

Taking the reins: Possible effects of opening the Armenian-Turkish border and its impact on European integration of Armenia

by Simon Schmidt
International Center for Human Development

Turkey's Trade Policy towards Europe, the South Caucasus and Armenia

by Aybars Görgülü,
Jonathan Levack and
Gökçe Perçinoğlu
TESEV



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Contents

Taking the reins: Possible effects of opening the Armenian-Turkish border and its impact on European integration of Armenia.....	3
Introduction	3
Methodology.....	4
I. Economic ties with the EU	5
II. Armenian trade and transportation	9
III. Armenian-Turkish economic relations and opportunities.....	12
Turkey's Trade Policy towards Europe, the South Caucasus and Armenia	19
Abstract.....	19
Introduction	19
I. The Customs Union.....	21
II. Free Trade Agreements: The Georgian Case	25
III. Armenia-Turkey Relations	27
Joint Conclusions of ICHD and TESEV	30
References ICHD.....	31
References TESEV	34

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Introduction

In 2004, the European Union (EU) began to shift its focus in foreign policy towards its neighbours in the East. Not only did eight Eastern European countries join the EU, but also the political union developed the European Neighbourhood Policy (ENP), which targets the countries at the border of the newly enlarged EU. As a key principle, this plan involves a deeper economic integration to achieve prosperity and stability in the participating countries.¹ Another EU initiative involving the Caucasus area, specifically Armenia, Georgia and Azerbaijan, is the Eastern Partnership (EaP), which is a multilateral co-operation initiative, embedded in the ENP.²

It leaves out Turkey, as Brussels and Ankara have opened talks about Turkey's application to accede to the European Union since the late 1980s. Being considered a strategic ally to the EU, Turkey was included into the **European Union Customs Union (CU)** in 1996.³ This agreement shows Turkey's special status in terms of the EU enlargement policy. But its role as a bridgehead for trade has yet not reached out towards its neighbour Armenia.

In 1993 Turkey closed its border with Armenia as a response to the Nagorno-Karabakh conflict, to show support for Azerbaijan. Even though relations between the two countries have recently improved, official trade still does not exist.

However, the latest efforts of rapprochement legitimate a discussion on a re-opened border. Both countries have undergone a comparable path to achieve economic prosperity by emphasizing European integration. Direct trade between Ar-

1 European Commission (2011), http://ec.europa.eu/world/enp/policy_en.htm (accessed 3 Nov. 2011).

2 European Union External Action (2011), http://www.eeas.europa.eu/eastern/index_en.htm (accessed 3 Nov. 2011).

3 European Commission (2011a), http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/customs_unions/article_414_en.htm (accessed 3 Nov. 2011).

menia and Turkey might therefore be of mutual interest. This research attempts to analyse the economic benefits of an open border with Turkey for Armenia, as well as possibly stronger prospect of European integration. By taking into account the estimated benefits, risks and limitations of an open-border, we can then draw conclusions on possible measures that would support opening of the border.

Since this paper aims to put opening of the border into the larger context European integration, we first analyse the existing economic cooperation between Armenia and the EU. We hereby examine the reform progress recorded in the ENP Action Plan and the outcome of the established trade relations between the EU and Armenia, based on the available economic data. Second, Armenia's overall trade situation will be taken into account. The focus of Chapter Two is the trade regime in Armenia, its most important economic partners and the current state of transportation from and to Armenia. Chapter Three summarizes the current Armenian-Turkish trade relations, and discusses several expected effects of an open border for Armenia. This projection is followed by an overview of potential risks and limitations that can accompany the border opening.

Methodology

To review the current state of affairs and to be able to realistically project some economic benefits an open border with Turkey may provide to Armenia, in addition to the positive impact it may have on the process of European integration, we have conducted a desk review of relevant documents, such as ENP progress reports. Additionally, we have looked into available data from previous research. Admittedly, this study reveals the major limitation of a desk review, specifically the chance of outdated data by the time of publication of the paper. However, since no previous attempt is known to discuss the impact of an open border within the context of European integration, we believe the study is still robust enough to trigger a new thematic discourse.

I. Economic ties with the EU

The ENP and Armenia

The first relations between the European Commission and Armenia were established in 1996 through a Partnership and Cooperation agreement. Regarding the ENP, the Action Plan for Armenia was created in 2006 after negotiations between Armenia and the EU and ran for five years. The implementation of the ENP is ought to result in a high level of integration for Armenia by granting the country the possibility to participate in key aspects of EU policies. In economic terms, investment and growth shall be stimulated.¹ The ENP includes eight priority areas:²

- Strengthening democratic structures;
- Strengthening human rights;
- Encouraging further economic development;
- Improving investment climate;
- Converging economic legislation and administrative practices;
- Developing an energy strategy;
- Contributing to a peaceful solution to the Nagorno-Karabakh conflict;
- Enhancing efforts in regional cooperation.

The ENP therefore covers a broad range of European integration issues. It is pointed out that Armenia is ought to commit to common values rooted in European principles. Second, legislation, norms and standards of Armenia shall be approximated to the EU framework. From an economic perspective, many reforms are undertaken to approximate Armenian business environment to EU standards.

Concrete actions to enhance trade between the EU and Armenia include, for instance, the establishment of EU-Armenia bilateral trade agreements, the harmonization and facilitation of custom legislation and cooperation regarding the defi-

1 European Commission (2011), p.2 f.

2 ibid

dition of standards for certification of importers, exporters and transporters.

