



A GENERAL OUTLOOK ON TURKISH-ARMENIAN TRADE AND DEVELOPING POSSIBLE COOPERATION

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INTRODUCTION

This study is the beginning of the “Commercial Projects” program of the “Support to Armenian-Turkey rapprochement”, which is supported by the USAID, being implemented by the Turkish-Armenian Business Development Council jointly with the Armenian Businessmen and Industrialists Association.

The study commenced after a while the Turkish-Armenian Business Development Council in Turkey and the Armenian Businessmen Association in Armenia agreed on preparing a joint report by working parallel in their respective countries. The field work and research studies were carried out about for six months in order to prepare this report. This study covers only the works carried out in Turkey. It will later be merged with the studies to be carried out in Armenia to make it a general report.

The objective of this study is to enlighten the current state of the trade relations as much possible as between Turkey and Armenia that continued even when the borders were closed and though they could not establish the diplomatic relations due to political reasons, elicit the present trade cooperation and help the proposals and mechanisms to be invented for the probable cooperation.

To prepare this study the official sources and the findings of the Statistics Institutes of Turkey were surveyed, the previous academic studies carried out on the relevant issue was analyzed, interviewed with the businessmen and experts (20 one to one interviews and 100 questionnaires), the focus group works were done in various provinces of Turkey and the stories published by the Turkish press in last fifteen years were compiled.

The majority of trade between Turkey and Armenia consists of export to Armenia from Turkey via Georgia. Unfortunately the trade cannot be dealt separately today and is overshadowed by the politics. It is a pity that the trade is bogged down by the political problems and issues on opening or closing the border. There are no official

figures about it and the most of the studies carried out is assessed one-sided because of the political problems. Therefore the objective of this study is to reflect, setting aside the political issues, the general profile of two countries when the border is closed and help the establishment of possible cooperation.

1. ECONOMIC DEVELOPMENT AND STATE OF TURKEY

A- STATE OF TURKISH FOREIGN TRADE AND DATA ON IT

Turkey has made noticeable progress in the foreign trade since the early days of the Republic. From 1925 to 1980 she labored to carry out especially the agriculture-based export while manufactured product-based import reached in the high figures. The content of the exported commodities started to change from agriculture into industry following the planned economy period implemented in the 1960s.

The biggest leap for export in the history of Turkish Republic was taken through the “1980 Decisions”. Especially removing the control on foreign currency and exchange, offering incentives for export and enacting the regulations for free flow of foreign capital provided Turkey opportunity to compete at the international trade. **The foreign trade figures reached in higher level after Turkey and the European Union signed the Customs Union. The Customs Union may be considered as a starting point for Turkey under the globalized commercial conditions. The majority of the countries which either export from or import to Turkey are the members of the European Union. Germany is the leading country both in these two fields.**¹ Considering the lack of raw material production of Turkey in her relations with the Customs Union the economists often emphasize their concern that the foreign trade deficit of Turkey may increase while she increases her foreign trade volume.

The slowdown in the world product, which started as of **2001**, became more apparent following the 9/11 attacks. The world product increased only by 2.4%, which was the lowest growth rate in last ten years, in 2001. In this period Turkey took the most

¹ Gökçen Aksoy* Ankara Chamber of Commerce “Foreign Trade of Turkey”

reasonable step appointing Kemal Derviş, Vice President of the World Bank, to head the economy in 2001 and signing a new stand-by agreement with the International Monetary Fund (IMF).

The crisis became a landmark for Turkey. Following the economic crisis occurred in February, **2001** a remarkable increase was seen in the export of Turkey while aforementioned events was being witnessed in the World. The companies headed towards exporting to resolve the crisis as the Turkish Lira which was free floated following the crisis, was substantially devaluated and the domestic demand was markedly shrunken due to the crisis. Consequently the export rose by 12,8% in 2001 as compared with that of the year 2000 and amounted to 31,3 billion USD.

The Turkish export became 107,2 billion USD in **2007** rising by 25,3%. Thus it amounted to more than 100 billion USD for the first time making the Turkey's share of world exports 1,04%. The export figure was 132 billion USD in 2008 while her share of world exports reached in 1,1%.

Country-wise the general export of Turkey to Germany in **2008**, which has the highest share with 9,8%, rose by 8% and amounted to 13 billion USD. The export to the United Kingdom, second major buyer, fell by 5,4% and amounted to 8,2 billion USD while it increased by %146,1 to the United Arab Emirates, the third major buyer, and amounted to 8 billion USD.

The activities aiming at the diversification of export markets continues to prevent the dependency in export and set up a sustainable export infrastructure. Within this framework the undersecretariats have accelerated the regional strategies which have been developing since 2000. Thus the number of the countries to which Turkey exports over 1 billion USD became 24 in 2007 and 29 in 2008 while it was only 4 in 2000.

The global economic crisis that had started to make feel its negative effects as of August 2008 caused a decline in export of Turkey in 2009 as well as in the World.

The monthly decline in export in the first 9 months of 2009 was about 30,3%. On the other hand as of October 2009 it tended to increase again in parallel with the recovery of economy witnessed worldwide.

When the sectoral structure of export in 2009 is viewed the agricultural products export, which had 13% share, declined at an insignificant rate such as by %1,6 and amounted to 13,3 billion USD because the demand for agricultural products is not flexible. The export of mining products declined by 23,1% because of decreasing energy prices, especially oil, and amounted to 2,5 billion USD. The export of manufactured products, which makes up %84,5 of our export, declined by 25,1%, amounting to about 86,4 billion USD, thanks to decreasing commodity prices, shrunken international markets and decline in demand.

In general though the export of Turkey went into decline by 22,6% in general the export at “fresh fruit and vegetable (12,5%), “olive and olive oil” (12,5%), “tobacco” (7,5%) and “cut flower (6,7%)” sectors increased. The “ready-to-wear and confection” declined by 15,5%, “textile and its raw materials” 19,2% , leather and leather products 20,9% and carpet 7,1%, all of which our traditional export sectors.

Among the industrial products the export of “vehicles and by-products” sector, which exports the most, declined by 31,6% and amounted to 16,8 billion USD. The export of “steel and iron” products went down by 43,2% and amounted to 10,7 billion USD and “chemicals and chemical products” declined by 30,4% and amounted to 10,9 billion USD.

When the export figures in 2009 are reviewed in terms of country groups it is seen that we exported the most to the European Union (EU-27) countries. Its share is 46%. The export to the EU went down by 25,8% in 2009 and the amount fell down to 47 billion USD from 63,4 billion USD. On the other hand the export to the African countries rose by 12,3% amounting about 10,2 billion USD.

FOREIGN TRADE FIGURES OF TURKEY FROM 1992 TO 2009 (million USD)

YEAR	EXPORT	IMPORT	BALANCE	VOLUME
1992	14.715	22.871	-8.156	37.586
1993	15.345	29.428	-14.083	44.773
1994	18.106	23.270	-5.164	41.376
1995	21.637	35.709	-14.072	57.346
1996	23.224	43.627	-20.402	66.851
1997	26.261	48.559	-22.298	74.820
1998	26.974	45.921	-18.947	72.895
1999	26.587	40.671	-14.084	67.258
2000	27.775	54.503	-26.728	82.278
2001	31.334	41.399	-10.065	72.733
2002	36.059	51.554	-15.495	87.613
2003	47.253	69.340	-22.087	116.593
2004	63.167	97.540	-34.373	160.707
2005	73.476	116.774	-43.298	190.251
2006	85.535	139.576	-54.041	225.111
2007	107.272	170.063	-62.791	277.334
2008	132.027	201.964	-69.936	333.991
2009	102.139	140.869	-38.730	243.008

Source: Turkish Statistics Institute (TSI)

Country-wise the export to the Germany that had the biggest share in general export, with a rate of 9,6%, declined by 24,3% in 2009 and amounted to 9,8 billion USD. The export to France, which comes in second, declined by %6,1 and amounted to 6,2 billion USD while the export to the UK, the third biggest buyer, declined by 27,4% and amounted to 5,9 billion USD.

