> , <i>Oncorhynchus apache</i> and <i>Oncorhynchus chrysogaster</i> ), etc. |
| 611120  | Garments and clothing accessories; babies', of cotton, knitted or crocheted  |
| 720711  | Iron or non-alloy steel; semi-finished products of iron or non-alloy steel; containing by weight less than 0.25% of carbon, of rectangular (including square) cross-section, width less than twice thickness   |
| 060311  | Flowers, cut; roses, flowers and buds of a kind suitable for bouquets or ornamental purposes, fresh  |
| 070960  | Vegetables; fruits of the genus <i>capsicum</i> or of the genus <i>pimenta</i> , fresh or chilled  |
| 940360  | Furniture; wooden, other than for office, kitchen or bedroom use   |
| 220110  | Waters; mineral and aerated, including natural or artificial, (not containing added sugar or other sweetening matter nor flavoured)  |
| 392330  | Plastics; carboys, bottles, flasks and similar articles, for the conveyance or packing of goods  |
| 220299  | Non-alcoholic beverages; other than non-alcoholic beer, n.e.c. in item no. 2202.10, not including fruit, nut or vegetable juices of heading no. 2009   |
| 200799  | Jams, fruit jellies, marmalades, purees and pastes; of fruit or nuts n.e.c. in heading no. 2007, cooked preparations, whether or not containing added sugar or other sweetening matter   |
| 160100  | Meat preparations; sausages and similar products, of meat, meat offal, blood or insects, and food preparations based on these products   |
| 040610  | Dairy produce; fresh cheese (including whey cheese), not fermented, and curd   |
| 090121  | Coffee; roasted, not decaffeinated   |

**Table 3. Top 15 potential commodities for Azerbaijan to export to Armenia**

| HS code | Description of the commodity  |
|---------|---|
| 271121  | Petroleum gases and other gaseous hydrocarbons; in gaseous state, natural gas   |
| 271019  | Petroleum oils, oils from bituminous minerals, not containing biodiesel, not crude, not waste oils; etc.  |
| 760110  | Aluminium; unwrought, (not alloyed)   |
| 390120  | Ethylene polymers; in primary forms, polyethylene having a specific gravity of 0.94 or more   |
| 180690  | Chocolate and other food preparations containing cocoa; n.e.c. in chapter 18  |
| 680911  | Plaster, or plaster compositions; boards, sheets, panels, tiles and similar articles, faced or reinforced with paper or paperboard only, not ornamented |
| 390210  | Propylene, other olefin polymers; polypropylene in primary forms  |
| 390110  | Ethylene polymers; in primary forms, polyethylene having a specific gravity of less than 0.94   |
| 080222  | Nuts, edible; hazelnuts or filberts ( <i>corylus</i> spp.), fresh or dried, shelled   |

