PROSPECTS OF REGIONAL ECONOMIC INTEGRATION FOR ARTSAKH CONSIDERING THE OPPORTUNITIES PROVIDED TO ARMENIA

Tatul Manaseryan
Doctor of Science, Professor at Yerevan State University, Armenia

Key words: regional economic integration, Artsakh, competition, Armenia, economic growth

Introduction. The low level of export diversification and dependence on mineral exports and exports, production of low-value-added products are still obstacles to further economic growth. According to the commodity export concentration index, where values range from zero (diversified) to one (concentrated), exports from Armenia (0.27) are among the most concentrated in the WESC subregion (0.27), compared to exports from the Republic of Moldova (0.19) and Belarus (0.18). with nature. In terms of diversification index, Armenia's exports exceed only Azerbaijan (0.83) (UNCTADstat, 2020b). The main commodities exported in 2018 were copper ore (24.3 percent), gold (12.1 percent), iron alloys (6.9 percent), rolled tobacco (9.3 percent), and alcoholic beverages (6.8 percent), which accounted for more than half of goods exports. The remaining sectors were divided into different groups (HS4) such as textiles, plant products and machinery (ECO, 2020). These products are the most representative of Armenia's identified comparative advantages. According to the 2019 Industrial Competitiveness Index (ICI), which measures industrial potential and impact on the global market, Armenia ranked 103rd among 150 countries in the world, behind Georgia (96), Belarus (47) and Ukraine (69) (UNIDO, 2019). Moreover, according to the Global Competitiveness Index (GCI), Armenia ranked 70th among 140 countries in the world in 2018, improving its position compared to the previous year (72nd place). The country's competitive positions are also determined by the levels of development of the labor market (33rd), product market (39th), skills (55th) and ICT (56th) (WEF, 2019).

Methodology and literature review. Improvements are possible in the mentioned indicators, but, in general, they cannot approach the level of indicators of developed countries for the simple reason that Armenia (naturally also Artsakh) was left out of regional integration programs and processes during the years of independence. The objective reasons are the blockade, the limitation of the consumer market, the continuous nature of war operations, and the subjective factors are the continuous efforts of Azerbaijan, Turkey and their partners to exclude Armenia from regional programs [Ishkhanyan, 2006], and the constant anti-propaganda against Armenia in international structures and the negative impact of the unfavorable environment and the country's reputation and rating. factors.

As for the real foundations of finding a niche in the region and integrating, we need to look at the competitive advantages of Armenia and Artsakh. In this sense, in addition to high technologies, agricultural products, jewelry and diamond making, and the possibility of prospective development of scientific branches of the economy, Armenia and Artsakh can certainly play a serious role in the arena of regional energy cooperation. In this sense, the results of 2021 are very controversial both for the management of economic risks and improving competitiveness, as well as for the energy industry of the South Caucasus. Due to the problems related to the construction of power transmission lines in Armenia, another increase in the electricity tariff is expected, Azerbaijan continues to lose its position in the Turkish gas market, and the Georgian government faces an international trial with the Russian Inter RAO energy company. Will Yerevan, Baku and Tbilisi be able to solve the accumulated problems in the energy sector and what are the prospects for "green energy" in the Caucasus? It is obvious that the energy sector of the South Caucasus today is exposed to many risks, which are mainly related to the dynamically changing regional geopolitical architecture. After the 44-day Karabakh war, the rethinking of key communication corridors and infrastructure projects does not bypass the energy sector either, both in terms of the external energy strategies of the countries of the region and their internal market policies. Although each of the South Caucasus countries has fundamentally different energy systems, regional and, more broadly, macro-regional (Caspian-Caucasian, Black Sea regions) processes inevitably create common risks and challenges for all. They are mainly related to the problem of unblocking communications in the region, with the formation of both transport and energy (mainly electric power) corridors. Based on the observed processes and trends, some predictions can also be made about the energy development of each of the countries in the region in 2022 [Davtyan, 2022].