In general, the European Commission assesses Armenia's performance on implementing ENP reforms to be positive. Economically, progress has been recorded regarding the development of customs administration, improvement of Armenia's business climate and implementation of laws reducing technical barriers. However, several reform processes are still ongoing, or have been slowed down during the financial crisis in 2009.¹ Moreover, it is pointed out that more efforts need to be undertaken to sign a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. Especially quality control mechanisms and institutions, which are comparable with EU standards, need to be established.²

To measure the impact ENP actions and reforms on the Armenian economy, we are going to investigate several areas of interest. First, we look at the **2006-2010 trade flows between the EU and Armenia**.

Figure 1. Armenian trade with the EU 2006-2010 in mill. Euro³

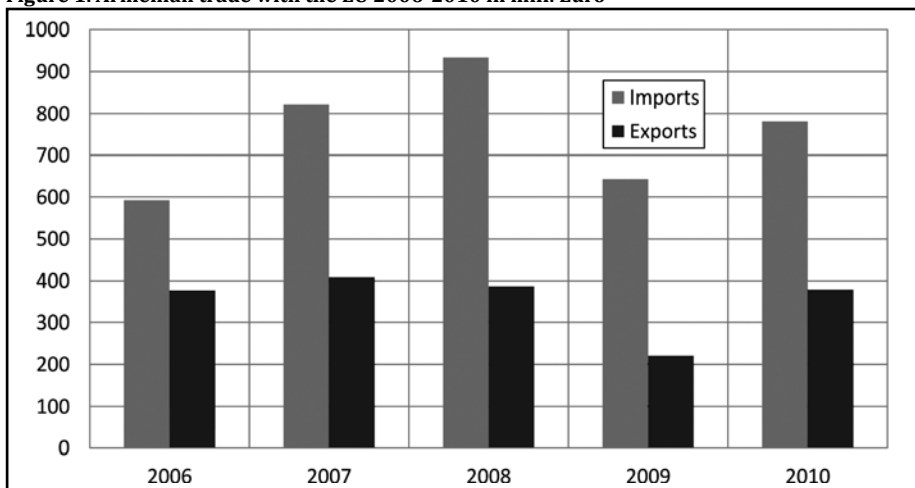


Figure 1 shows an overall increase of the Armenian imports (on average 7.2% annual growth). Exports to Europe however increased on average by only 0.1%. The 2008 financial crisis affected the Armenian economy by reducing both imports

1 European Commission (2011), p. 2 ff.

2 Khachatryan, H. (2011), <http://www.easternpartnership.org/community/debate/dcfta-between-eu-and-armenia-expectations-and-implications>

3 Directorate General for Trade of the European Commission (2011), p. 8

and exports in the following year.¹ One can therefore see that Armenia's trade deficit has been increased by the higher share of European imports. By taking a look at the trade composition, it becomes obvious that the EU27 mainly sold machinery and transport equipment (33.7% of Armenian imports in 2010) and several types of manufactured goods (34.6%) to Armenia. In contrast, Armenia's exports consisted mainly of base metals and derivatives (64.3% of Armenian exports in 2010).² The most important export countries for Armenia in the EU have been Bulgaria (15.2% of overall export) and Germany (14.2%). Overall, the EU represents Armenia's most important trade partner (2010: EU import 27.4%; EU export 49.6%).

To gain a more detailed view on Armenia's economy, we further look at the Foreign Direct Investments (FDI) during the last years. In 2009, FDI inflow worth of \$770 million has been reported. In 2008 Armenia's FDI stock increased from 29.6% to 41.6%. Despite this augmentation, other comparable countries, like Georgia and Kazakhstan, show a higher FDI stock. Among the five top investing countries in Armenia, three EU countries can be found.³

Table 1. 2009 FDI distribution in Armenia by origin⁴

Country	Share in total FDI 2009 (%)	FDI 2009 (in mill. USD)
Russia	53	384
France	27	197
Argentina	7	48
Italy	5	33
Germany	3	19

The major proportion of FDI is located in the communication sector (20.9%) and the production of electricity (29.1%).⁵ Even though the European engagement in the Armenian market is noticeable, one can see that it is mostly the sectors relevant to infrastructure development are affected and not knowledge-intensive industries that are able to increase overall competitiveness in the country. Georgia, a participating country in the ENP, attracted the biggest FDI share in the industry sector (\$229 Mil.).⁶

¹ The 2008 financial crisis created lagged impact on the Armenian economy in 2009

² Directorate General for Trade of the European Commission (2011), p. 8

³ Economy and Values Research Center (2010), p. 15

⁴ Directorate General for Trade of the European Commission (2011), p. 8

⁵ Economy and Values Research Center (2010), p. 15

⁶ U.S. Department of State (2011), <http://www.state.gov/r/pa/ei/bgn/5253.htm>(accessed 3 Nov. 2011).

As to the **GDP growth**, Armenia showed strong growth rates before the impact of the financial crisis in 2009 (2007:13.7%, 2008: 6.9%), during which its economy contracted by 14.2%. In 2010, the economy entered into a phase of a slight recovery, achieving a GDP growth of 1%.¹ **GDP per capita (PPP)** reached \$5.700 in 2010, hereby regaining the level of 2006. After its climax in 2008, in which PPP marked 6.300\$, the financial crisis resulted in a drop to \$5.500 in 2009.

Impact on the EU

When summarizing these data, one can conclude that the European countries have intensified their presence in the Armenian market and were able to conduct better business in this South Caucasian country, than before the launch of the ENP. Institutional reforms in Armenia and the commenced adoption of EU regulatory standards eased market entrance for European companies. Due to higher levels of exports, the EU's trade balance towards Armenia increased, resulting in a dominant trade position, exceeding Russia's. From a geopolitical perspective, the EU was able to increase its influence on the Caucasian area near the borders of Russia and Iran. This is mostly due to the increased economic dependency, a result of a higher European share of Armenia's trade balance and the granted economic aid.

