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THE FACTOR OF J-CURVE IN THE RA FOREIGN TRADE

An aggravation of the trade balance due to the devaluation of the national currency and then a tendency to improve is observed. It is called the "J" curve factor because the trade balance graphically looks like the Latin letter "J" in the long-term period.
Keywords: J-curve factor, current account balance, currency depreciation, deficit.

Introduction. In an open economy, the country's economy faces many problems [1-3] related to external influences, which directly or indirectly affect the country's competitive position in the foreign market, as well as the country's domestic prices and terms of trade. Examining the J-curve factor, we will analyze the country's balance of payments, state currency policy and foreign exchange markets impact on the balance of payments. Then we will study the foreign trade of the Republic of Armenia and in particular the appearance of the J-curve of the trade balance, comparing it with several countries in the region.

Main definitions and concepts. When the balance of payments is disturbed, it is usually necessary to return it to an equilibrium state, that is, in the case of a deficit, to look for ways to reduce or eliminate it, in the case of a positive balance, to perform the opposite actions. If we look at the balance of payments in the defined way, then we can say that the deficit is the excess of the debt part over the incoming part in the current account, which is not balanced with the movement of capital. The methods of restoring the balance of payments are the mechanisms of automatic adjustment and government policy. The essence of the automatic adjustment mechanism is that it is activated independently in the event of a payment balance violation, without government intervention, and operates until the imbalance is eliminated. And consciously implemented policies

are stimulating actions taken by the state aimed at bringing the balance of payments to an equilibrium state.

The advantage of automatic adaptation over state policy is that it starts to operate from the moment of disequilibrium to the moment of equilibrium, whereas in the case of regulation policy there is a time interval; that is, it takes time for the disequilibrium of the balance of payments to appear in statistical indicators, to develop appropriate targeted policies and to implement them. The automatic adjustment mechanism occurs when prices or incomes change. That is, for countries with a deficit or a positive balance of payments, a change in prices or national income leads to a price or income adjustment, respectively.

Since the monetary policy of the state is carried out by the Central Bank of the country, the monetary policy of the state is also determined by the Central Bank, which is floating (flexible).

J-curve factor: decline and improvement of the trade balance. Now let's present the phenomenon when the trade balance can decline after the devaluation of the national currency, and then improve in the future. This phenomenon is related to the tendency of import prices expressed in national currency to increase at a faster rate than export prices after devaluation, even though the initial change in the volume of trade is insignificant.

Over time, as a result of low prices and increased foreign demand, exports increase and imports decrease, causing export prices to equal import prices, and the country's initial deterioration in its trade balance reverses and begins to improve. It should be noted that the trade balance consists of export and import volumes. When imports increase and or exports decrease, the trade balance worsens, and conversely, when exports increase or imports decrease, the trade balance improves.

The tendency of the trade balance to worsen and then improve as a result of the depreciation of the national currency is called the J-curve factor or the J-curve phenomenon. [1]

If we consider the trade balance on the Cartesian coordinate plane, place the trade balance on the ordinate axis, and the years on the abscissa axis, then the resulting graph under devaluation conditions expresses a curve that looks like the Latin letter "J" (Fig. 1)
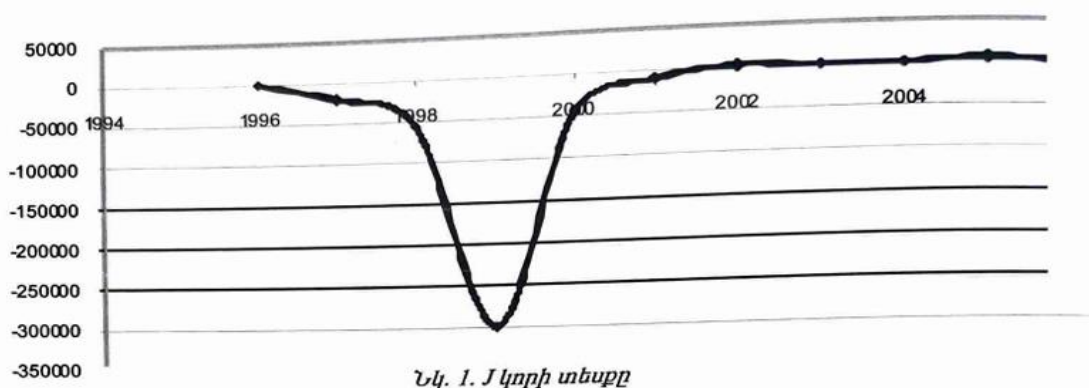