Average Growth Rate of Turkish Economy:

1993-2002	% 2,6
2002-2011	% 7,8

There is no any city which did not export in 2009 as is in 2008. The major exporting cities were Istanbul (55,7 billion USD), Bursa (9 billion USD), Izmir (6,1 billion USD), Ankara (4,9 billion USD) and Izmit (4,6 billion USD).

Gross Domestic Product of Turkey (GDP)

2001	197.000.000.000 USD
2010	730.000.000.000 USD

According to the data obtained the gross domestic product of Turkey increased up to 730 billion USD in 2010 from 196,7 billion USD in 2001. The Turkish economy, which had been recessed 5,7%, ten years ago due to economic crisis, grew 6,8% last year despite of effect of the global crisis. One of the biggest achievements in economy was gained in inflation. Turkey, which had to live with two digits and sometimes three digits inflation rate, could reduce it to one digit thanks to the economy policies implemented. In 2001 the Producer Price Index (PPI) had risen by 88,6% and the Consumer Price

Index (CPI) had risen by 68,5%. These figures, respectively, declined by 7,6% and 7,5% in 2010. Turkey certainly experienced the biggest increase in export between these two periods. The export figure increased up to 111 billion and 700 thousand USD in 2010 while this figure had been 31 billion and 334 thousand USD in 2001. The target of the exporters is to sell 500 billion USD goods to other countries in 2023, which would be centenary of the Turkish Republic.

Per Capita Income in Turkey

2001	3.000 USD
2010	10.000 USD

There have been remarkable changes in the living standards of Turkish people in last ten years. The economy leapt forward in many fields such as from automobile manufacturing and sales to air transport, from mobile phone to highways to house construction. According to the data provided by the World Trade Organization Turkey ranked 22nd country in export worldwide during the 2004-2006 Export Strategic Plan while it had ranked 25th in 2002.

B- COUNTRIES TURKEY EXPORT TO AND BASIC EXPORT DATA

According to the data compiled from the bulletins of the Export Promotion Centre (EPC) and various exporting agencies the developing countries as well as developed countries now demand the technology-based goods from Turkey, which has gained great achievement in export, such as automobile, refrigerator, television, stereo set, washing and sewing machine.

Export, introduced as the locomotive of economy, broke the export record of the Turkish Republic amounting to 73,4 billion USD in 2005. The Turkish commodities are demanded by the many countries from North to South and East to West. According to the reports issued by the Turkish Statistics Institute (TSI) the German and American markets, two of the biggest markets of the World, demand much the Turkish goods in terms of amount and item. They are followed by Italy, France, the UK, Spain, Israel and the Arabian countries.

Turkey, which shows his flag in trade having about 20 thousand products and 40 thousand and 304 exporting companies making sale to 228 countries, meet the interesting and unimagined demands as well as the classical products of textile, industry, confection, iron and steel and agriculture. Scores of interesting commodities such as nargileh, prayer rug, Koran, woman hair, belly dancer dress, coffin, amulet, leek oil and whirling dervish slipper are asked from Turkey. Belize, the Virgin Islands, Ceuta and Melilla, Lesotho, Mayotte, Tuvalu, Sao Tome and Principe, Pitcairn, Cape Verde and Cayman Islands are some of the countries, which are even too small to find on the map, importing from Turkey.

According to the data of February 2011 Turkey exports the most to Germany. Germany is followed by, respectively, Italy, the UK, France, Iraq, Russia, the United Arab Emirates, the USA, Spain and Iran. The export in February, as compared with the same month of 2010, rose by 24,19% and amounted to 10 billion and 165 million USD. It amounted to 19 billion and 726 million USD rising by 22,56% in the first two months of the year. In the last twelve months it rose by 15,32% and reached at an amount of 117 billion and 531 million USD. The biggest exporting item in February was the automotive industry with 1 billion and 615 million USD. The steel and iron sector came in second exporting 1 billion and 305 million USD goods. It is followed by the ready-to-wear and confection sector with 1 billion and 304 million USD.

The share of agriculture sector was 13,4% with 1 billion and 362 million USD, the industry %84,16 with 8 billion and 555 million USD and the mining 2,44% with 248 million USD. The most increase in export in February occurred at the Iron and Steel Sector rising by 62,87%. The increase at the Precious Metal and Jewellery was 50,28% and the Chemicals and Chemical Products was 42,96%.

“The North African and Middle East Countries, which became very important markets, have been one of the leading markets of our export in last decade. Our export amount to the North African countries was 1,1 billion USD in 2000. This figure increased by 7 billion USD in 2010. Our export to the Near and Middle East countries amounted to 2,6 billion USD in 2000. This figure increased by 23,3 billion USD in 2010. Having considered the geography of North Africa and Near and Middle East together this region’s share in our export is 26,7% and 11% in our import. Its

share in our overall trade is 17%.”²

The export to Egypt declined by 21%, to Tunisia by 38% and Libya by 6% in the first two months of 2011 while it increased by 61% to Iran, 40% to Iraq, 33% to Saudi Arabia and %144 to the United Arab Emirates. **The amount of increase is more than the amount of decrease.** The amount of export to the wide area of Middle East continues to increase about by 25%.

In the European market the export to Germany increased by 28% in February. The increase in export to the United Kingdom was 28%. The export to Holland rose by 33% and to Belgium 31%. The progress in the BRIC countries is very promising. Our export to Brazil, in February, increased by 36%, to Russia by 57%, to India by 19% and to China by 9%. There are some countries in the Middle East where the rise in the export figures is very good. In February the export to the United Arab Emirates rose by 175%, to Iran by 71%, to Saudi Arabia by 61% and to Iraq by 25% per month. It is also known that there is a significant increase at the American market as it rose by 37% in February.

The countries Turkey import from the most: Germany, Italy, France, Russia and the United Kingdom

Country	Her export to Turkey	Her import from Turkey
Germany	Automobile and other vehicles, various machines, plastic and plastic products and pharmacy products.	Ready-to-wear, automotive products, electronic appliance, semi-finished goods (leather, paper and rubber), tobacco, fruit and vegetable.
USA	Scrap iron, commercial aircraft and helicopter, communication equipment, electric appliances,	Ready-to-wear, iron and steel products, tobacco, various fruit and vegetables.

² Excerpt from the speech text of Mehmet Büyükekşi, the Chairman of the Turkish Exporters Assembly, who explained the export figures of February in Denizli.

	pharmacy products, medical material, corn and soybean oil.	
England	Petroleum products, pharmacy products, automobile and land vehicles, aircraft and various machines.	Automotive products, ready-to-wear, electronic appliance, semi-finished goods (leather, paper and rubber), fruit and vegetables.
Italy	Engine-driven land vehicles, various machines, medicine and chemicals, kitchenware and home appliances.	Automotive products, cotton and cotton yarn, ready-to-wear, electronic appliances, iron and steel products, various fruit and vegetables.
France	Automobile and other land vehicles, miscellaneous machines, communication equipment, chemical products, pharmacy products, cosmetic products, iron and steel products, aircraft and defense industry products.	Automotive products, ready-to-wear, yarn, leather products, electronic appliances, various fruit and vegetables.

Russia got the lion's share from the import of Turkey last year, out of which amounted to 185,5 billion USD in total. The import of Turkey from Russia rose to 21,6 billion USD. Russia is followed by respectively Germany (17,5 billion USD), China (17,2 billion USD), the USA (12,3 billion USD), Italy (10,2 billion USD), France (8,2 billion USD) and Iran (7,6 billion USD). Iran has been one of the leading countries importing to Turkey.

According to the data of the TSI the countries Turkey exported to the most in 2010 are as follows:

Countries	1000 USD	Change (%)
Germany	11.753.464	17
England	7.223.653	27,7
Iraq	6.042.790	17,9
Italy	6.508.201	10,5
France	6.038.123	-2,8
Russia	4.632.323	45,2
U.A.E	3.340.185	15,3
American Countries	3.769.260	16,3
Spain	3.564.137	26,5
Iran	3.042.957	50,3

The countries Turkey imported from the most in 2010 are as follows:

Countries	1000 USD	Change (%)
Russia	21.592.256	11,0
Germany	17.529.872	24,4
China	17.180.042	35,5
USA	12.318.394	43,7
Italy	10.202.654	33,0
France	8.176.351	15,3
Iran	7.644.782	124,5
South Korea	4.764.009	52,8
England	4.676.567	34,6
Spain	4.839.993	28,1

B-BORDER TRADE

Through the border trade implementation oriented towards the border provinces of the Eastern and the South Eastern Anatolia Regions Turkey aims to expand the foreign trade substructure and culture in the region by ensuring the local people to procure some of their basic daily need and developing the export there.