Analysis. In Georgia, for example, the consumption of electricity continues to grow, and this, perhaps, will be the main impetus for the energy development of the republic in the coming years [Georgia, 2021]. High demand will cause the need to find new infrastructural solutions, develop production capacities and diversify external energy communications. Today, electricity consumption in Georgia is more than 12 billion kWh per year, the lion's share of which is produced in its own plants, mainly in hydroelectric plants. However, along with this, the import of electricity is also increasing. Only in January-November 2021, it was 1.8 billion kWh. This trend is likely to be observed in 2022, which is mainly due to the lack of production capacity in the country. According to forecasts, in 2030, electricity consumption in Georgia will amount to 22 billion kWh. This means that even today Tbilisi needs to increase its capabilities. However, there are some crisis tendencies that cannot be overcome in the short term. First of all, we are talking about the reduction of construction works on the construction of the Namakhvan hydroelectric power station on the Rioni River in Western Georgia. As a result of prolonged protests in the streets of Tbilisi, Kutaisi and some other Georgian cities, the investor (Turkish ENKA) announced its withdrawal from the project, thereby depriving Georgia of 433 MW of capacity (which was supposed to be... the plant) and $800 million in investment. The main risk associated with the implementation of the project is that Georgia, which strives for energy self-sufficiency, will have to increase imports in the coming years. The first signs of it are already visible. Today, the main suppliers of electricity to Georgia are Russia (more than 1 billion kWh), Turkey (more than 100 million kWh) and Azerbaijan (more than 500 million kWh). Most likely, this alignment will continue in the coming year as well. With a growing deficit, Georgia will inevitably seek to increase its capacity, but unlike the Namakhvan hydroelectric plant, it is not as environmentally risky and politically decisive. In particular, we are talking about the very real prospect of building 10 hydroelectric power plants with a total capacity of up to 30 MW in 2022. As for external energy communications, next year, with the support of the EU and the World Bank, Tbilisi plans to start a feasibility study for laying a power transmission line along the bottom of the Black Sea to Romania. The power of the line will be 1000 MW, and the length will be 1195 km. The power transmission line will allow Georgia and Europe to take advantage of export opportunities and import electricity at an hourly rate. By the way, in the spring of 2022, for the introduction of a new market model, it is planned to start an energy exchange in Georgia, which will make it possible to take another step in the direction of energy integration with the EU. In 2022, the entire "energy discourse" of Georgia will be red-lined by the Georgian government's trial with the Russian company Inter RAO (manages the two Georgian hydropower plants "Khrami-1" and "Khrami-2", as well as the company "Telasi", which forms 75% of the electricity grid. In November 2021, the Stockholm arbitration ordered the government of Georgia to pay the company $80 million in connection with the regulator's decision to review the methodology for calculating electricity tariffs, which does not provide for a guarantee of compensation for damages caused by the devaluation of the lari. The government of Georgia decided to appeal the arbitration decision. which is quite a long and complex process. Finally, in 2022, Georgia is expected to start the construction of the country's first underground gas storage (UGS) station, which will significantly improve energy security. With the support of the German Reconstruction Credit Bank (KFW), the project will become the backbone of Georgia's gas transportation industry.