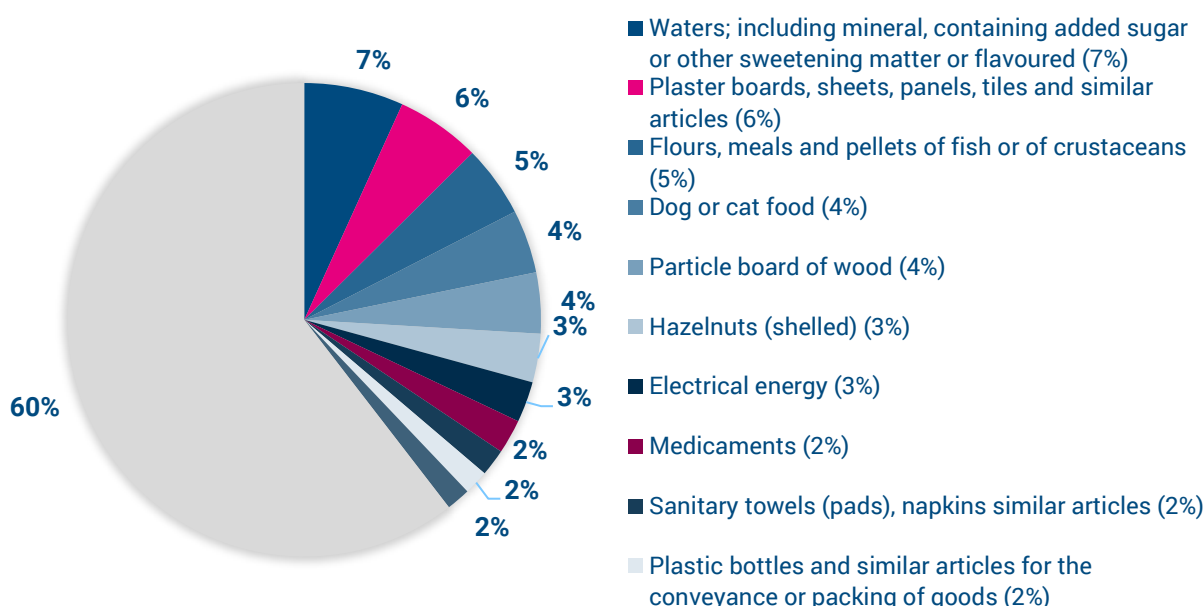
|        |  |
|--------|--|
| 760120 | Aluminium; unwrought, alloys   |
| 760612 | Aluminium; plates, sheets and strip, thickness exceeding 0.2mm, alloys, rectangular (including square) |
| 252310 | Cement clinkers (whether or not coloured)  |
| 740811 | Copper; wire, of refined copper, of which the maximum cross-sectional dimension exceeds 6mm            |
| 040690 | Dairy produce; cheese (not grated, powdered or processed), n.e.c. in heading no. 0406                  |
| 252329 | Cement; portland, other than white, whether or not artificially coloured                               |

## 2.2 Armenia – Georgia

Armenia and Georgia have long been important trade partners. Moreover, given that Armenia has closed borders with two of its four neighbors, the country's international trade predominately relies on freight corridors through Georgia.

In 2023, Georgia exported to Armenia (domestic exports) waters containing sugar or flavored (6.8%), plaster boards, sheets and similar articles (5.8%), flours, meals and pellets of fish or crustaceans (4.9%), dog or cat food not put up for retail trade (4.3%), particle board of wood (4.2%), shelled hazelnuts (3.3%), etc..

**Figure 16. Georgia's export to Armenia, 2023**



Source: UN Comtrade; Note: The data presents the domestic exports of Georgia to Armenia.

Our analysis shows that Armenia could potentially start importing or increasing imports of the following

commodities from Georgia to meet its import needs.

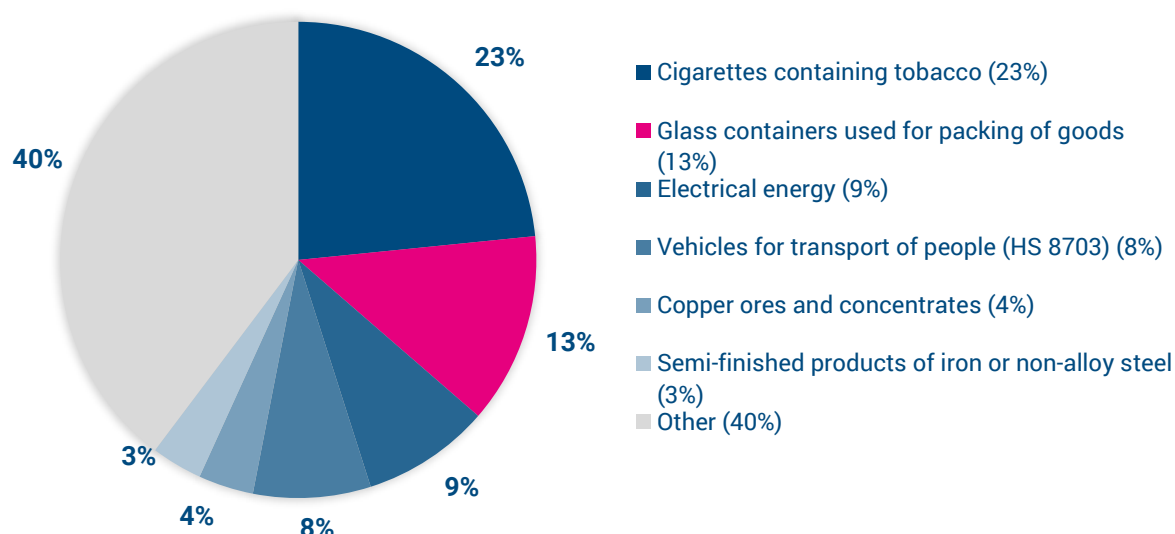
**Table 4. Top-15 potential commodities for Georgia to export or increase its export to Armenia**