Impact on Armenia

Armenia itself was able to go through several years of strong growth, which was also due to an intensified economic cooperation with the EU. The South Caucasian country was able to largely reduce its economic isolation and receive important EU financial assistance.² Fundamental economic and social reforms were being implemented until the country got severely hit by the financial crisis, which slowed down the reform process and contracted the Armenian economy. Overall, the commenced process of trade and customs facilitation included in the ENP has not been striking enough, in order to augment Armenia's exports perceivably. It can be detected that Armenia's exports to the EU increased only slightly during the implementation of both ENP and EaP.

The next chapter analyses the state of Armenia's trade and transportation in general, and examines its trade relations with other countries.

1 World Bank Data

2 Navasardian, B. (2011), p. 65

II. Armenian trade and transportation

Trade regime

Armenia is a WTO (World Trade Organization) member since 2002. It therefore has a liberal foreign trade regime with two import tariffs (0 per cent and 10 per cent), no taxes on export and no considerable quantitative restrictions.¹ Looking at the trade development since 2002, a strong export increase can be detected, which is largely connected to the tariff facilitation granted by the WTO membership. From 2002 to 2003, Armenian exports augmented by nearly 36%.²

Table 2 Armenia's trade development since WTO accession (in mill. Euro)²

	Import	Export	Import change	Export change
2002	710.784	363.672		
2003	921.240	493.632	29.61%	35.74%
2004	972.504	520.488	5.56%	5.44%
2005	1297.224	701.208	33.39%	34.72%
2006	1577.952	709.272	21.64%	1.15%
2007	2352.816	829.656	49.11%	16.97%
2008	3186.792	761.184	35.45%	-8.25%
2009	2391.192	511.344	-24.97%	-32.82%
2010	2699.208	749.592	12.88%	46.59%

Another noteworthy measurement to foster trade facilitation is the general arrangement of the EU Generalised System of Preferences (GSP) from which Armenia benefited from 2006 to 2008. It provided preferential access to the EU market in the form of zero duties on 3.300 products and reduced tariffs for other 3.900 goods. Since 2009, Armenia is participating in the special incentive arrangement for sustainable development and good governance (GSP+). This allows Armenia to export 7.200 products to the EU without any customs duties.³

However, in Chapter One we showed that European imports from Armenia remained at a consistent level, despite the implementation of GSP+. Table 2 also illustrates that the customs facilitation since 2006 did not increase Armenian exports as significantly as the WTO accession. In addition, Armenia has FTAs with most CIS countries, e.g. Russia, Ukraine, Belarus, Kazakhstan, Kyrgyzstan, Mol-

1 ICHD; AREAT; SRI (2003), p. 47

2 National Statistical Service of the Republic of Armenia

3 Delegation of the European Union to Armenia (2011), http://eeas.europa.eu/delegations/armenia/eu_armenia/trade_relation/pref_reg_gsp/index_en.htm (accessed 3 Nov. 2011).

dova and Tajikistan.¹

Trade partners

Next to the EU, Russia is Armenia's main trading partner. 22.1% of imports and 15.9% of exports are from and to Russia.² Economic ties with Russia are especially close in the energy sector. The Russian company Gazprom supplies Armenia with gas through a pipeline running through Georgia. In 2008, Armenia imported 2.2 billion cubic meters of natural gas from Russia.³ Overall, 80% of Armenia's energy system is rated to be under Russian control.⁴ After the EU and Russia, the United States is the third most important export partner, and China is the second in imports, following Russia.⁵

In 2010, the volume of bilateral trade with Iran was about \$283 million. However, Iranian imports exceed exports from Armenia to a large extent (imports: \$228 Mill. exports: \$55 Mill.).⁶ The number of Iranian tourists has risen in recent years, with estimated 80,000 Iranian tourists in 2010.⁷ The land connection with Iran is the second transport corridor for Armenia, next to Georgia, which enables direct Armenian-Iranian trade without transit. Georgia only represents about 2.2% of Armenia's external trade. Bordering with Turkey and Azerbaijan limits Armenia's trade with North-Eastern Iran, since the quickest route to major centres in Iran (e.g., Tabriz) passes through the Turkish and Azeri (Nakhichevan) territories.⁸ Transportation through Georgia is Armenia's most important transit route, since trade to the EU is conducted via Georgian ports. For this reason, we will examine the transportation through Armenia's northern neighbour in detail.

Transportation through Georgia

The closed western border of Armenia does not only keep the Turkish market away from Armenian businesses, but also compels them to transfer all the goods to Europe via Georgia and load the cargo on the ships sailing across the Black Sea. The mere transport costs when shipping goods through Georgia to Europe are much more expensive, than using Mediterranean ports or the Turkish counter-

1 Danielyan, E. (2011), <http://www.azatutyun.am/content/article/24372337.html> (accessed 3 Nov. 2011).

2 Directorate General for Trade of the European Commission (2011), p. 6

3 Interfax-Ukraine (2009), <http://www.interfax.com.ua/eng/main/28443> (accessed 3 Nov. 2011).

4 Grigoryan, M. (2008), <http://www.eurasianet.org/departments/insight/articles/eav101708.shtml> (accessed 3 Nov. 2011).

5 Directorate General for Trade of the European Commission (2011), p. 6

6 *ibid*

7 Mkrtychyan, G. (2010), http://www.armenianow.com/economy/25912/armenia_tourism_statistics (accessed 3 Nov. 2011).

8 Tocci, N. et al (2007), p. 10

part Trabzon in the Black Sea.

