LAGGING TRANSPORT IMPEDES ARMENIA'S ECONOMY

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Areg Gharabegian, Granada Hills CA, 15 June 2015

Armenia--a mountainous country with severe winters and heavy snowfall-- has an economy that depends on transport far more than most countries. Armenia has a few railway lines or an extensive road network. While the rate of car ownership has grown steadily in recent years, it is still relatively low. Public transport plays a critical role, especially in the cities. The transportation network capacity is adequate to accommodate estimated demand up to 2020, but the infrastructure has deteriorated due to lack of funds. In recent years, the government has given priority to the rehabilitation and reconstruction of the infrastructure. Brutal climatic conditions also cause faster road wear and tear of roads.

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Roadway System

Roads provide access to employment, markets, education, and health services, and thus are crucial for economic development. Since 1990, road networks have expanded in all developing countries in Asia except in Armenia, Georgia, Kazakhstan, Azerbaijan, and Tajikistan. China and India account for almost two-thirds of the roads in Asia. Armenia has slightly less than 8,000 kilometers of roads where about 94% are paved. However, some of the paved roads need major rehabilitation.

The number of vehicles has surged in developing Asian countries. In 1990, only two countries recorded 100 or more motor vehicles per 1,000 people. In 2010, 19 countries had more than 100 vehicles per 1,000 people. Armenia has 92 registered vehicles per every 1,000 people. In comparison, Azerbaijan has 110 and Georgia has 170 per 1,000 people. In developed countries this number is typically more than 700.

The primary type of vehicle in each country - whether cars and other four-wheeled vehicles, or two- and three-wheeled vehicles - depends on a mix of factors such as an economy's level of development and population density, as well as sub-regional characteristics. Distribution of registered vehicles by type in Armenia is as follows: cars; SUVs; vans, light four-wheeled trucks 83%;

buses 12%; heavy trucks 5%.

The increase in number of registered motor vehicles in developing countries has been accompanied by a relatively high incidence of fatal road accidents. These rates are the result of underdeveloped road networks, mixed traffic, limited availability of traffic engineering expertise, governance issues, and rapid growth of the vehicle fleet. Death rate per 100,000 of population is about 18 in Armenia which is three times higher than in developed countries with good roadway networks. Azerbaijan and Georgia have about the same rate.

Measures including safer road construction, better protection for pedestrians, stricter enforcement of traffic regulations, and road safety education typically reduce road deaths.

Rehabilitation of the road network is a top priority for Armenia. Improving roads will increase trade, investment flow, and jobs. Better connectivity aids regional cooperation and integration as well as increases the country's competitiveness.

North-South Road Corridor in Armenia
The government of Armenia initiated North-South Road Corridor project, which will start in Bavra (a neighboring area of Georgia) continue to Gyumri, Talin, Yerevan, Goris, Kapan, and end in Meghri (next to Iran). The North-South Road Corridor will be 556 km. The Asian Development Bank (ADB) has agreed to support the government of Armenia in the initiative with initial financing of $500 million. The estimated cost for the project is $1.5 billion.

The North-South Road will link to the East-West Highway in Georgia that lead to ports of Poti and Batumi on the Black Sea, two key shipment points for Armenia. The following map shows North-South Road Corridor.

The following are expected socio-economic improvement in Armenia as a result of the construction of North-South Corridor:

- Double Armenian exports and imports
- Increase in cross-border traffic from existing 5 up to 10 billion ton
- Reduce travel time through the corridor from 3 to 4 days to 2 days
- Double average daily traffic from 3,000 to 6,000 vehicles
- New jobs and higher incomes
- Reduced number of accidents as well as lower road transport and maintenance costs

Presently the first two segments of North-South roadway--from Artashat to Ashtarak--and --from Ashtarak to Talin--are under construction and the 31-kilometer Artashat to Ashtarak segment is due to open this year. It is estimated that the entire project will be completed by 2019 depending on the availability of funds.