| HS code | Description of the commodity  |
|---------|---|
| 220820  | Spirits obtained by distilling grape wine or grape marc   |
| 220210  | Waters; including mineral and aerated, containing added sugar or other sweetening matter or flavoured                                     |
| 630790  | Textiles; made up articles (including dress patterns), n.e.c. in chapter 63, n.e.c. in heading no. 6307                                   |
| 080222  | Nuts, edible; hazelnuts or filberts ( <i>corylus</i> spp.), fresh or dried, shelled   |
| 610343  | Trousers, bib and brace overalls, breeches and shorts; men's or boys', of synthetic fibres, knitted or crocheted                          |
| 760120  | Aluminium; unwrought, alloys  |
| 220421  | Wine; still, in containers holding 2 litres or less   |
| 020714  | Meat and edible offal; of fowls of the species <i>Gallus domesticus</i> , cuts and offal, frozen  |
| 610990  | T-shirts, singlets and other vests; of textile materials (other than cotton), knitted or crocheted  |
| 200819  | Nuts and other seeds; whether or not containing added sugar, other sweetening matter or spirit (excluding ground-nuts except in mixtures) |
| 010511  | Poultry; live, fowls of the species <i>Gallus domesticus</i> , weighing not more than 185g  |
| 390210  | Propylene, other olefin polymers; polypropylene in primary forms  |
| 220410  | Wine; sparkling   |
| 730890  | Iron or steel; structures and parts thereof, n.e.c. in heading 7308   |
| 210690  | Food preparations; n.e.c. in item no. 2106.10   |

In 2023, cigarettes containing tobacco accounted for 23.4% of Armenia's exports to Georgia, followed by glass

jars and other containers used for packing of goods (13%) and electric energy (8.7%).

**Figure 17. Armenia's export to Georgia, 2023**



Source: UN Comtrade; Note: Exports at an HS 6-digit level, except noted otherwise. Exports include re-exports.

Our analysis shows that Georgia could potentially start importing or increasing imports of the following

commodities from Armenia to meet its import needs.