The first major reason for the expensive cost of shipping to Europe is the land transport from Armenia to Georgian ports, due to the country's landlocked geographical situation and the long distance. From an economic point of view, railway transportation to the Georgian ports would be the most logical solution. However, most transportation is conducted via road, because of time efficiency and reliability.¹

Second, shipping Armenian goods from the Georgian ports Poti and Batumi is a big cost factor, especially in comparison with Turkish ports, like Trabzon and the ones in the Mediterranean Sea, which are able to ship a higher capacity. Ports in the Mediterranean are also able to ship ocean container carriers.² Therefore, for Armenian businesses the long transportation road to Georgia and the shipping route across the Black Sea mean a loss in competitiveness and an obstacle for trade with the EU.

Table 3 compares the liner shipping connectivity between Georgia and Turkey. This index includes factors such as container carrying capacity and average vessel size. It, therefore, reflects the overall capacity of the country's ports and its connection to world trade, hereby representing an indicator for trade revenue.

Table 3. Liner shipping connectivity index, annual 2004-2011³ (index points)

	2004	2005	2006	2007	2008	2009	2010	Average annual growth 2004 – 2010	Growth 2010 / 2009	Rank 2010
Georgia	3.46	3.81	2.94	3.22	4.03	3.83	4.02	0.09	0.19	134
Turkey	25.60	27.09	27.09	32.60	35.64	31.98	36.10	1.75	4.12	29

Measure: Index (Maximum 2004=100)

One can see that Turkish ports and vessels can hold a much higher capacity, than their Georgian counterparts. Certainly, it has to be considered that the Istanbul port is included in this index. However, Turkish ports still outrank their Georgian counterparts in terms of connection to world trade. Non-tariff barriers resulting from unofficial payments are also considered to be high for Armenian shippers in Georgia.⁴ Armenian businesses are struggling to address this issue, due to their dependency on Georgian transportation. Georgia remains the only gateway

1 ICHD; AREAT; SRI (2003), p. 143

2 CSERA (2009), p. 89

3 UNCTADstat

4 World Bank (2002), p. 88

for goods entering and leaving Armenia to the west. As a result, Georgia has a great interest in keeping the current situation, which grants the country a stable trade income and lifts up its geopolitical significance. Armenia therefore relies on one single neighbour to reach its European trading partners, which is a delicate agreement that can have a major economic impact in case of unexpected political changes in Georgia.

Conclusion

Summarizing the discussion in Chapter One and Two, it can be said that Armenian foreign trade has undergone several framework changes. Armenia's accession to the WTO meant a strong increase in trade, due to an easier market access for Armenia's transitional economy. The enforced process of economic integration as part of the larger process of European integration of the country since 2006 made the EU one of Armenia's most important trading partners, and fostered the development of institutional reforms. Customs facilitation was also enhanced, due to the application of the GSP+ agreement for the South Caucasian country. However, the unfavourable transportation state Armenia is currently facing leads to a lost trade potential, especially in terms of exports to the EU. The closed border with 50% of Armenia's direct neighbours also limits regional integration and hinders trade relations with Turkey. The next chapter provides an analysis of current Armenian-Turkish economic relations and prospective opportunities.

III. Armenian-Turkish economic relations and opportunities

Status quo

The 325km land border between Turkey and Armenia has been closed since 1993. There are two main crossing points: the rail link between Kars and Gyumri and the Markara/Alican road bridge over the wide Araxes River near Yerevan. Turkey stopped the service on 3 April 1993 as part of sanctions when the Nagorno-Karabakh War broke out.¹ Yet, there is recorded trade between the two countries which is conducted mostly via Georgia. Turkish exports to Armenia are worth about \$200 Mill, whereas Turkish imports from Armenia comprise only \$1.2 mill. as of 2010.² Thus, Turkish businesses operating in Armenia largely outweigh their Armenian counterparts. Despite this fact, Turkish businesses face also obstacles because of inefficient border crossings and an un-

1 CSERA (2009), p. 67

2 Directorate General for Trade of the European Commission (2011), p. 6

derdeveloped transport system.¹ The current status of trading can therefore be described as inefficient both for Armenia and Turkey. An open border is economically a logical step to initiate a new level of trade between these countries.

Effects of an open border on Armenia

Further we discuss six potential effects, which an open Armenian-Turkish border may have on Armenian businesses and the overall economy of the country:

1. Improved access to European and Middle Eastern markets and higher trade income

Direct trade with Turkey would offer Armenia significant benefits, especially in terms of market access. By being granted a chance to transport goods via its western neighbour, Armenian businesses will first profit from the access to the promising Turkish port Trabzon and to several Mediterranean ones.² We demonstrated the comparative advantage of Turkish ports compared to their Georgian counterparts in Chapter One. Armenian businesses could therefore first improve their marginal return in terms of European trade routes, and second, be able to serve economies in the Mediterranean Sea, which reaches from Israel to Italy. Such a scenario will certainly be more efficient, than the current situation. Moreover, since most Armenian goods leave the country's capital Yerevan, which is near the Turkish border, the decreased geographical distance in comparison to Georgian ports opens up even more possibilities for increasing the trade income.

2. Business opportunities in Turkey

Next, an open border can offer opportunities regarding economic partners overseas: Armenian companies can conduct business directly in Turkey. Eastern Turkish provinces at the border with Armenia hold huge trade possibilities in particular. It can be argued that the provinces of Kars and Iğdir are underdeveloped and far away from any noticeable domestic metropolitan areas. The proximity to Yerevan offers Armenian businesses the chance to reach out for new opportunities in their immediate surrounding area. As an example, Armenian companies could be able to export basic household goods e.g. food, beverages. Furthermore, the Armenian construction materials sector can expand its business to its neighbour, hereby enhancing regional development and infrastructure improvement.