*Within this framework the Cabinet Decree on the Regulation of Border Trade, which had been published in the Official Gazette on 16 May 2009, came into force on 16 June 2009.*³

The aforementioned decree comprises the 12 frontier provinces of the Eastern and South Eastern Anatolia Region. They are as follows:

- Artvin-Ardahan (Georgia),
- Iğdır (Nakchivan and Iran),
- Ağrı-Van-Hakkâri (Iran),
- Şırnak (Iraq),
- Mardin-Şanlıurfa-Gaziantep-Kilis-Hatay (Syria)

It is intended more tradesmen and merchants, who are settled in the said provinces, to benefit from the border trade implementation thanks to this decree. The settled merchant and tradesman may directly trade by exporting or and importing from the neighboring country or renting a store at the Border Trade Centre (BTC).

According to the 2010 export and import data of the TSI Turkey exported to 219 countries amounting to 113 billion, 929 million and 614 thousand USD while she imported amounting to 185 billion, 492 million and 859 thousand USD.

Among the provinces of the Eastern Anatolia Region, which is situated at the south-west of Georgia, north of Iraq and west of Iran, Azerbaijan and Armenia, **Hakkari** exported the most amounting to 308 thousand and 794 USD. **Erzurum** that got famous worldwide hosting the 25th World University Winter Games, which was the first international organization of Turkey in winter sports, ranked 7th through its export amounting to 38 thousand and 401 dollars.

³ <http://www.resmi-gazete.org/tarih/20090516-8.htm>

The export figures of the Eastern Anatolia Region in 2010 are as follows:

1. 308.794 USD- Hakkari
2. 236.000 USD- Kars
3. 221.155 USD- Malatya
4. 79.642 USD- Iğdır
5. 76 .904 USD- Ağrı
6. 39.956 USD- Elazığ
7. 38.401 USD- Erzurum
8. 19.000 USD- Tunceli
9. 17.341 USD- Van
10. 6.642 USD- Muş
11. 6.254 USD- Bingöl
12. 3.425 USD- Bitlis
13. 1.882 USD- Ardahan
14. 1.351 USD- Erzincan

The list of importing provinces in the same region, in which Malatya ranked 1st amounting to 91 thousand and 904 USD, is as follows:

2. 71.438 USD- Elazığ
3. 58.973 USD- Ağrı
4. 29.000 USD- Tunceli
5. 25.911 USD- Erzurum
6. 21.812 USD- Van
7. 19.771 USD- Hakkari
8. 8.984 USD- Erzincan
9. 5.631 USD- Iğdır
10. 3.048 USD- Kars
11. 1.300 USD- Bingöl
12. 1.136 USD- Bitlis
13. 583 USD- Muş
14. 358 USD- Ardahan

C- TRADE RELATIONS WITH GEORGIA

Following the break of the Union of Soviet Socialist Republics (USSR) in 1991 Armenia was one of the independent countries to have been founded at the border of Eastern Anatolia Region of Turkey. But the Armenia-Turkey relations could not be developed because of the Azerbaijan-Turkey relations. Consequently the Armenia border gate could not be opened and the Turkish-Armenian trade could not be realized.

Turkey has been going on trading with Armenia through a roundabout way via Georgia and Iran even though she cannot it directly. According to the unofficial talk the trade volume between two countries is 150-200 million USD. The Turkish-Armenian Business Development Council and various surveys suggest that the trade volume between two countries would be 350-400 million USD if the good relations were established. The trade relations carried out by Turkey with Georgia and the trade volume should be considered to analyze Armenia-Turkey trade volume.

The positive developments in recent years may give us clue about the import from Armenia. Georgia became the first trade partner of Turkey in 2007. The trade with Turkey constituted of %13 of the total foreign trade of Georgia.

The Free Trade Agreement (FTA) signed on 21 November 2007 came into force on 1 November 2008. The trade volume in 2008 amounted to 1,5 billion USD despite the clashes took place in August and the FTA did not come into force.

It is expected that the bilateral trade volume would amount to 2 billion USD in 2009. The major commodities Turkey exports to Georgia are as follows:

Plastic, panels and slabs, petroleum oil, domestic appliance, construction material made of iron and steel, cement, ceramic tiling material, aluminum rod and shape, packaging material, electrical conductor, fiber optic, motor vehicle for removal of furniture, special-purpose motor vehicles, furniture and agricultural implement.

The major commodities Turkey imports from Georgia are as follows: Scrap, petroleum oil, ferrous alloy, glass wares, raw hide and crude aluminum.

Turkey, the closest trade partner of Georgia, has been ranked among the top foreign investors in Georgia in last five years. Turkey has especially important place at the construction sector. Having invested 550 million USD since 1996 Turkey has been the third biggest investor in terms of total investment amount. Turkey also became the third biggest investor in 2008. The total volume of the construction projects undertook by the Turkish enterprises is more than 1 billion USD. When it is considered that the half of this amount is equal to the investments made in last two years the pace of the Turkish investments at the construction sector is remarkable. The market share of the Turkish goods at this sector is about 60-70%. In addition the textile and food commodities have a significant share at the Georgian market.

There are about 200 countries operating in Georgia. The 25 of them has capital more than 1 million USD. The Turkish companies operate at construction (government buildings and premises, airports, hotels and power plant), banking, glass industry, soft and alcoholic beverages, food, domestic appliance, fair organization, catering, fuel oil, communication, informatics and textile sectors. ⁴

The current investments in Georgia will be accelerated when the Double Taxation Avoidance Agreement, which was signed on 21 November 2007, came into force. The trade volume at the transport sector has significantly increased since 2003. The number of the trucks crossed the Sarp Border Gate became 162.420 in 2008 while it had been 29.794 in 2003.

The %88 of the road transport between two countries is via Sarp/Sarpi Border Gate while the rest is via Türkgözü/Vale Border Gate. The Batumi International Airport was used jointly after the Hopa Terminal entered into service on 17 December 2007. This is

⁴ The official data provided by the Embassy of Turkey in Georgia.

a second example in the World after the Geneva Airport used jointly by Switzerland and France.

Turkey-Georgia Economic and Trade Relations: The legal framework of our trade relations with Georgia is constituted through the “Trade and Economic Cooperation”, the “Mutual Incentive and Protection of Investments” and the “International Road Transport” Agreements signed in 1992.

Basic Indicators	2003 (\$)	2007 (\$)	2008 (\$)
Trade Volume	428.986.427	935.139.993	1.520.430.000
Turkey’s Export to Georgia	155.069.890	645.799.865	995.985.000
Turkey’s Import from Georgia	273.916.537	289.340.128	524.445.000
Turkey’s direct investments	17.275.080	113.700.000	167.000.000

Turkey’s direct investments (’95 –’08 total) 550.000.000 \$

Bilateral Trade Data of Turkey-Georgia:

Million/USD

YEARS	EXPORT	IMPORT	BALANCE	VOLUME
2009	745	285	460	1.030
2010	769	290	479	1.059

Source: TSI

Turkey has become the biggest trade partner of Georgia since 2007.

In terms of bilateral trade the export items are plastic products, machine and equipment, electrical appliances and iron and steel wares. We import mainly scrap metal and petroleum products from Georgia.

The total amount of 80 projects undertaken by the Turkish contractors in Georgia from 1992 to 2010 is more than 1 billion USD.

Thanks to improvement of the investment climate our companies have become more interested in Georgia. Our country ranked the 3rd among the foreign investors with her investment, much of it at the construction sector, amounting to 536 million USD since 1996.