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Figure 1. The image of the J-curve

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The existence of the J-curve factor in the long-term period has been proven in the studies by G. Orcutt, A.Marshall, and A.Lerner [1-4].

Analysis of the external relations of the Republic of Armenia (until 2009p.). In the current era of globalization, no state that strives to integrate into the world economy in any way can avoid foreign economic relations and isolate itself from the outside world. The pursuit of international integration implies that many countries voluntarily give up their national economic autonomy and form integration alliances with other countries. This process is mainly economic in nature, as integrating countries seek to make production more economically efficient, as international integration ultimately provides an opportunity for effective international division of labor. Armenia's first trade partners were many of the CIS member states, with whom the volume of foreign trade of Armenia began to grow continuously. Currently, a free trade regime has been established between the Republic of Armenia and the CIS member states (except for Azerbaijan). All non-tariff restrictions on foreign trade (quotas, licenses) have been legally removed in Armenia. The only exceptions here are products that are related to environmental pollution and human health safety (weapons, ammunition, drugs, chemicals, etc.).

The licensing system exists only for the export of textile industrial products of the European Union countries, dated 20.07.1993, sealed by protocol [5]. The liberalization of trade relations by the Armenian government with the CIS countries justifies itself. According to statistical data, the share of the Republic of Armenia's exports to the CIS member states is significant, despite the membership to World Trade Organization 2003 caused a start to decrease. In 2008 According to the data, 31.3% of the export volume of RA goods belongs to the trade with the CIS countries, while there is a decrease in the share of the volume imported from the CIS countries, despite the fact that the volume of import decreased significantly from 31.7% to 29.6%, making 1.13 billion US dollars. The activation of Armenia's trade relations with European Union countries is noticeable. If in 2006 The volume of goods exported to the EU was 473 million US dollars, 48% of the volume of exports to Armenia, then in 2008 according to the data, it reached 573 million US dollars, which is 54% of the export volume of RA.

Import volumes from EU countries in 2006-2008 increased by about 82% making 1.36 billion US dollars. According to 2009 data RA export volumes are most active with the EU countries: Germany, Belgium, and the Netherlands, while trade relations with Russia prevail in terms of import volumes.

In the foreign trade of the Republic of Armenia, the main obstacles to acting with a wider range of products are not related to product quality in many cases, but to the blockade from the south-west and north-east, which significantly affects the establishment of free trade relations between Transcaucasian countries.