Azerbaijan continues to calculate its revenues from the 1994 oil "deal of the century". In the period 2001-2021, the revenues from the operation of the Azeri-Cherag-Guneshli mine group amounted to more than 150 billion dollars. Baku predicts that in 2022 the operation of the mine will bring about 5 billion dollars, taking into account the production limits set by OPEC +. In this regard, it should be noted that in 2022, oil production in Azerbaijan will increase by 80 thousand barrels per day (b/d), reaching 830 thousand barrels per day. And at the end of 2021, oil production in Azerbaijan increased by 20 thousand barrels per day, reaching the level of 750 thousand barrels per day. Considering the sharp decline in 2020 and the gradual stabilization this year, the figure is quite good. However, the problem still remains in the international oil prices, which, although at a high level, are quite volatile and show hypersensitivity to various external factors. Of course, the price of $70-$80 per barrel observed in recent months is generally beneficial to Baku, considering that the price of oil was set at $40 per barrel in the state budget of Azerbaijan. However, taking into account the statements of the Azerbaijani authorities about the implementation of multibillion-dollar investments in Karabakh, they consider the stable barrel as the main prerequisite. At the same time, it is obvious that today the concepts of "oil" and "stability" are diametrically opposed. Azerbaijan is well aware of this, so at the level of the country's top management, theses are sometimes heard about diversifying the economy, increasing the share of the non-oil component in it. In general, however, based on the forecasts of international analytical centers and corporations, it can be stated that no serious shocks should be expected in the oil sector of Azerbaijan in 2022. the price of oil will remain above 60 dollars. Everything is not so optimistic in the gas sector. Here, Baku continues to lose ground in its main sales market, Turkey. After the sharp increase in supplies and in 2018-2019. Starting from 2020, Azerbaijan gradually loses its position in the Turkish market to Russia. In the first 9 months of 2021, Gazprom exported 20.3 billion cubic meters of gas to Turkey, which is 153% more than in 2020. At the same time, gas supplies from Azerbaijan to Turkey decreased by 20%. This trend will continue in 2022 as well, which is mainly due to the synchronization of the policies of Moscow and Ankara in the South Caucasus.

As for the European gas market, the share of Azerbaijani gas here can be 2-2.5% at best, taking into account the growing consumption in Europe (about 400 billion cubic meters in 2020) and the real gas supply possibilities of the Trans-Anatolian and Trans-Adriatic gas pipelines. (up to 11 billion cubic meters). In 2022, gas swap supplies between Turkmenistan, Azerbaijan and Iran will continue. According to the agreement reached in November 2021, between 1.5 and 2 billion cubic meters of gas will be sent annually from Turkmenistan to Azerbaijan through Iran, which was another step towards deepening the energy dialogue between the Caspian countries, especially between Iran and Azerbaijan, whose relations are in a deep crisis. were at the beginning of last year. However, overcoming it allowed the countries to reach a new level of cooperation, which today is expressed both in the fields of energy and transport. In this regard, it is necessary to emphasize the intentions of the parties to start synchronizing their power systems with the creation of the Iran-Azerbaijan-Russia power corridor already in 2022. In fact, we will witness the reformatting of the regional part of the North-South energy corridor, with the involvement of Azerbaijan in it and the reduction of the role of Armenia, which was once considered a beneficiary of the project.