B- Outlook on Turkey-Armenia Trade Relations

1. Closing the Border and Its Commercial Effect on Armenia



Turkey was one of the countries to have recognized Armenia's independence following the breakup of the USSR but he closed her border gate with Armenia in 1993 due to her Azerbaijan policy and decided to impose an economic embargo on Armenia. Closing the Alican Border Gate to Armenia, which even was open during the USSR rule, because of the political conflicts between Armenia and Azerbaijan has resulted in not only punishing Armenia but the eastern part of Turkey that needs trade the most. **In this sense the Armenian economy got stuck in the political triangle of Turkey-Azerbaijan-Armenia. Armenia has been devoid of participating in the regional**

projects and depended on Russia and Georgia.⁵ The direct flights could not be started between Turkey and Armenia as the border was closed. Turkey closed her air space to the Armenian planes, too. As of this date Armenian planes could not fly through the Turkish air space to the third countries. The people usually flew from/to Armenia-Turkey via Istanbul-Belgrade or Sophia-Yerevan or via other countries.

Armenia, which has no direct access to the world trade centers and open seas, has had to invent new roads and courses for herself as the border was closed. Therefore she tried to establish her trade connection with the World reaching in Turkey via neighboring countries, especially Georgia. The trade relations of two countries have improved for Armenia and the east of Turkey and reached in a remarkable amount via Georgia though the border gate of Turkey to Armenia closed.

Armenia, dependent gradually on her neighbors due to lack of natural resources, has profound advantages, however. There is a consumer market with 170 million people around her. She is close to the Caspian Basin which is one of the biggest energy centers of the World. She is a neighbor with Turkey having a direct access to Europe.

The seriousness of situation became more visible because of the troubles arisen due to the closed border during the Russia-Georgian War. Armenia was one of the parties to have been suffered. **Armenia went through trouble in both meeting her basic needs and energy supply as the Poti and Batumi ports could not be used during the war and the Russia-Georgia border, which is the only trade route, was closed.**

All these datum show that the border gates to Turkey are vital point and path to salvation for the Armenian economy.⁶

⁵ The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on The People; and Implications for The Overall Situation in The Region, August 2007 European Parliament, <http://www.europarl.europa.eu/activities/expert/eStudies.do?languageEN>

⁶ The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on The People; and Implications for The Overall Situation in The Region, August 2007 European Parliament, <http://www.europarl.europa.eu/activities/expert/eStudies.do?languageEN>

2. Ongoing Trade and Its Extent Despite of Closed Borders

The trade that has been done between Turkey and Armenia to a great extent via Georgia since closing of the border in 1993 focuses on various business line, mainly at textile, spare parts and construction material sectors. (Please see the Chapter 3 for the detailed trade sectors). Following the protocols initialed between and Turkey recently the discussions on whether the border gates of two countries are opened or not are currently going on. But the flow of goods from Turkey to Armenia has been going on uninterruptedly since 1993 when the border gates were closed.

Armenia has two open border gates to Iran and Georgia. The border gate to Georgia is actively used for trade with Turkey. It is well known by those who are interested in this issue that the trade between Armenia and Turkey has flourished via Georgia. Armenians prefer usually the Turkish commodities as the wares imported from Iran is of poor quality.

Under these circumstances it is not likely to suggest that Turkey imposes a factual economic sanction as much as stated by the political discourse. Because majority of the trade between Turkey and Armenia is done via mainly Georgia and also Iran. Today in-depth research is not needed to see that the Turkish building material is used for the constructions in Armenia and the Turkish goods are placed mainly onto the shelves of markets there. **Though the borders are closed the trade volume, which was 4,5 million USD in 1993, rose by 30 million USD in 1997, 120 million USD in 2007 and 200 million USD in 2008.**⁷

Closing the borders affected Armenia in general while it affected especially the economy of the eastern provinces of Turkey negatively. The closed borders increase the transportation costs in terms of Armenia's connection with outside world and reduce the trade volume and profit. The transportation cost increases by 10% and delivery time increases by 2 days as the Turkish-Armenian trade is done via

⁷ Turkey and Armenia Opening Minds, Opening Borders. International Crisis Group. Report no. 199. (14.04.2009). p. 28.

Georgia. The transportation costs will be reduced by 30-35% for Armenia if the border to Turkey is opened. ⁸

Closed borders also affected the capital investments negatively preventing the foreign capital from entering Armenia directly because of instability. The capital risk ratio of Armenia has increased as she has no diplomatic relations with Turkey and the borders are closed. ⁹

The invoice is issued in Georgia when there is a trade relation between Turkey and Armenia as the companies in Turkey are not authorized to make an invoice addressing Armenia. In addition to the large-scaled merchandise and products the shuttle trade with Armenia is of importance for Turkey. But the trade between Armenia and Turkey is not absolutely limited to the shuttle trade. It consists of just a part of commerce.

The important partners of Turkey, in addition to Russia, are Ukraine amounting to 1 billion USD, Romania 1 billion USD and Georgia and Armenia in total 2 billion USD. Istanbul is the leading centre of the shuttle trade.

Istanbul got 95% of the trade in the early 1990. But it declined by 70% after Izmir, Trabzon and Antalya come into prominence. The focus of the shuttle trade in Istanbul is the Laleli Quarter.

After the shuttle trade flourished in this quarter about 5 thousand small and medium-scaled stores were set up, which later provided service to the merchants and tourists who came there from the Commonwealth of Independent States. The hotels were opened for those coming to the quarter for shopping. The shops hung out signboards written in Russian. Those who wished to sell more needed learning Armenian and Georgian as well as Russian.

According to a report issued by the Turkish Trade Ministry about 10 thousand Turkish took up business in Laleli and earned income through it. According to the Foreign

⁸ Armenia Internal Instability Ahead. International Crisis Group. 18.10.2009. p. 20

⁹ Cavid Veliyev- Sınırlar ve Ticaret, <http://www.turksam.org/tr/a1841.html>

* The Economic and Social Impacts of Opening the Armenia-Turkish Border AIPRG conference, http://www.aiprg.net/UserFiles/File/Conference_Findings_Overview.pdf

Economic Relations Board (FERB) there are 3 thousand hotels in this quarter for the foreigners to accommodate. Again according to the estimation of the FERB the total trade volume of this area is about 5 billion USD per year.

It is estimated that total 100 thousand local merchants make profit from this trade in Turkey. The most of the Armenian buyers coming to Laleli are permanent customers. They buy the goods here according to the demand of market in Armenia and Exchange rate of dollar. Most of the buyers from Armenia are estimated to spend at least 10 thousand USD per travel.

The tradesmen, who has been dealing for years and can know the customers closely, divide the merchants into two groups: The 1st one is experienced merchant. He places his orders by fax or phone. The customer is not asked to make any payment until the goods are delivered as he is a permanent customer. The second type of customer is the less experienced one coming to Turkey usually by plane or bus. He does not buy in great quantities and mostly makes the payment in advance before he takes the goods away. Following a great deal of shopping the credit is opened by the sellers, that is, the large part of the business in the shuttle trade is split into installments. The goods imported from Turkey are sold at the open markets and stores in Armenia. The profit rate of these goods is pretty high. The poor quality goods are sold with 50% to 70% profit. The high quality dresses such as leather jacket, coat and fur are sold almost with 150% to 200% profit.

Since 2003 there is flight from/to Istanbul-Yerevan. There is flight from/to Antalya-Yerevan only in summer time. There are bus services from/to Yerevan-Trabzon and Yerevan-Istanbul more than once a week. One of the aspects relieving this passenger traffic is definitely quite loose visa regime imposed by Turkey and Armenia to the other party. Taking the roaming agreement between the Turkish and Armenian GSM operators into account and some other details it should not be claimed that the economic embargo by Turkey isn't indeed imposed except for closing the road border and making Kars and other provinces devoid of trade.

3. Establishment of the Turkish-Armenian Business Development Council and Its Influence

The Turkish-Armenian Business Development Council (TABDC), established on 3 March 1997 by the Turkish and Armenian businessmen, played an important role in developing the unofficial trade between two states. Following the establishment of the Turkish-Armenian Business Development Council (TABDC) the idea of doing business directly between Turks and Armenians, not via the third countries as it had been done until 1996, was improved. The presidents of two countries (Süleyman Demirel and Levon Ter-Petrosyan), who met within the framework of the Black Sea Economic Cooperation in 1997, lay the foundations of establishing a business council. The establishment of council was agreed upon based on this idea. In this way it was aimed to make the tradesmen know each other. Later the business was done again via the third countries but this time they could not make profit by brokering but were used only for documentation.