According to 2008 According to data, the export of goods at current prices was 1 billion 57 million US dollars, and the import was 4 billion 426 million. Therefore, if in 2006 According to the data, the trade balance of RA crossed the -1 billion USD mark, then already in 2008 it amounts to 3 billion 370 million US dollars (Source: RA NSS). This means that the J-curve in the foreign trade of the Republic of Armenia has a downward trend, as the shortfall of the trade balance deepens year by year. Below are, in order of comparison, the J-curves of Armenia, Azerbaijan, Russia and Ukraine (Fig. 2-7). Sometimes the J-curve is also represented not only by the trade balance, but also by the relative index of exports and imports (Fig. 3 and Fig. 5), as well as by the elasticity index.
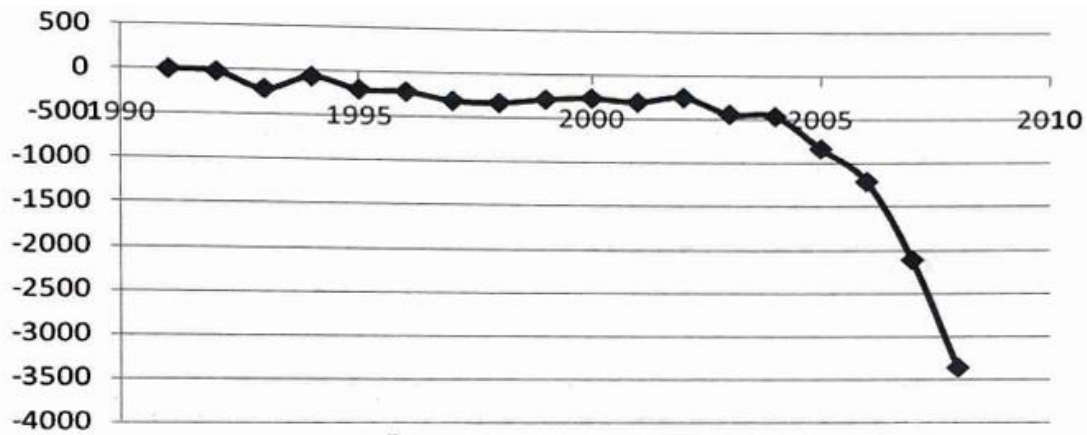
Trade balance
(mln US dollars)

Figure 2. J-curve for the Republic of Armenia by trade balance (export-import)

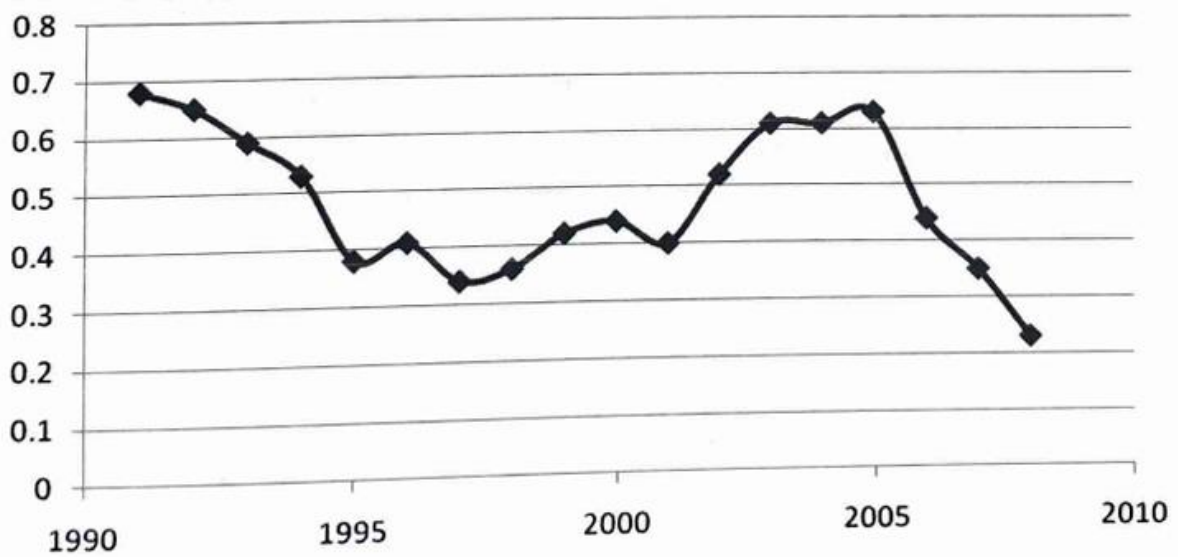export/import
(relative indicator)