1 Atli, A. (2006), <http://www.eurasianet.org/departments/business/articles/eav020806.shtml> (accessed 3 Nov. 2011).

2 Narmania, D.; Grigoryan, S. (2010), p. 53

3. *Reduced dependency and costs regarding Georgian transit*

An open border with Turkey can grant Armenia another possibility to integrate with the western transportation arteries, in addition to the existing routes via Georgia. Armenian businesses will become less dependent on the northern Georgian transit and can therefore decrease the risk of trade failures. The Georgian monopoly in transportation of Armenian goods will also end. This can lead towards lower costs for businesses conducting their transportation via Georgia. In return, prices for Armenian export commodities will drop, which will boost Armenian competitiveness. As currently approximately 70% of all Armenian trading goods are sent via Georgia, a change in this trade regime can have a considerable impact on Armenian businesses.¹ Armenian exports currently concentrate on light and high-value products such as diamonds, jewellery and information technology, since transportation costs are marginal within overall expenditures.²

It can be argued that it is especially the EU trade that will be simplified and enhanced, when transport costs considerably drop.³ We offer projections of transportation cost savings for Armenian companies in case of a border opening, and it is based on the findings of an AEPLAC study. It is argued there that due to transport via Georgia, 20-25% of costs are added to the nominal value of Armenian goods.⁴ We use this as a basis for projecting the prospective transport costs via Turkey. In 2009, Armenia exported goods worth of \$698 million. 70% of this export value was conducted via Georgia. By applying the assumption that 25% of the export value has been added because of transportation, the overall transportation costs comprise \$122 million. To come up with prospective transport costs, we argue that the overall costs can be correlated with the distance between Yerevan and the Georgian port Poti. Deriving from this estimation, we calculate annual transportation costs per km (23.933 \$/km). Since the distance from Armenia's capital to the Turkish port Trabzon is shorter, the projected transport costs are expected to be \$85.8 million. In conclusion, annual savings in transport cost are about 29.7%.

4. *Increased tourism and people to people movement*

An open border can also enhance people to people movement between Armenia and Turkey, which will boost the local tourism market. Armenians interested in historical sites located in the border area would have the chance to visit places

1 Bishku, M. (2011), <http://www.gloria-center.org/2011/08/the-south-caucasus-republics-and-russia%E2%80%99s-growing-influence-balancing-on-a-tightrope/> (accessed 3 Nov. 2011).

2 World Bank (2002a), p. 12

3 CSERA (2009), p. 89

4 AEPLAC (2005), p. 4

like Ani or Kars. Also, travelling for international tourists can get easier and will lead to a higher frequency of tourists travelling from Armenia to Turkey and vice versa. It is expected that many international tourists who travel to Turkey would also use the opportunity to visit Armenia after the border is opened.¹ This can increase the number of new companies aiming to participate in the tourism market in the South Caucasus.²

5. *Increased expectations on further EU support*

Via the ENP, Armenia will be receiving financial assistance as long as the country meets the conditions expressed in the Action Plan for Armenia. One priority area of the Action Plan, which is monitored by the European Commission, is “Enhanced efforts in the field of regional cooperation”.³ An open border with Turkey can surely be seen as an important event towards a cooperative cross-border engagement and can result in an increase in financial assistance in the medium-term.

6. *Opportunity to create a “New Silk Road”*

The creation of a “New Silk Road” is especially interesting to examine. In ancient and medieval times trading routes from China to Europe across the Caucasus transported spices, textiles, glassware and other goods, and today, Armenia holds the opportunity to reopen a major trading route connecting the East and West. Looking at the Armenian exports portfolio, one can see that Armenia holds a comparative advantage in trading in jewellery, precious metals and collectibles industry. Competitive wage rates, tax privileges and skilful labours resulted in a world export share of 0.14% in this sector in 2008, in comparison to Armenia’s total world export share of 0.0073%.^{4 5} In the near future, an open border with Turkey can stimulate appearance of new markets for the Armenian mining industry and ease trade connections. A further political cooperation in the Caucasus, which can result in an open border with Azerbaijan in the long-run, may eventually facilitate the export of Armenian mining goods to Central Asian countries. The geographical situation of Armenia is clearly unfavourable in economic terms, due to its landlocked situation. However, bordering with several countries and being located in the centre of the Caucasus, hereby connecting Europe and Asia, Armenia can function as an important gateway for land transport. Political rapprochement surely is a basic requirement. An open border with Turkey can mark

1 Khojoyan, S. (2009), http://www.armenianow.com/news/10692/travel_and_turkey_open_border_expe (accessed 3 Nov. 2011).

2 *ibid*

3 European Commission (2011), p. 8

4 Economy and Values Research Center (2010), p. 26

5 American Chamber of Commerce in Armenia (2011), <http://www.amcham.am/index.cfm?objectid=D991AC30-412D-11DE-90400003FF3452C2> (accessed 3 Nov. 2011).

a first big step.

Risks and limitations

1. *Limited customs facilitation between the EU and Armenia*

Armenia will be granted the tariff quotas included in the Customs Union (CU) agreement when trading with Turkey. However, regarding the EU trade the benefits for Armenian companies will probably be minimal. Armenia is already profiting from the GSP+ agreement, which is in force since 2009.¹ Due to this agreement and Armenia's membership to the WTO, there are currently no trade protection measures against imports from Armenia regarding the EU and other WTO countries. A prospective trade facilitation between the EU and Armenia, e.g. by the usage of the third-country tariffs included in the CU with Turkey, therefore cannot be considered to have a perceptible effect on Armenian exports.