**Table 5. Top 15 potential commodities for Armenia to export or increase its export to Georgia**

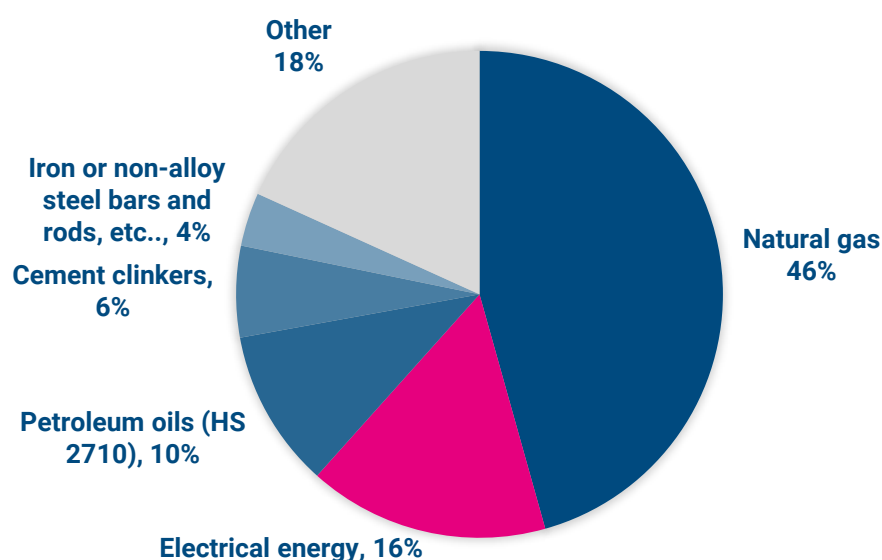
| HS code | Description of the commodity   |
|---------|--|
| 240220  | Cigarettes; containing tobacco   |
| 260300  | Copper ores and concentrates   |
| 701090  | Glass; carboys, bottles, flasks, jars, pots, phials and other containers of glass, (not ampoules), used for the conveyance or packing of goods   |
| 180690  | Chocolate and other food preparations containing cocoa; n.e.c. in chapter 18   |
| 090121  | Coffee; roasted, not decaffeinated   |
| 210690  | Food preparations; n.e.c. in item no. 2106.10  |
| 611120  | Garments and clothing accessories; babies', of cotton, knitted or crocheted  |
| 200819  | Nuts and other seeds; whether or not containing added sugar, other sweetening matter or spirit (excluding ground-nuts except in mixtures)  |
| 940360  | Furniture; wooden, other than for office, kitchen or bedroom use   |
| 720711  | Iron or non-alloy steel; semi-finished products of iron or non-alloy steel; containing by weight less than 0.25% of carbon, of rectangular (including square) cross-section, width less than twice thickness |
| 220820  | Spirits obtained by distilling grape wine or grape marc  |
| 180631  | Chocolate and other food preparations containing cocoa; in blocks, slabs or bars, filled, weighing 2kg or less   |
| 392590  | Plastics; builders' ware, n.e.c. or included in heading no. 3925   |
| 392330  | Plastics; carboys, bottles, flasks and similar articles, for the conveyance or packing of goods  |
| 220299  | Non-alcoholic beverages; other than non-alcoholic beer, n.e.c. in item no. 2202.10, not including fruit or vegetable juices of heading no. 2009  |

## 2.3 Georgia – Azerbaijan

In 2023, nearly half of Azerbaijan's exports to Georgia

came from natural gas, followed by electrical energy (16.0%) and oil (10.5%).

**Figure 18. Azerbaijan's export to Georgia, 2023**



Source: UN Comtrade; Note: Exports at an HS 6-digit level, except noted otherwise. Exports include re-exports.

Our analysis shows that Georgia could increase the diversity of commodities imported from Azerbaijan by

starting to import or increase imports of the following commodities.

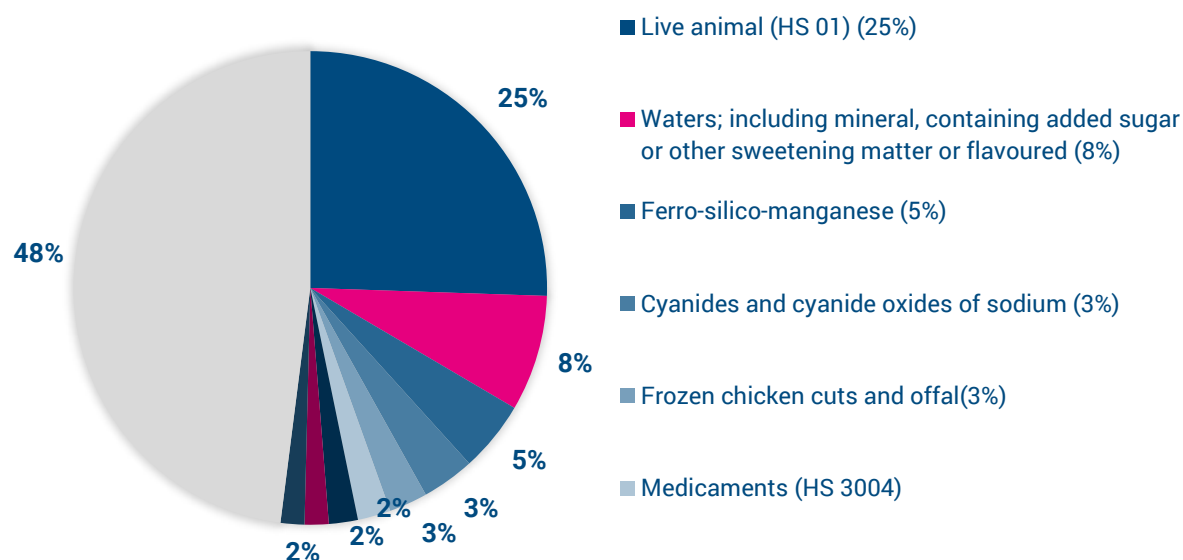
**Table 6. Top 15 potential commodities for Azerbaijan to export or increase its export to Georgia**