As for Armenia, the country remains in a state of post-war shock, which affects its main economic indicators, including the energy sector. Already in February 2022, an increase in the electricity tariff by an average of 4.7 drams ($0.01) is expected, which is a serious burden for both the population and the entire economy of the country. Taking into account that the last increase in tariffs was carried out in February 2021, the next increase can definitely be considered a manifestation of deep crisis tendencies, which will be preserved in the coming years. The increase in tariffs is a consequence of the failure of the construction project of the 3rd Iran-Armenia power transmission line, which is meant to significantly increase the export of electricity from Armenia to Iran and thereby increase the efficiency of operation. of the 5th power unit of Hrazdan CHP, one of the country's largest energy facilities, owned by "Gazprom Armenia" CJSC. Today, the Armenian authorities announced plans to complete the construction of the transmission line by the end of 2023, while earlier this summer they announced the commissioning of the line by the end of 2021. Such a shift in time points to deep geo-economic transformations in the region. As a result, taking into account the accumulated debts of the owner for the operation of the 5th power unit ($100 million), the RA government decided to pay the company $31.7 million annually to ensure 9% profitability, according to The "gas agreements" of December Considering the limited export, as well as the low level of electricity consumption in the country, it is obvious that such a decision could not affect the tariff policy. Thus, in 2022, Armenia will become the leader among the countries of the South Caucasus with the increase in electricity, as well as gas and water tariffs. In 2022, the process of liberalization of Armenia's electricity market will also begin, which is both promising and dangerous, considering the current crisis trends in Armenia's energy sector. Liberalization will create a competitive environment in the market, open opportunities for new companies, so-called electricity traders, which can theoretically contribute to lowering tariffs in the future. On the other hand, the new market model also implies the liberalization of foreign trade in electricity. In other words, the same traders will be able to import cheaper electricity to the Armenian market, say, from Georgia. The risk lies in the fact that Armenia, being a country with excess electricity capacity, is initially focused on exports. It is precisely because of problems related to exports that today the country is facing the problem of a constant increase in customs duties. Of course, the liberalization of the electricity market is the main requirement for integration into the EAEU common electricity market in 2025. Today, however, liberalization has not been fully implemented in any member country of the Union, it is often of a formal nature, and the countries themselves often take a patronizing position. It is expected that in 2022 the government together with Rosatom will make a final decision regarding the future development scenario of "peaceful atom" in Armenia. The main problem remains to determine the capacity of the nuclear power unit. Judging by the latest statement of the head of Rosatom, Alexey Likhachev, the new block will be built in conjunction with the project to create a copper smelter in southern Armenia. Whether it means building a modular power unit (low power: 50-100 MW) is difficult to say today. One thing is obvious. abandoning the construction of a traditional capacity (400 MW+) block will significantly reduce Armenia's strategic status as the only country developing atomic energy in the region. Renewable energy will become an important direction of Armenia's energy development in 2022. It is expected that the design and research works for the construction of a number of solar power plants (NPP) will begin next year. In particular, we are talking about the 200 MW Aig-1 SPP project (the investor is the UAE Masdar company), the 202 MW Gegharkunik RESP (the investor is the Spanish Acciona company) and a number of others. All these contracts fit into the government's energy development plan until 2040, according to which the share of solar power plants in the electricity production structure of Armenia should be increased to 15 percent by 2030. To do this, it is necessary to build a capacity of 1000 MW. of power. However, the security risks on the Armenian-Azerbaijani border, as a result of which a number of renewable energy projects have already been paralyzed, cause some skepticism about the prospects of "green energy" development in Armenia. In general, although energy is a competitive and promising branch for Armenia, including in terms of playing an important role in regional integration processes, we should not expect dynamic development of the energy sector in Armenia, both in 2022 and in the next few years. All resources available in the system should be directed to overcoming the crisis, increasing the efficiency of the system, promoting exports and reducing tariffs. The coronavirus epidemic and related economic restrictions, the slow recovery of national economies, the war in Karabakh, the formation of a new system of geopolitical interests in the region and a number of other deep processes have created many challenges and risks for energy. Security and energy development of South Caucasus countries. 2022 will be a key year for the South Caucasus republics to understand their place and role in the region in connection with the review of their energy interests. As last year, in 2022 there will be more problems than positive trends in the energy systems of the countries of the region, which is mainly due to political processes. The influence of the political component on the economic and, in particular, energy processes of the South Caucasus will inevitably increase, calling into question the prospects of sustainable energy development in the region.

Thus, although the prospects for the external economic integration of Artsakh with the opportunities provided to Armenia in the region are theoretically optimistic both in terms of the export of agricultural products and products from their processing, tourism, mining products and electricity, in reality there are not a few economic, professional, political and other problems that counterbalance the prospects of integration. :

When analyzing the prospects of Artsakh's external economic integration with the opportunities provided to Armenia in the region, it is important to note that, despite the commonalities and similarities in both economies, in the case of Armenia, there are certain advantages and privileges of participation in trade regimes, which are absent in the case of Artsakh's possible participation in integration processes and even economic development. In particular, Armenia benefits from a unified or preferential regime for exporting goods to EAEU countries and importing from third countries, and zero regime from member countries. For example, in the case of importing goods from EAEU countries, after the actual customs clearance, the value added tax paid in the EAEU country is returned to the Armenian businessman, which creates attractive conditions not only for export, but also for import and, in general, investments. On the other hand, there are unequal conditions for investments and business between entrepreneurs in Armenia and Artsakh. This is exacerbated by the fact that after the 44-day war, Artsakh has somewhat lost its business appeal due to the unfinished war and the many risks that arise from it. All this forces to search for new ways in order to manage risks and increase the competitiveness of the economy in Artsakh. We believe that among them, the tax system plays a key role, and more precisely, the development and application of a reasoned and justified package of tax benefits. According to Artsakh experts, in order to restore the destroyed economy as a result of the military operations unleashed by Azerbaijan against the Republic of Artsakh on September 27, 2020, and to settle the many problems faced by taxpayers, the following tax privileges are important in Artsakh:

• postpone the deadlines for submitting tax calculations, writing off tax accounts, paying taxes and other mandatory fees,

• to exempt the goods supplied by taxpayers with the donation of a number of state institutions from value added tax, excise tax and trade tax,

• to exempt the commercial organizations and individual entrepreneurs who have actual activities in the communities that came under the control of Azerbaijan as a result of war operations, from the obligation to submit calculations and reports,

• to set the profit tax rate for the banking, mining, energy and telecommunications sectors at 18 percent starting from the reporting year, and later reduce the rate for the telecommunications and energy sectors to 10 percent,

• 2020-2022 to exempt from the payment of profit tax the taxpayers carrying out activities taxed at the rate of 10 percent of profit tax, with the exception of taxpayers carrying out activities in the fields of energy and telecommunications. After the end of the grace period, it is proposed to set the profit tax rate at 5 percent. In a similar way, it is offered to individual entrepreneurs in 2020-2022. to exempt income from business activities from payment of income tax[1].

[1] https://minfin-nkr.am/tax.nk.am

• to reduce the rate of income tax withheld from natural persons employed under a civil law contract, by setting it at 15 percent in 2021, 14 percent in 2022, and 13 percent in 2023.

• set the income tax at 3 percent from the wages of hired workers and income equal to it for taxpayers engaged exclusively in the production of agricultural products,

• until 2026 on January 1, exempt from value added tax the sale of agricultural products produced in the Republic of Kazakhstan, the mechanized works performed during the cultivation of agricultural crops and perennial plantations, transactions for the supply of irrigation water, transactions for the sale of apartments in multi-apartment buildings under construction in the territory of the Republic of Kazakhstan,

• for a period of three years, exempt taxpayers from paying fixed and license fees, except for gas filling facilities,

• to set the trade tax rate to 2 percent of sales turnover from January 2021, and 3 percent in 2022,

• to extend the share of participation of the state and citizens in terms of cumulative allocations for a period of one year, maintaining the rates of 2.5 and 7.5 percent, respectively, and in 2022 to gradually increase the social contribution rate from January to 3.5 percent, from 2023 to 5 percent[1],

• exempt taxpayers with debts of up to 10 million drams from debts, penalties and fines as of October 1, 2020 [Barseghyan, 2022, 279-281].

Conclusion. Naturally, the reforms taking place in the tax field reduce the tax revenues of the state budget, but such steps are necessary in the post-war situation.

First, this is an important prerequisite for the gradual recovery of the destroyed economy, and then the problems of employment and income of the population are solved. To some extent, the state prevents the population's exodus abroad. It is not possible to immediately restore the lost, especially the human, but the material losses and the problems caused by tax payers as a result of the settlement of the problems and the formation of a more effective tax field for business.

1. To release 6277 taxpayers from obligations in the amount of 6 billion 883 million drams,

2. 91 taxpayers have signed schedules for the gradual repayment of obligations, with which it is planned to grant a privilege in the amount of 910 million drams in case of repayment of debts in the amount of 5 billion 239 million drams.

3. In the framework of the provision of state support to resident non-state organizations and individual entrepreneurs of the Republic of Artsakh in the amount of income tax calculated and paid in terms of salary and other payments equal to it, state support in the amount of 930.6 million drams was provided to 1126 beneficiaries for the months of January-April.

[1] https://www.tax.nk.am/

4. as a result of the reduction of the income tax rate by 5 percentage points, taking into account the increase in the amount of stamp duties, the incomes of 34,000 employees and persons working under civil law contracts increased by more than 1 billion 500 million drams in the period of January-June[1].