The TABDC contributed a lot to development of business opportunities between Turkey and Armenia. The trade volume, which was about 50 million USD via the third countries when it was established, now is more than 150-200 million USD. The buyers and sellers of the goods have known each other better. Above all the Armenian Diaspora agreed with the two countries on trade. Today some of the Diaspora Armenians want border to be opened. Thus they will be able to do business. Most of the Turkish citizens even could not dare going to Armenia in the past. But today we can see the Turkish businessmen doing business at the various scales at the streets of Yerevan. The TABDC gives a technical boost to those who want to break taboos and set up commercial relations. It is still the only organization which is able to introduce the businessman of two countries each other, give information about their sectors to introduce a party to the other 'partner-to-be' and have offices in Yerevan, Istanbul and New York.

" Georgians or Iranians used to intervene before while Turks and Armenians had been doing business. The Turks and Armenians who are buyers and sellers could not know each other. Our initial objective to found TABDC was to be able to make the buyers and sellers of the two countries meet directly. Say, Armenians would import glass from Turkey. The buyer would come from Armenia. They would agree on covering transportation expenses

*fifty-fifty if he likes this glass. Later the glass would be sent to a company in a Georgia with which the Armenian buyer had agreement. Finally he would go to Georgia to take the commodity. "*¹⁰

C- Turkish-Armenia Trade Cooperation and New Targets

1. A Questionnaire and special interviews

During the preparation phase of this study a questionnaire was made with more than one hundred people and manufacturer, some of whom have had already trade relations with Armenia, some of whom wants to do it or some of whom utterly oppose it, in various cities of Turkey (Istanbul, Ankara, Izmir, Malatya, Denizli, Kars, Bursa and Trabzon). In addition to conducting this survey it was interviewed with more experienced manufacturers on this subject, who do business in great quantities, spoken on condition of anonymity.

The name of some participants is not mentioned in this questionnaire as they did ask their names not to be disclosed. About half of the manufacturers, with whom we conducted the questionnaire, having mid-scaled companies refused to reply as this was conducted about Armenia. Those who accepted were extremely careful and suspicious. Some of the biggest manufacturers, which we know well that they do business with Armenia, reacted saying "As a matter of fact that doing business with Armenia is forbidden. We do not involve in such a business". The interest for this questionnaire is less in the cities such as Istanbul and Ankara. The other cities, mainly the Eastern ones, gave heed more as they were seeking new markets.

The questionnaire originally lasted about 20 minutes. But it took us one hour as we had to explain why and how we conducted this questionnaire and wanted to help the manufacturers and buyers to get contact.

What was seen definitely during the questionnaire that irritation and distrustfulness arose when it was stated that this survey was about Turkish-Armenia trade relations. It

¹⁰ Kaan Soyak, Co-Chairman TABDC, TurkishNY 20 September 2009

was evident that some people did not refrain from doing business with Armenia but felt uneasy about its coming to light. It seems that the trade with a country, on which an official embargo should be imposed, has resulted in psychological reservations.

Most of the 100 questionnaires, which initially had been planned to conduct with the members of 5 main sectors (tourism, construction and construction material, industry, transportation and information technology), were conducted at the industry and tourism sector as the interest and positive response from these sectors were comparatively more than others.

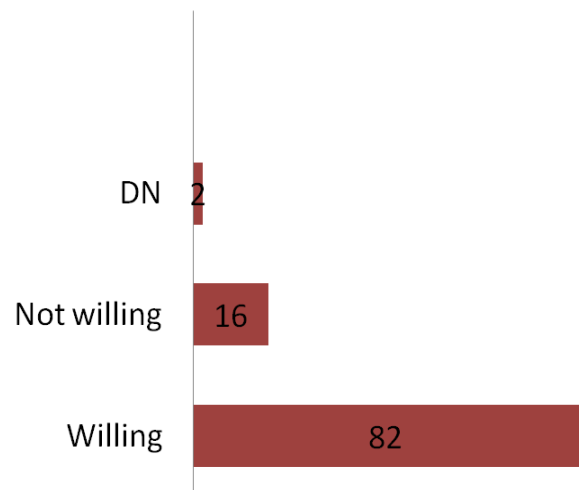
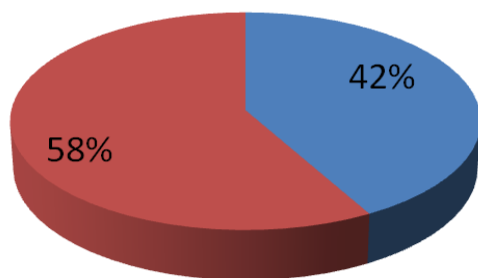
The participants are grouped according to their trade volume and cities where they are located. Here are the questions asked:

- Do you have trade relation with Armenia? Since when has it been going on? What was the reason if it ended?
- Do you want to establish trade relations with Armenia?
- Have you been to Armenia?
- Which information do you need to do business in Armenia?
- What kind of cooperation do you want?
- Which requirement do you ask from the other party for cooperation?
- What is your estimate and opinion on possible business line to cooperate?
- What are your possible reservations (politic and cultural)?
- Whether do you need guaranty while doing business?

CURRENT STATE OF THE TURKISH-ARMENIAN TRADE COOPERATION

Ongoing Cooperation

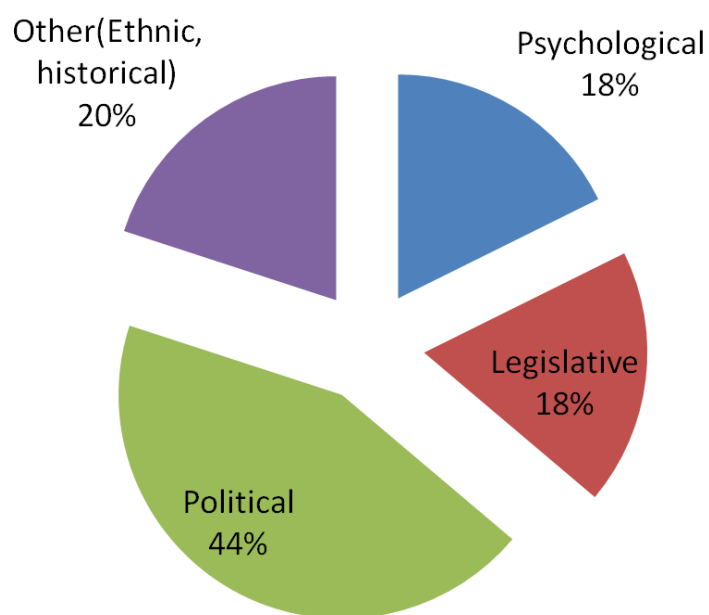
■ Cooperated ■ Not Cooperated



Out of 58% of the people with whom the questionnaire conducted have never traded with Armenia while 42% of whom has still doing business with her. The group of 58% stated that they were willing to cooperate with Armenia. The 16% do not lean towards trading with her. But here the point which should be taken into account that the majority of 16% do not lean towards the foreign trade in general and want to involve in it.

We concluded that the reasons why the group which do not want to trade with Armenia are different and complicated.

PREJUDICES HINDERING ESTABLISHMENT OF TRADE RELATIONS



The main reasons are political, legislative, ethnic-historical and psychological. But it is observed that sometimes they are intertwined.