Figure 3. J-curve for the Republic of Armenia by relative indicator (export/import)
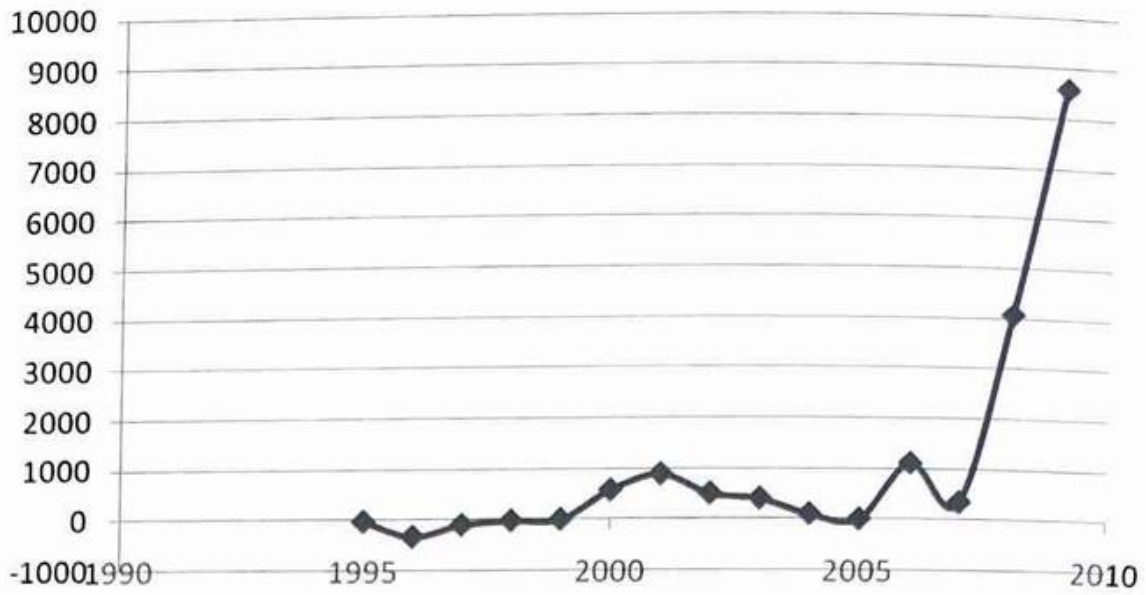
Trade balance
(mln US dollars)

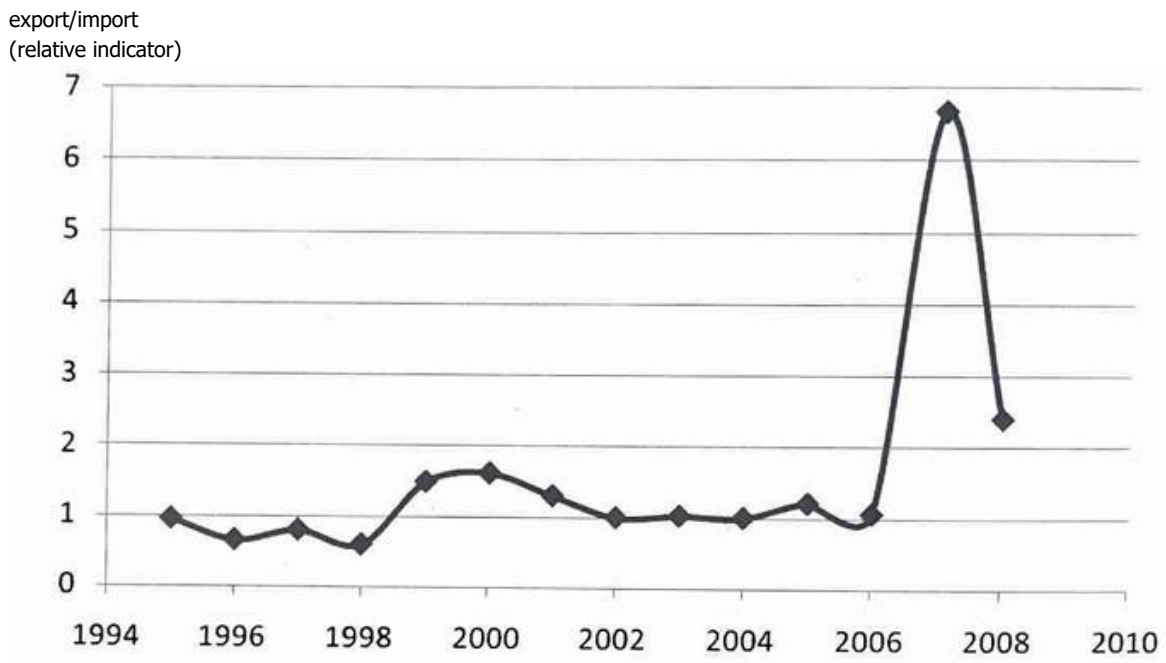*Figure 4. J-curve for Azerbaijan by trade balance (export-import)*