2. *Technical barriers in Armenia*

For a stable long-term economic benefit especially regarding the EU trade relations, several other steps need to be undertaken. The financial assistance Armenia is receiving has already been mentioned. Furthermore, technical barriers need to be tackled, so that competitiveness of Armenian goods can be promoted. It is necessary to align Armenian and European standards, especially in regards to product quality.² We pointed out that the need for these reforms is also included in the ENP Action Plan for Armenia. Cost of compliance with EU technical barriers, which mainly arises from the fact that Armenia lacks institutes of certification, must be removed to promote higher trade revenues in the long-run. An open border can only set the groundwork for a stronger alignment towards EU regulations due to a higher trade volume of basic goods and expected fulfilment of requirements included in the ENP action plan.

3. *Societal challenges due to labour migration*

A stronger people to people movement can also lead towards considerable migration flows between the two countries. Regarding Armenia's population of about 3.26 Million people and an official unemployment rate of 27.5%, a high labour migration from Turkey might cause challenges for the small country.³ Citizens from

1 Delegation of the European Union to Armenia (2011), http://ceas.europa.eu/delegations/armenia/eu_armenia/trade_relation/pref_reg_gsp/index_en.htm (accessed 3 Nov. 2011).

2 Maliszewska, M. et al (2008), p. 34

3 Research performed according to International Labor Organization standards argues that real unemployment

the Eastern provinces, in which unemployment rate is considered to be about 17%, can try to find labour in their neighbouring country.¹ It is questionable how well the Armenian economy, which is still trying to overcome the shocks of the financial crisis, can cope with a high level of labour migration. Also, the Armenian institutional framework dealing with a high number of foreign labour migrants might be challenged. Furthermore, the issue of illegal migration and human trafficking might arise in case of an open-border.

4. Non-tariff/non-official trade barriers

Without institutional preparedness regarding cross-border trade, non-tariff barriers such as unofficial payments, inefficient customs administration, weak rights enforcement and more are likely to arise. These non-official barriers decrease the potential benefit of an open border. It is therefore necessary to develop plans on how to carry out institutional reforms aiming to secure a profitable and efficient trade flow. It can be argued that these reforms need to be established before a border opening is accomplished, so that they function as a precondition. In the current trade situation between Georgia and Armenia, non-official payments account for 22 to 25% of transportation costs via road transit.² Armenia's trade experiences with its northern neighbour should therefore be regarded as a useful lesson.

accounts to 27.5%, <http://www.panarmenian.net/eng/society/news/41088> (accessed 3 Nov. 2011).

1 Worldbulletin (2011), <http://www.worldbulletin.net/?aType=haber&ArticleID=75491> (accessed 3 Nov. 2011).

2 Narmania, D.; Grigoryan, S. (2010), p. 31

Turkey's Trade Policy towards Europe, the South Caucasus and Armenia

Abstract

This paper was prepared for an ICHD conference entitled Eastern Partnership: National & European Dynamics. In preparation for this conference, TESEV was asked to draw on Turkey's recent trade policy with Europe and its neighbourhood to see if lessons could be drawn to encourage progress, however small, on the issue of relations between Turkey and Armenia. In doing so, the paper looks specifically at Turkey's trade relationship with the European Union, Georgia and Armenia. In cooperation with ICHD, it then looks to identify areas where steps can be taken.

Introduction

The subject of relations with Armenia has largely been off the agenda in Turkey of late.¹ Surrounded by the events of the so-called Arab Spring and with domestic challenges to juggle, including elections, the priming of a new constitution and rising terrorism, Armenia has slipped down Turkey's pile of issues to be resolved. Indeed, since the collapse of the protocols in 2010, there seems little appetite to revisit the issue of relations with Armenia anytime soon.

The now infamous protocols were successful in terms of promoting official dialogue after two decades of very limited diplomatic communication between Armenia and Turkey. Yet the Nagorno-Karabakh conflict blocked the normalization process since the early 1990s and remains a central obstacle for opening the border and establishing diplomatic relations.

¹ For a more comprehensive view of the latest developments in Armenia-Turkey relations, please see:

- a) A. Görgülü, S. Gündoğar, A. Iskandaryan, S. Minasyan "Turkey-Armenia Dialogue Series: Breaking the Vicious Circle". TESEV Foreign Policy Analysis Series. Istanbul: TESEV Publications, 2009.
- b) A. Görgülü, A. Iskandaryan, S. Minasyan, "Turkey-Armenia Dialogue Series: Assessing the rapprochement process". TESEV Foreign Policy Analysis Series, Istanbul: *TESEV Publications*, 2010.

Clearly, bilateral trade with Armenia is hindered by the closed border and a failed political rapprochement process. The opening of the land border is certainly a good cause which will increase prosperity especially in the border cities of Armenia and Turkey. Currently, the limited commercial activity between the two countries is done via Georgia and Iran and the last closed land border of Europe continues to exist despite all the diplomatic and political efforts. However, the impasse in bilateral relations has created its own interest groups in the past 20 years and it seems that both sides have become used to the negative consequences of the closed border.

However, this should not mean that the issue should cease to be explored. Acknowledging the breakdown in the political process, this paper explores another area where progress might be made. The paper assesses Turkey's experience of trade integration with Europe and its surrounding region and how this might be drawn upon to promote trade between Armenia and Turkey. It will also look to assess what impact an open border might have on bilateral trade from a Turkish perspective.