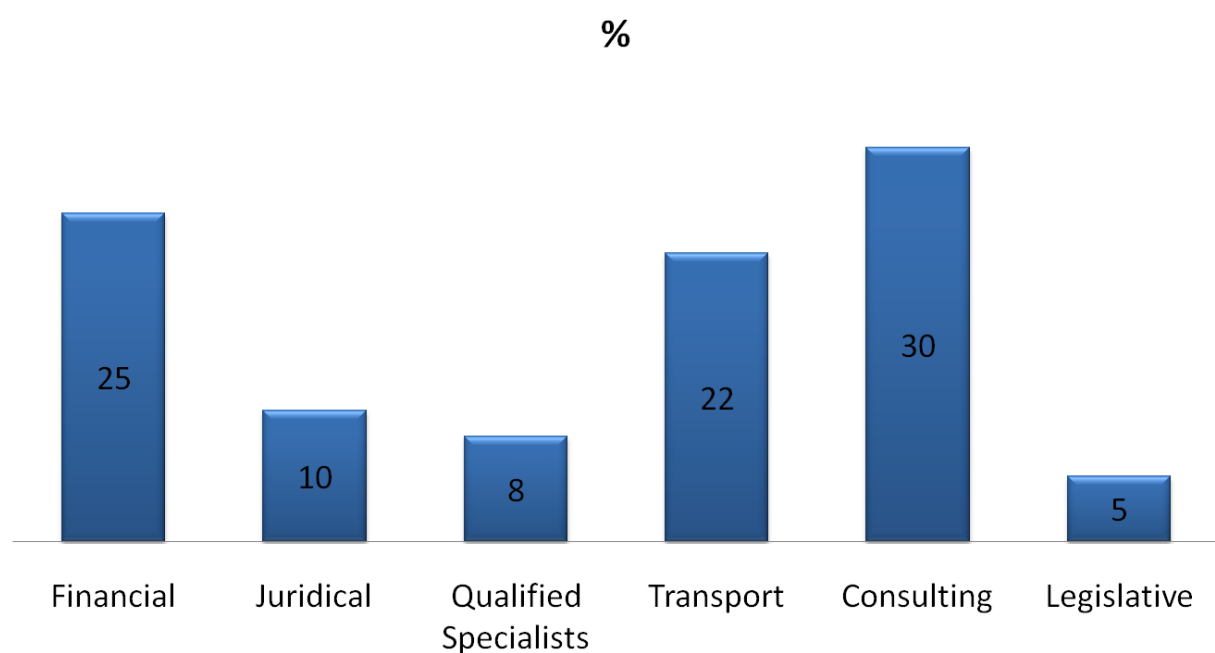
The political prejudices and reservations exactly are formed over the relations and non-relations and discourse between the two governments. The political prejudices are

abated thanks to the rapprochement¹¹ of the leaders and cultural activities¹². But harsh political discourse¹³ to give a message to Armenia may affect those who have trade relations and who are willing to do so.

The ethnic-historical prejudices mainly result from the psychological reasons –not to the political ones. There are some stating that the Armenia and the Diaspora should forget what happened in 1915 to start to trade while some think that this cooperation would be dangerous if a plan, with which Azerbaijan might not satisfy¹⁴, is implemented. Though it is arguable how much this discourse reflects the truth when trade and profit matter it is fact that those who differ on this issue dare not oppose the official discourse.

The prejudice underlying the legislative prejudice results from the misgiving whether the company may achieve in future and its security may be affected. They are also unsure how they can recover the financial loss, if it is arisen due to trade relation, and take the legal action. What the psychological prejudice means how the Armenians treat them and whether they may damage.

IN WHAT FIELD IS ASSISTANCE NEEDED?

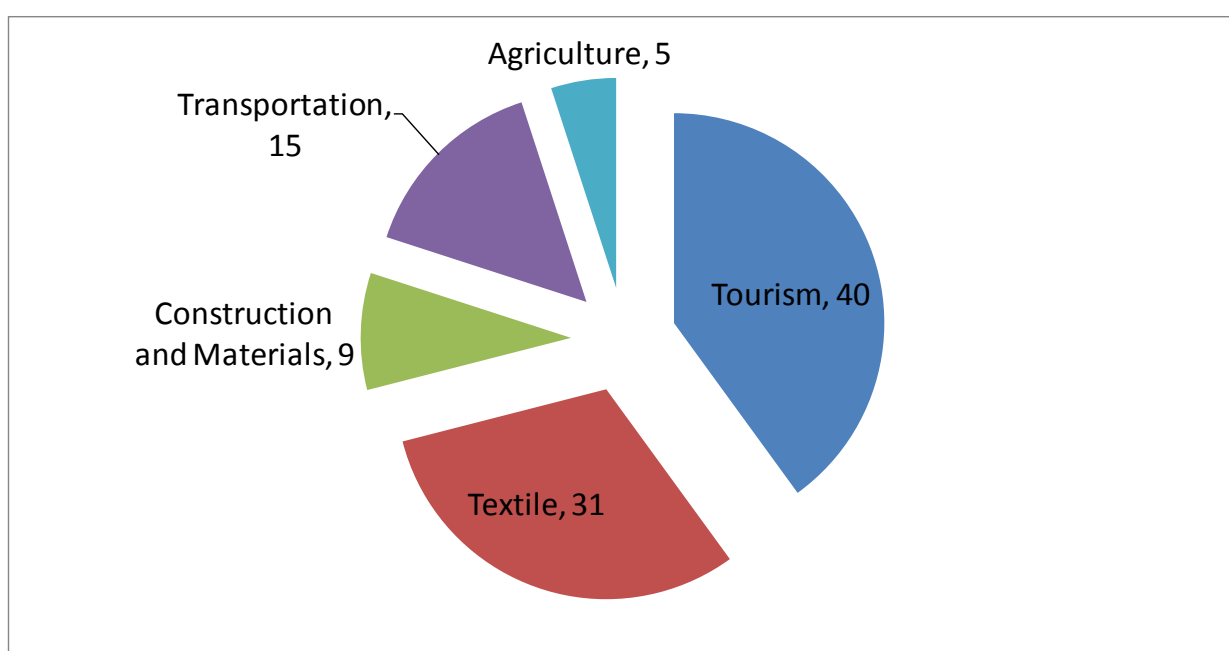


The above chart shows the assistance fields those who has already been trading and will start to do so may need.

The assistance for “**consultancy**”, which constitutes the biggest part, has indeed arisen as the diplomatic relations between two countries could not be established. The countries established the normal diplomatic relations commission mutual diplomatic missions such as embassy, consulate general, consulate and other missions. Almost all these missions supply the necessary information to those involved in trade through their trade and economy departments as well as their commercial attaches. It is the main reason that the gap for consultancy cannot be filled as these missions have not been established by neither official nor non-governmental organizations of the two countries.

When the financial assistance is concerned both state and private banks do not grant commercial loan to those who intend to trade with a company in Armenia. The other assistances asked are on the field of transport, legislative and qualified staff.

POSSIBLE SECTORS TO COOPERATE



The main sectors, in which the cooperation has already existed and cooperation is recommended, is tourism and textile. The textile sector, which has a great share in Turkey's export, is one of the leading export sectors to Armenia as well as the former Soviet Republics and Russia.



Taking the Armenian cultural heritage and the sacred trinity¹⁵ of Kars-Van-Echmiadzin in the Eastern Anatolia Region of Turkey into consideration it is expected that many tourists from Armenia and Diaspora will flock to this region provided that the required service is supplied (satisfactory comfort, bed capacity, guiding and qualified staff).

2. FOCUS GROUP WORKS WORKSHOP

For the focus group works we selected mainly two cities, Istanbul which is the capital of the shuttle trade, and Kars which is the closest city to Armenia. In addition to the two cities we included in Malatya thanks to its former ethnic structure and Denizli, one of the most important cities in textile, to the workshop. Both cities want to improve their commercial ties with Armenia.

¹⁵ The three sacred sites, which must be seen, of the Armenians are: 1. Echmiadzin Cathedral- Echmiadzin Catholicos, Armenia. 2. Kars-Ani Ruins, Turkey. 3. Van-Surp Hach (Saint Cross) Church, Ahktamar Island.

During the focus group workshops we explained that we intended to introduce the power of the ongoing cooperation and possible business partnership though the borders are closed. By concentrating on the 5 sectors - tourism, construction and material, industry, transportation and informatics- the various provinces are visited to know about the academic research and take the opinion of people dealing with business in the region.

The following issues are evaluated during the meetings held with the members of various sectors from 01.01.-01.04.2011.

- ✓ **The previous cooperation of participants with Armenia, the background of their contacts with Armenian citizens.**
- ✓ **What are their reservations of Turkish and Armenian citizens in terms of cooperation? How much may reservations and risks affect the usual cooperation?**
- ✓ **Does the trust problem arise as there is no diplomatic relation?**
- ✓ **What kind of guarantor is it asked during cooperation?**
- ✓ **What may Armenia export to Turkey? What is the possible cooperation?**
- ✓ **What is the importance of border for the economy of Eastern provinces? What might change if the trade with Armenia was improved?**
- ✓ **What do you think about a possible fair between two countries? In which country should the fair be organized? How much may the fair be useful?**

- ❖ **The previous cooperation of participants with Armenia, the background of their contacts with**

Armenian citizens.