export/import
(relative indicator)

Figure 5. J-curve for Azerbaijan by relative indicator (export/import)

Trade balance
(mln US dollars)
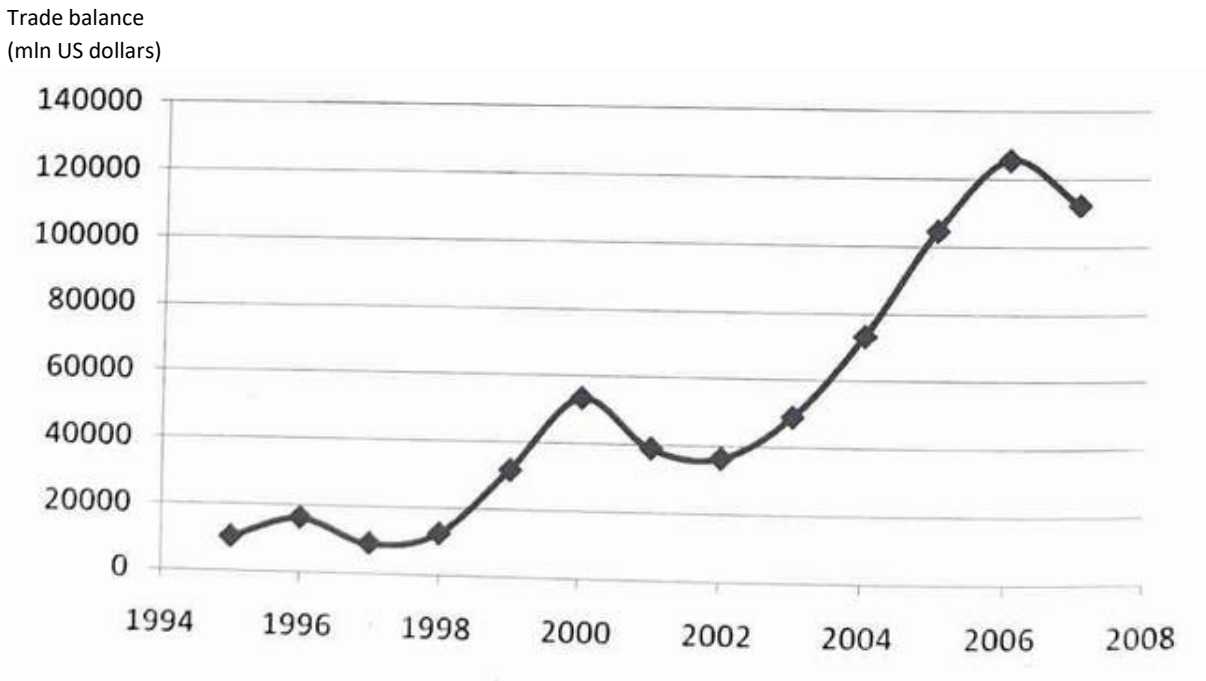
Figure 6. J-curve for Russia by trade balance (export-import)
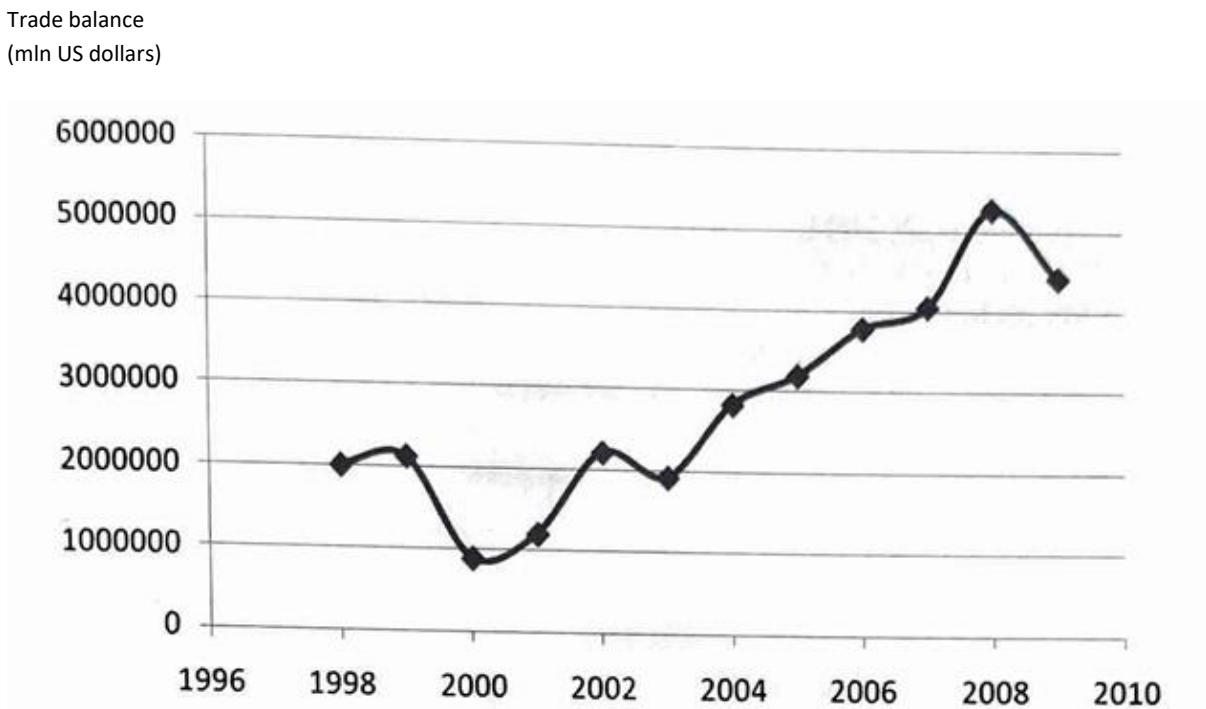
Trade balance
(mln US dollars)

Figure 7. J-curve for the Ukraine by trade balance (export-import)

Conclusion: Based on the statistical data of the J-curves of Armenia, Azerbaijan, Russia and Ukraine [6,7], Armenia's positions in foreign trade significantly yields compared to other CIS countries, which is caused by the tendency of the J-curve to decrease. If in 2006 RA's trade balance exceeded 1 billion US dollars, then in 2008 it is almost 3.5 billion US dollars. It is important to underline that

the shortage is explained not by the reduction of export volumes, but by the disproportion between the growth of import and export volumes, since the growth of export volumes is smaller than the growth of import volumes. Among the factors influencing the growth of export volumes, one can single out the ineffectiveness of the strategic plan for export promotion, legislative gaps, as well as the appreciation of the national currency in the country, which, compared to the CIS countries, is the highest. And the appreciation of the national currency leads to an increase in the volume of imports, while the price of exported goods rises. For example, the phenomenon of currency devaluation has a much weaker effect on Ukraine and Russia (Fig. 6-7), which is accompanied by a more downward shape of the J-curve.

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