5. From March 15, a new control point was launched, according to the data recorded by it, in the 2nd quarter, commodity values in the amount of 29.7 billion drams were imported into the territory of Azerbaijan, and commodity values in the amount of 15.3 billion drams were exported[2].

2021 During the months of January-August, 18,449.6 million drams of tax revenues and duties were transferred to the state budget of Armenia, exceeding the planned figure of 12,500.0 million drams by 47.6 percent or 5,949.6 million drams. Collected revenues in 2020 compared to the same period, 16,519.3 million drams were collected less than 47.2 percent.

14,235.4 million drams or 77.2 percent of the amount of tax revenues and duties entered into the state budget were provided by large tax payers.

Among the 300 largest taxpayers of the Republic, during the second half of last year, they paid more than 9 billion 61 million AMD in taxes, duties and other mandatory payments to the state budget.

The first three big taxpayers are "Base Metals", "Karabakh Telecom" and "Artsakhbank" CJSCs.

At the same time, it is important to pay attention to the fact that as a result of war operations, the financial indicators have significantly worsened, in particular, the volumes of loans and deposits of commercial banks have decreased. According to operational data presented by commercial banks (branches) operating in the USA in 2021. As of May 1, loans provided to legal entities and individuals amounted to 141,788.2 million drams, compared to the same period last year, the indicator decreased by 31.4 percent, compared to the previous month, the indicator increased by 0.3 percent. Loans provided in foreign currency made up 54.0 percent of the total, decreased by 6.6 percent compared to the same period last year. 2021 As of April 1, the attracted deposits amounted to 128,085.9 million drams, compared to the same period last year, the index decreased by 2.0 percent, and compared to the previous month, it increased by 5.8 percent[3].

[1] http://www.stat-nkr.am/
[2] http://www.stat-nkr.am/
[3] http://www.stat-nkr.am/

In the total volume of deposits, 73.0 percent were time deposits of banks, 22.2 percent were demand deposits, and 4.8 percent were target deposits[1].

References

1. Vage Davtjan, Jenergetika Armenii, Azerbajdzhana i Gruzii: Prognoz na 2022 god https://eurasia.expert/energetika-armenii-azerbaydzhana-i-gruzii-prognoz-na-2022/Jenergetika Armenii, Azerbajdzhana i Gruzii: Prognoz na 2022 god
2. Lyowdmila Barseghyan Nelli Dolowxanyan, Hetpaterazmyan harkayin artonowt'yownnery' Arcaxowm, ″Ayly'ntranq″ gitakan handes, 4, 2021t'. e'j 279-281.
3. Georgia energy profile, https://www.iea.org/reports/georgia-energy-profile
4. From inclusion to exclusion: Armenian NGOs participation in the PRSP July 2006.
5. Ishkhanian A. Journal of International Development 18(5):729-740 DOI:10.1002/jid.1301

Tatul Manaseryan

Prospects of regional economic integration for Artsakh considering the opportunities provided to Armenia

Key words: regional economic integration, Artsakh, competition, Armenia, economic growth

After joining the World Trade Organization (WTO) in 2003, Armenia further opened its market for trade, which, however, is still limited by high transport costs due to the country's geographical location and partially closed borders. Trade of goods passes mainly through the territory of Georgia. In 2015, Armenia joined the Eurasian Economic Union (EEU), which provides member countries with unhindered access to the Armenian, Russian, Belarusian, Kazakh and Kyrgyz markets. Since June 2018, the country has signed a number of bilateral and multilateral trade agreements, including with Georgia and Japan, as well as the Comprehensive and Enhanced Partnership Agreement with the United States and the EU (EU, 2020). For a small country, the volume of exports and imports of goods and services is large, accounting for 91.3 percent of GDP in 2018 (World Bank, 2020c), and exports of goods and services accounted for 38.5 percent of GDP.

[1] https://ejc.am/hy/article/323