Most of the businessmen among the participants, who have done business with Armenia, met the Armenian businessmen or the tourists and talked to them, were the businessmen from Istanbul and Kars.

Businessmen from Kars stated that their relation with the Armenians usually improved thanks to the tourists coming to the city. Some people from Kars went to Armenia while some could not visit her yet. The all the participants from Istanbul cooperating with Armenia have been to Armenia.

The businessmen from Istanbul regularly visit Armenia.

"I have been doing business about for 15 years. I travel there constantly. This relation is now more than business. The friendship has been established between us. I stay at their homes just as it is our tradition in Anatolia..." A businessman from Istanbul.

"I haven't been to Armenia but I realize the cultural ties dating back the olden days with those coming to city. I haven't established much dialogue but we can understand each other using Turkish and Kurdish. As a Kurdish from Kars I can contact with the Yezidi Kurds of Armenia well..." A Businessman from Kars.

The ties which were established due to trade have transformed into friendship somehow. This is the key factor for the trade relations which only can be flourished depending on the personal confidence as no any guarantee exists.

"The trading with Armenia is more advantages than the trade with Azerbaijan. The trade is carried out over Black Sea even though the borders are closed. There are flights from Istanbul. Kars and Armenia need each other. We must see each other us as friends not enemies". A Cheese Producer from Kars.

"... I want to go there. I built a construction in Turkmenistan. I can do the same in Armenia. I wouldn't mind to go there. But how can I go there? May they issue a visa? I don't know how they may meet? What do they think that Turks do business there..." A Contractor from Malatya.

A businessmen dealing with stone business told that he had bought a stone crusher made in Armenia about 12 years ago, then invited an Armenian master over Georgia as a problem arisen to operate the machine. They could understand each other as the master had a good command of Azerbaijan. He stated that this business relation then lead to a good friendship and the Armenian master invited him to his country but he could not visit him as he could not find opportunity.

The Armenian-origin businessmen also were invited to the focus group workshops in Istanbul. In this workshop the Armenians from Istanbul stated that they had difficulty while doing business with Armenia, the Armenians are not “businessmen” as they supposed how a businessman should be, those who have only capital could business in Armenia and a personal background does not exist to trade. The Turkish businessmen did not agree with them.

“... (Addressing the Armenian-origin businessman) I thought if that was Armenia with which I do business while you were mentioning about her. What you said is not true. They are quite good businessmen. They are quite good masters. I have been dealing more than 15 years. I haven’t even lost a lira...” An Exporter from Istanbul.

❖ What are their reservations of Turkish and Armenian citizens in terms of cooperation? How much may reservations and risks affect the usual cooperation?

It appears that those living in the other cities have reservations for the Turkish-Armenian trade relations as the majority of businessmen in Istanbul says they have no reservations.

“I aspire to visiting Armenia and seeing what I may sell. But who will guarantee my security? What if I get in trouble?” Owner of a Construction Material Company from Denizli.

“I have no any apprehension. Kars is being punished. This may be solved by the governments and we may live better. The dynamism must be started at both sides...” A Businessman from Kars dealing with livestock.

A reporter from the local newspaper in Kars stated that the main problem was lack of dialogue and the prejudice must be overcome. He explained that he visited Armenia thanks to a workshop held for the cooperation of Caucasian journalists. He voiced that the main problem of the two countries is to overcome the creation of enemy through the state ideologies, the two countries should be acquainted with each other and should not linger on obsessions. According to this invitee the border must be open and Kars gets its share like the Black Sea.

“The textile sector is well developed in our city. We export it to Europe. Why not to Armenia? But I don’t know how to go and whom to find there. I don’t care about the politics. Once upon a time we lived together here. Why don’t we do business?”
A Textile Supplier from Denizli.

❖ What may Armenia export to Turkey? What is the possible cooperation?

The businessmen from Kars stressed that there are good markets for lumber, livestock, food and textile in terms of trade relations between the two countries. The suppliers from Denizli stated that the interest of Armenian businessmen must be oriented towards Denizli which is the hub of it. The businessmen from Malatya suggested that the exchange of technology and cooperation should be carried out in apricot production, at which Armenia also is very good.

The participants, reminding that the trade is carried out over Istanbul-Yerevan by flight as the land border is closed, stressed that Kars, Denizli and Malatya, and some other provinces which may trade, are indeed closer to Armenia than Istanbul.

Thanks to their experience and confidence gained throughout year the suppliers in Istanbul are of the opinion that only selling and buying is not enough, the raw material should be taken to Armenia to sell the goods to the CIS as the labor and cost are low in Armenia. But they complain that the state support and required business partners do not exist to do so.

It is a pity that the manufacturers and businessmen in Turkey do not have enough information about what produced in Armenia and what raw material she has. Therefore the question what may be imported to Turkey from Armenia has been left in the dark.

Tourism

One of the tour operators in Kars said that he knew the tour companies in Armenia. He explained that the tourists especially were hosted in summer time. They preferred Kars due to location of the hotel. The tour operator wanted the border to be opened. Referring to the religious ceremony in Van he hoped the similar activities in his region especially after the election. But he added that the bureaucracy usually hindered them. Outlying the language problem in communication he stated that they were ready to cooperate at the tourism.

The tour operators in Istanbul stated that the Armenian tourists may be attracted to the hotel chains in the south of Turkey via the direct flights from/to Armenia-the south part of Turkey.

“There are travel agencies, journalists and lecturers with whom we have contact sending the tourists to our hotel in Kars. The costs increase as the borders are closed...” An Hotelier in Kars.

❖ What are the reservations or fear of the invitees due to current state of the diplomatic relations?

Most of the participants see the Armenians as trustable. They stress that the confidence between the parties steps in when the problems arise as the diplomatic relations are currently troublous.

The hotelier in Kars said that he had customers from Armenia and got his money by installments. He had never suffered from this trade. He does not think that the trade established on confidence has not made a loss so far and will make a loss in the future. He stressed that Kars could not benefit from the advantages of being a neighbor to three countries. Both Armenians and Turks, who suffer from the same trouble, could reach prosperity if the borders are opened.

“Once I worked with the Armenian tour operators but I suppose that the cooperation may be interrupted owing to the high cost. But we don’t have any trust

problem. It is proven by my own experience that the Armenian people and businessman are trustable..." A tour operator from Istanbul.

The participants stated that the reservations and disturbances as well as the bad image created through the press by the two countries may be overcome through the communication. They say their worry usually results from the political situation.

I would say 'no' if you asked me whether I was afraid or had a problem as I did trade with Armenia when the Turkish President Gül went to Yerevan. Why would I fear? Even if Gül went there it meant that there was no problem between us. But now I may not say the same things. I may not dare to say even that I do business following the elections as I cannot know how the policy will be formed..." A businessman from Istanbul.

All the participants stated that they had very positive attitude in doing business and about the Armenian businessmen. A verbal confidence without needing signature between them was established. They added that they would be cooperating even without the establishment of the diplomatic relations and were willing to cooperate more. They narrated their personal memoirs related to their trust for the Armenians.

❖ What do you think about a possible fair between two countries? In which country should the fair be organized? How much may the fair be useful?

The participants expressed positive opinions about organizing a fair between the two countries. The majority was in favor of organizing a fair by the Turkish companies in Armenia.

A businessman from Kars stated that the fair would be an exchange of culture. The interlocutors will know each other personally, which may establish a mechanism of trust and rectify the existing trust. He may go there as long as the individual and legal rights are protected. This person, who considers the trust of mechanism as utmost importance, said that he would go there provided that this condition would be met.

The Hotelier in Kars stated that the fair would be a big resource. It would bring gain somehow despite it does not yield money. He mentioned that the state should support the fair.

“.....The fair must be supported by the state because the public authority is sensitive. One must be careful” said a supplier in Kars.