| HS code | Description of the commodity  |
|---------|---|
| 271019  | Petroleum oils and oils from bituminous minerals, not containing biodiesel, not crude, not waste oils; preparations n.e.c, containing by weight 70% or more of petroleum oils or oils from bituminous minerals; not light oils and preparations |
| 271012  | Petroleum oils and oils from bituminous minerals, not containing biodiesel, not crude, not waste oils; preparations n.e.c, containing by weight 70% or more of petroleum oils or oils from bituminous minerals; light oils and preparations     |
| 260300  | Copper ores and concentrates  |
| 271121  | Petroleum gases and other gaseous hydrocarbons; in gaseous state, natural gas   |
| 170199  | Sugars; sucrose, chemically pure, in solid form, not containing added flavouring or colouring matter  |
| 180690  | Chocolate and other food preparations containing cocoa; n.e.c. in chapter 18  |
| 390120  | Ethylene polymers; in primary forms, polyethylene having a specific gravity of 0.94 or more   |
| 391620  | Vinyl chloride polymers; monofilament, of which any cross-sectional dimension exceeds 1 mm, rods, sticks and profile shapes, whether or not surface-worked but not otherwise worked   |
| 252329  | Cement; portland, other than white, whether or not artificially coloured  |
| 151790  | Edible mixtures or preparations of animal or vegetable fats or oils or of fractions of different fats or oils of this chapter, other than edible fats or oils of heading no. 1516   |
| 391721  | Plastics; tubes, pipes and hoses thereof, rigid, of polymers of ethylene  |
| 390210  | Propylene, other olefin polymers; polypropylene in primary forms  |
| 200819  | Nuts and other seeds; whether or not containing added sugar, other sweetening matter or spirit (excluding ground-nuts except in mixtures)   |
| 721499  | Iron or non-alloy steel; bars and rods, hot-rolled, hot-drawn or hot-extruded, n.e.c. in heading no. 7214, other than of rectangular cross-section  |

Georgia supplies Azerbaijan with live animals (HS 01), which in 2023 accounted for 25.5% of Georgia's total export to Azerbaijan, followed by mineral and aerated

waters containing sugar or flavoured (7.9%), ferro-silico-manganese (4.8%), etc.

**Figure 19. Georgia's export to Azerbaijan, 2023**



Source: UN Comtrade; Note: The data presents the domestic exports of Georgia to Azerbaijan.

Our analysis shows that Azerbaijan could start importing or increasing imports of the following commodities from

Georgia to meet its import needs.

**Table 7. Top 15 potential commodities for Georgia to export or increase its export to Azerbaijan**

| HS code | Description of the commodity   |
|---------|--|
| 010229  | Cattle; live, other than pure-bred breeding animals  |
| 220210  | Waters; including mineral and aerated, containing added sugar or other sweetening matter or flavoured  |
| 010410  | Sheep; live  |
| 310230  | Fertilizers, mineral or chemical; nitrogenous, ammonium nitrate, whether or not in aqueous solution  |
| 610990  | T-shirts, singlets and other vests; of textile materials (other than cotton), knitted or crocheted   |
| 441233  | Plywood; with sheets of wood only; not bamboo; each ply 6mm or less, with at least one outer ply of alder, ash, beech, birch, cherry, chestnut, elm, eucalyptus, hickory, horse chestnut, lime, maple, oak, plane, poplar, aspen, robinia, tulipwood or walnut |
| 200819  | Nuts and other seeds; whether or not containing added sugar, other sweetening matter or spirit (excluding ground-nuts except in mixtures)  |
| 720230  | Ferro-alloys; ferro-silico-manganese   |
| 230990  | Dog or cat food; (not put up for retail sale), used in animal feeding  |
| 441011  | Particle board of wood, whether or not agglomerated with resins or other organic binding substances  |
| 010221  | Cattle; live, pure-bred breeding animals   |
| 730419  | Iron or steel (excluding cast iron or stainless steel); seamless, line pipe of a kind used for oil or gas pipelines  |
| 220300  | Beer; made from malt   |
| 220110  | Waters; mineral and aerated, including natural or artificial, (not containing added sugar or other sweetening matter nor flavoured)  |
| 220421  | Wine; still, in containers holding 2 litres or less  |