Rail Transportation

Armenia's railway network plays a crucial role in providing mobility for people and freight. The network includes the metro system that serves commuters in Yerevan. The metro has limited coverage and in recent years it has lost some of its market share to minibuses.

Most of Armenia's railways were built during the Soviet era. As such, central planning dictated that rail be the primary mode of transport. So little emphasis was placed on costs and market needs. The system was designed to handle large traffic volumes and in some cases it served remote areas. The Soviet Union rarely upgraded railway technology after the 1960s.

About 370 km of the 732 km network are fully operational. Armenia relies on its railway system for about 70% of imports and exports, but there used to be far more passengers and freight. The railway system has seen its operations shrink 10-fold since independence, primarily due to the closing of Armenia's borders with Azerbaijan and Turkey. The growing mining industry in southern Armenia has become a major market for freight service, as the mining output needs to be transported to ports on the Black Sea.

Since June 2008, a subsidiary of Russian Railways, the South Caucasus Railway has been operating the Armenian rail system. It has invested more than $250 million in upgrading the infrastructure and modernizing the system.

In 2012 a contract was awarded to Dubai-based Rasia FZE (a Rasia Group investment company) for the feasibility, design, financing, construction, and operation of a new railway link between Armenia and Iran. The Armenia-Iran railway is called the Southern Armenia Railway project. The feasibility study results indicated that the route will be 305 km long and would cost approximately $3.5 billion to build. As the key missing link in the International North-South Transport Corridor, the Southern Armenia Railway would create the shortest transportation route from the ports of the Black Sea to the ports of the Persian Gulf.

Air Transportation

Air traffic has increased significantly in much of East, South, and Southeast Asia since 1990. There were smaller increases, and even some declines, in air traffic in Central and West Asia and the Pacific. Azerbaijan, the Kyrgyz Republic, and Turkmenistan had lower levels of air traffic in 2012 than in 1990. However, Armenia had a 20% growth of air passenger flow in 2014.

Armenia has three main airports: Zvartnots, Shirak, and Erebuni. Zvartnots Airport is the principal gateway to Armenia. The new private two-storey terminal building which was built by a private developer, Eduardo Eurnekian of Argentina, for $173 million can handle about 3.2 million passengers a year, which should be able to accommodate the ever-growing demand until 2030.

In October of 2013 Armenia passed the "open skies" policy for the air transportation. Accordingly, civil aviation in the country is now open to all airlines that meet international standards. It was expected that this policy would spur economic development and a reduction of airfares. However, the latest

data indicates that the number of air carriers in Armenia has decreased from 35 to 27 since the launch of the "open skies". Czech Airlines and Alitalia are two major airlines that stopped flying to Armenia and Etihad Airlines is planning to discontinue its operation in September of 2015. LOT Polish Airlines is suspending its regular flights from Yerevan starting July 1, 2015.

Moscow airports have become the main air hub for Armenian passengers mostly because three Russian airlines (Aeroflot, Transavia, and S7) provide daily flights to Yerevan. Approximately 50% of flights from Zvartnots airport land in the Russian capital.

Key Challenges
Globalization presents both challenges and opportunities. The challenges include an increasing demand for more time sensitive transport services and the reduction of transport costs. Other major challenges for the transport sector of Armenia are:

1. Completing road network rehabilitation
2. Upgrading international railway and road infrastructure
3. Overcoming urban transport problems, particularly achieving a sustainable balance between private and public transport
4. Successful implementation of railway concession
5. Further developing air services
6. Reduction of the negative impact of increased transport demand
7. Achieving long-term sustainability in transport asset management, particularly in the road network.

The Global Competitiveness Index 2014 ranked Armenia's infrastructure at 78 out of 144 countries, with a score of 3.83 in a range of 1 (very bad-quality infrastructure) to 7 (very good quality infrastructure).

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