Before getting into the details of the current state of economic and political affairs between Armenia and Turkey, the paper will touch upon briefly Turkey's long standing European goal and how this relates to bilateral relations. While negotiations to join the European Union (EU) currently seem somewhat stagnant, it's important to remember that Turkey has a rather unique relationship with the EU. Turkey is - and has been - the only country negotiating to join the European Union that has already entered into a Customs Union (CU) with it.¹

Whereas negotiations to join the EU were officially opened in 2005, the decision to join the CU with the EU was signed in 1995, entering into force in 1996. The CU between Brussels and Ankara introduced liberalised trade in manufactured goods between Turkey and the EU as well as resulting in Turkey adopting much of the EU's common trade policy. As will be argued, it has been successful in increasing trade, making Turkey a more attractive destination for foreign direct investment as well as increasing Turkey's global competitiveness.

However, Turkey's trade policy is not limited to a CU with the EU. As part of a concerted effort to increase Turkey's trade volume, the government has looked to eradicate barriers to trade. In exploring these efforts, this paper will also focus on Turkey's Free Trade Agreement (FTA) with Georgia – given its proximity to Armenia and importance for bilateral trade between Armenia and Turkey.

¹ The only other non-member countries that are part of the Customs Union are Andorra, Monaco and San Marino.

As we discuss, the FTA has increased economic cooperation and trade tremendously but has also facilitated the liberalization of the visa regime between Georgia and Turkey and triggered cooperation in other fields including culture and education. Whereas these issues are beyond the scope of the paper, visa regimes and increased people to people contacts should not be disregarded; they form a significant component of Turkey's integration with its immediate region.

I. The Customs Union

In many ways, the decision to enter into a CU with the EU has roots in Turkey's relations with Europe that date back to 1963. The Association Agreement signed between Turkey and the then European Economic Community envisaged the formation of a Customs Union as a step to securing Turkey's eventual membership. However more than three decades passed before the three step agreement finally entered into force. According to Yilmaz, Turkey's decision to finally enter into a CU was driven by successive rebuffs from the EU;¹ in other words, the decision was not just about the economic benefits of a CU with the EU but also deemed to be a significant stepping stone on the way to full membership.

The CU was designed to liberalise trade between the two parties and thus increase competitive pressure on both sides. The agreement resulted in the abolition of customs duties and charges as well as quantitative restrictions between the two parties in most areas – agricultural produce being the most significant exception. Unlike a simple free trade agreement, the CU also resulted in the adoption of a common customs policy and thus a common set of external tariffs with third countries. As such, Turkey had to implement the EU's external tariffs with third countries. But more than that, the obligations arising from the CU were greater than those associated with a standard customs union and required certain legislative changes more akin to integration. For example, the Customs Union required Turkey to harmonise its commercial and competition legislation with that of the European Union. In short, it can be viewed as a *CUplus*.

What were the results?

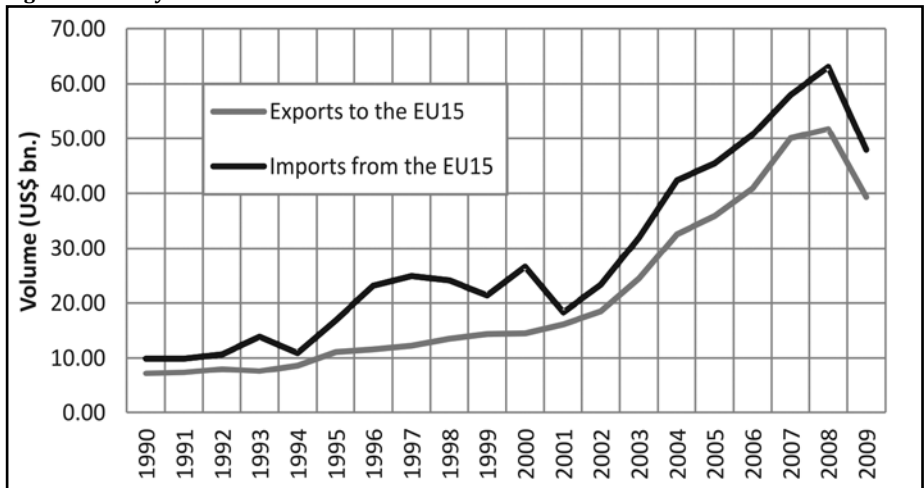
Initially the CU did not have momentous impact on Turkish exports to Europe as the EU² had already removed tariffs on goods from Turkey. Indeed, the posi-

1 Yilmaz, K. "Taking Stock: The Customs Union between Turkey and the EU Fifteen Years Later". Tüsiad-Koç University Economic Research Forum Working Papers. Istanbul, 2010.

2 Here, we use EU15 figures for comparison. The reason being that the CU was signed with the EU15. Statistics for

tive impact on Turkish exports was only really felt after the 2001 financial crisis, which according to Yılmaz was in part down the devaluing of the lira and the collapse in domestic demand – Turkish producers were forced to find other markets for their products.