In summary, strengthening international trade by strategically focusing on products with the highest trade potential can reduce import costs due to the proximity of

trading partners. This approach can also mitigate the region's dependency on a few partners, such as the EAEU, fostering more diversified and resilient trade relationships.

## Conclusions & Recommendations

- The study shows that based on the preliminary estimation the value of (additional) potential annual trade between the countries in the region is between USD 2.0 billion to USD 2.4 billion. Azerbaijan's exports account for around 71% of the additional or potential trade, while Armenia's exports make up around 18% and Georgia's exports account for around 12% of the additional or potential trade. The value of additional or potential exports of each country in the region is as follows:
  - The value of Armenia's potential additional exports to Georgia is estimated at USD 250-313 million and potential exports to Azerbaijan at USD 102 - 128 million.
  - The value of Georgia's potential additional exports to Armenia is estimated at USD 82-103 million and to Azerbaijan at USD 151 - 188 million.
  - The value of Azerbaijan's potential exports to Armenia is estimated at USD 777- 971 million and potential additional export to Georgia at USD 596-745 million.
- The top three commodities that each country could export or increase its exports of to other countries in the region are as follows:
  - Armenia to Georgia: cigarettes containing tobacco, copper ores and concentrates, and glass bottles, flasks, jars, etc. used for the conveyance or packing of goods; food preparations; chocolate and other food preparations containing cocoa
  - Armenia to Azerbaijan: chocolate and other food preparations containing cocoa; sheep and trout
  - Georgia to Armenia: spirits obtained by distilling grape wine, textiles and nuts
  - Georgia to Azerbaijan: cattle, waters, sheep, and fertilizers
  - Azerbaijan to Georgia: petroleum oils and gases, copper ores and concentrates
  - Azerbaijan to Armenia: petroleum oils, copper ores and concentrates, petroleum gases
- This study presents a preliminary assessment of potential trade gaps in the region and the products with the highest potential to be exported from one country in the region to another. For the identification of an exhaustive list of specific products with the highest export potential, it is recommended to conduct a detailed market analysis.
  - As a member of the EAEU, Armenia applies the provisions of the regulatory framework of the Union in terms of customs tariff and non-tariff regulation. However, to further diversify its trade relations, Armenia could seek special status within the EAEU that would enable it to independently negotiate and establish trade agreements with third countries.
  - The countries should organize B2B meetings and events to facilitate business interactions. These events will provide businesses with opportunities to explore each other's markets, gain valuable insights into market demands, and consumer preferences, as well as establish connections, and discuss potential partnerships.
  - The establishment of a regional chamber of commerce can significantly accelerate trade and enhance business interactions within the region. The chamber can serve as a central body to organize meetings and other events, advocate for the interests of businesses within the region, etc.
  - The establishment of a free trade zone at the border of three countries near the Red Bridge border crossing point between Georgia and Azerbaijan can significantly boost trade within the region. It will encourage businesses to engage in cross-border transactions, potentially lowering costs and increasing market access.
  - Given the current situation B2C trade relationship between Armenia and Azerbaijan, where businesses sell their products directly to individual consumers, appears unattainable in the medium term, likely for at least the next three years. However, if the governments can reach an agreement on business-to-business (B2B) trade, particularly in specific sectors or goods, both countries stand to benefit considerably from such cooperation. For example, in the trade of aluminum. Armenian businesses could import aluminum from Azerbaijan and use it in the production of aluminum foil.

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## About the Authors

ACSES (Armenian Center for Socio-Economic Studies)<sup>2</sup> was founded in 2020. It is an independent think tank with a mission to improve public policymaking in Armenia through socio-economic research and analysis. The organization conducts research, and analysis on the current socio-economic developments of Armenia, as well as prepares policy briefs that address pressing issues of the country.



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