The textile manufacturer in Malatya remarked that the possible potential would improve when the border crossing increases. He suggested that the entrenched pattern would break down; the relations between the persons would be improved thus easing the reactions when the economy improves. He stressed that the role of the non-governmental organizations should not be neglected.

**❖ What is the importance of border for the economy of Eastern provinces?
What might change if the trade with Armenia was improved?**

During the focus group workshops those especially living in the Eastern cities cannot confess or say it aloud that the East will benefit from this trade because of psychological and, more importantly, political reasons though they highlighted that the development of trade with Armenia is of crucial importance and Kars is punished.

“Opening the border will be useful for Armenia not Kars. We all know that Turkey with her current potential is able to invest more than Armenians is able to do so in Turkey. The businessmen of Kars have capacity to purchase the whole Yerevan when the Armenian border is opened. Our capacity is very good. We serve using English...” An hotelier in Kars.

A member of non-governmental organization in Kars estimates that the rich Diaspora Armenians may bring the foreign currency in high amounts. Kars will rise at the tourism sector, he added. In addition he stated that several sectors would get a slice of the cake, if the borders are opened, as the transportation to all the Caucasian countries will increase.

A tour operator in Kars, based on his experience and estimation, said that the economy of Kars would benefit so much if the borders are opened and the tourist groups and the businessmen prefer coming to the city. He stated that Kars has the sufficient number of

qualified staff. He also added that the bed capacity and hygiene comply with all the required standards.

REVIEW

This study does not analyze in which direction the trade may change if the Turkish-Armenian border is opened. This study intends to assess the state of current business relations and the relations which may be established in the future making proposals to improve the new cooperation. But in order to make how the trade is operated and its difficulties it suffer from visible the closed border issue must be examined.

Only the import of Turkey from Armenia was limited, the goods made in Armenia were forbidden to enter through Turkey border and an economic embargo on Armenia was imposed after the border was closed.

The Armenian economy comprehensively and the eastern provinces of Turkey were partly affected because of it. Armenia could adapt herself to the situation to develop against the closed borders. The closed borders increase the transportation costs and reduce the trade and profit. The transportation cost increases by 10% and delivery time increases by 2 days as the Turkish-Armenian trade is done via Georgia. The transportation costs will be reduced by 30-35% for Armenia if the border to Turkey is opened.

Various studies, which attributed the commercial cooperation to the political interests, have asked so far “does Turkey need the trade with Armenia?” and avoided the idea that the punishment of Armenia would mean to punish the eastern cities of Turkey saying ***“Armenian will relieve both economically and politically if the borders are opened. In other words the borders have transformed into a big card for Turkey. Turkey***

may lose this card if she opens the border before Armenia abandons her demands.”

16

The economy of Kars and Iğdır may flourish if the trade volume gets bigger and the borders are opened under the favorable conditions. Other big companies already have been going on trading with Armenia over Georgia. For a company from Istanbul, which sells the goods to Armenia, it is easier to go to Armenia over Black Sea and via Georgia than going there via Kars. The Armenian road will be shortened for the Armenian traders who may come to Turkey and businessmen in the eastern cities of Turkey.

The former mayor of Kars, Mr. Naif Alibeyoğlu, was one of the persons to have advocated opening the border. The Turkish businessmen of the Eastern cities collected 100 thousand signatures to open the border in 1996 and sent them to Necmettin Erbakan, then the Prime-Minister. In 1998 the members of the Kars Chamber of Industry and Businessmen paid a visit to Armenia interviewing with the President Levon Ter-Petrossian and the Prime-Minister Robert Kocharian. The local lobby activities were used as an instrument to pressurize the governments to open the borders between Turkey and Armenia.

Armenia is accessible via the long routes of the world as her eastern and western borders are closed and she has no connection via seas. Therefore transportation between Turkey and Armenia is provided via Georgia and Iran. But these two destinations cannot offer the advantages which Turkey may offer when the Turkish territory is used. These destinations increase the transportation costs by 23%, also rising the prices of commodities.

The normalization of the commercial relations (that is to be able to export and import mutually) will bring great economic yields especially to Armenia and regionally to Turkey even if the border is not opened.

Indeed the business connections since 1991 have been providing the impulse which is needed for reconciliation. A group of the Armenian Diaspora and İshak Alaton, a Jewish origin-Turkish businessman, took the first step to overcome the languishment in this

¹⁶ Cavid Veliyev- Sınırlar ve Ticaret, <http://www.turksam.org/tr/a1841.html>

issue with a project to renew the Trabzon Port in the Black Sea (which was never completed), which eventually open a new road to Yerevan.¹⁷

During the visit of Gül it was agreed on principle that Armenia would sell electricity to Turkey.¹⁸ If the Turkish companies involve in constructing the nuclear power plants in Armenia this will bring down the cost and support the cooperation.¹⁹

Today about 20 companies established jointly by the Turkish and Armenian businessmen operate. They can trade via Georgia and Iran despite it is the indirect way. The amount of trade volume between Turkey and Armenia was 30 million USD in 1997. It rose at least by 120 million USD in 2007.²⁰ Today it is known that this figure is 200 million USD though the borders are closed.

According the data provided by the TSI Turkey imported the most to Germany, a volume of 11.453.464.000 \$. 200 million USD may seem trivial when compared with that of figure but it may be understood the profitableness of the trade with Armenia better when the import of the Eastern provinces of Turkey is considered.

¹⁷ This project fizzled out because of the defensive and nationalist attitude in Ankara and Media despite they assumed that they had political support at the official level. "The leaders met all of us and approved the project. But later they were afraid of the press and lied... Only on 29 February 1992 thirteen papers and 27 stories attacked on me. Something like that cannot be witnessed today". Ishak Alaton, his interview to the Crisis Group, Istanbul, 25 February 2009.

¹⁸ During the visit of the President Gül to Yerevan the Turkish company Unit Group, whose home office is in Brussels, signed a memorandum of understanding so that Turkey would buy electricity from Armenia. But it is unknown when it will begin because of the political problems, permissions and other technical details to be completed. An interview to the Crisis Group by phone, an executive from the Unit Group, Istanbul, 29 March 2009. Armen Movsisian, the Energy Minister of Armenia, stated "as soon as possible" that they hoped to sell 1.5 billion kw/hour electric per year. "Armenia Report", Radio Free Europe/Radio Liberty (REF/RL), 20 March 2009.

¹⁹ The Prime Minister Sarkissian explained that a Turkish company may participate in a 5 billion USD tender in principal. Ibidem.

²⁰ An Armenian official's interview to the Crisis Group, New York, February 2009. The International Monetary Fund estimates that the bilateral trade in 2005 is lower amounting to 54 million Euros (65 million USD), 96 per cent of which is Turkey's export to Armenia.

Export Volume of Eastern Provinces

- **308.794 \$ Hakkari**
- **236.000 \$ Kars**
- **221.155 \$ Malatya**
- **79.642 \$ Iğdır**

Source: TSI 2010

The trade relations to be improved with Armenia will accelerate the business for the small-scaled companies. The economy of Kars, Iğdır, Trabzon and Erzurum where the population density of the Turkish merchants is low will be developed.²¹

Only thing what to do under current condition will be to look for a way to contribute to strengthening trade. Though almost all the business circles and businessmen in Armenia have information on current political and economic situation exported and imported goods of Turkey it is not possible to say the same thing for Turkey. The Turkish investors and suppliers have too few information, some of which sometimes may be wrong. Therefore it is essential to try to find possible partner by carrying out the promotional activities and organizing the fairs.

The second important point is that the absence of an official authority called “trade consultancy”, which came up very clearly during this study. A Turkish-Armenian Business Development Office must be set up to inform the businessmen in both countries until the diplomatic relations are established. Thus the businessmen may get assistance for the issues such as sectors, partners, advice for what the goods may be sold or bought, transport and legal consultancy.

²¹ The transport for increases the costs of local goods by 50 per cent for Armenia, which rises the additional costs twice under normal conditions. About 30 companies in the Trabzon Free Trade Zone sent a letter to the Turkish Foreign Ministry complaining about the “unreasonable toll” charged by Georgia. See Burcu Gültekin “The Stakes of Opening the Turkish Armenian Border”, *ibidem*.

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