Figure 1. Turkey-EU15 Trade Volumes



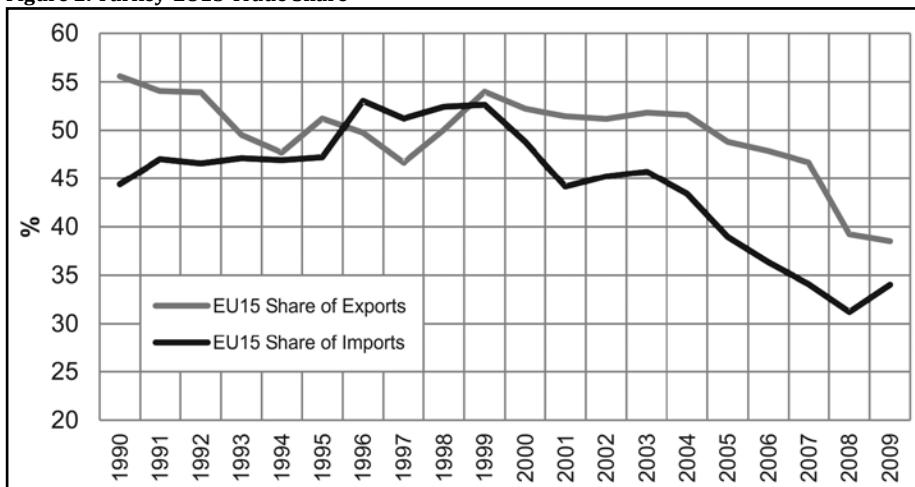
Further, up until recently the EU15 share of exports was fairly steady, hovering around 50% until 2005. Immediately after the CU came into force, there was a jump in the share of the EU15 in total imports in to Turkey from 47% to 53% as seen in the below graph. In terms of percentage increase in volume, there was a 37% increase in EU imports upon the CU entering into force in 1996 (from US\$16.86 bn. in 1995 to US\$ 23.14 bn. in 1996). This compares to average annual increase of 14% in the preceding 5 years.

However the EU's share of imports to Turkey has declined steadily since the late-1990s. It has fallen from around a half of all of Turkey's imports to approximately a third. This is in part due to external factors such as China joining the World Trade Organisation but also reflects Turkey's increasing trade with other regions. Indeed, if one were to study the volume and share of Turkey's trade with the Middle East, for example, a marked increase can be observed. Indeed, trade with its immediate neighbours grew from 11% of total in 1991 to 25% by 2008.¹

trade with an enlarged EU are available from the State Institute for Statistics.

1 Kirişçi, K. (2009). "Transformation of Turkish Foreign Policy: The Rise of the Trading State". *New Perspectives on Turkey*, Vol. 40, 2009.

Figure 2. Turkey-EU15 Trade Share



Perhaps the most positive benefit of the CU was the role it played in opening the economy up to international competition. Increased pressure from foreign rivals forced Turkish manufacturers to become more competitive globally by addressing inefficiencies.¹ The CU also required Turkey to address its competition policy, particularly with regard to state-dominated industries, which generally performed poorly.² As such, the CU not only resulted in increased competitiveness among manufacturers but also played a significant role in reducing the role of the public sector in the economy. Indeed the Turkish economy has a newfound reputation. For example, the people of the Middle East see the Turkish economy as the coming regional leader.³

Turkey also benefited in terms of increased Foreign Direct Investment (FDI), which it had been notoriously poor at attracting in the past.⁴ Indeed after the CU was announced there was a significant increase in planned FDI – it almost tripled after the announcement in two years from US\$ 1.5 billion to US\$3.9 billion by 1996. However, much of this did not immediately materialise.⁵ FDI massively increased in the post-2001 crisis environment, which can be in part linked to the

1 Kutlay, M. (2008).

2 Togan, S. "On the European Union – Turkey Customs Union". CASE Network Studies and Analyses, no 426, 2011.

3 Akgün, M., Senyuçel, S., Levack, J. & Perçinoglu, G. "The Perception of Turkey in the Middle East 2010". Istanbul, TESEV Publications, 2011.

4 Between 1990 and 1996, Turkey's total FDI amounted to \$745 million. Togan, S., 2011.

5 Loewendahl, H. & Ertuğrul-Loewendahl, E. "Turkey's Performance in Attracting Foreign Direct Investment". European Network of Economic Policy Research Institutes, Working Paper no.8, 2001.

CU. For example, at its peak, FDI in Turkey reached US\$ 22 billion in 2007.¹ Other factors include the opening of accession negotiations, reforms undertaken after the 2001 crisis and increased privatisation.

All plain sailing then?

To suggest that the CU has been a simple win-win for both parties would be overstating facts. While the overall benefits have been overwhelmingly positive, Turkey does encounter some problems related to its involvement in the CU. The majority of these problems emerged in the wake of the change in emphasis of the European Union's trade strategy in 2006. The 2006 *Global Europe* document underlined the importance of developing bilateral trade with emerging markets as opposed to a former emphasis on multilateralism over bilateralism. Because the CU requires Turkey to align its trade policy with the EU, Turkey has had to follow the EU's lead on many negotiations.

This new trade policy was criticised in Turkey as it was felt that it would impact negatively on Turkish interests. Here we summarise the main criticisms:

- **Turkey is left out:** The decision to sign a free trade agreement between the EU and a third country, quite clearly, is designed to reflect the interests of the two parties. As such, there is no role for Turkey to officially influence negotiations despite the fact that they have the potential to impact on Turkish interests. Turkey can lobby the EU to advocate its position, but, according to Akman, has not been particularly successful in doing so.²
- **There is no incentive for third parties to sign free trade agreements with Turkey:** If a third party signs a FTA with the EU, it, by virtue of the CU, has preferential access to the Turkish market. Therefore there is no incentive for the third country to subsequently negotiate or conclude a further FTA with Turkey – by doing so it would open its market up to unnecessary competition from Turkish exports. The EU has attempted to counter this criticism by adding a 'Turkey Clause' to its FTAs, which states that a third country is expected to conclude a FTA with Turkey.
- **Turkey is late to the party:** The EU and Turkey are not supposed to negotiate simultaneously with a third country. Therefore the EU can conclude a FTA

1 Republic of Turkey Prime Ministry Investment Support and Promotion Agency (ISPAT) www.invest.gov.tr

2 Akman, S. "The European Union's Trade Strategy and its Reflections on Turkey". Dokuz Eylül Üniversitesi, 2010.

with a third country some time before Turkey thus giving its exporters preferential access to specific markets before Turkish exporters.

- **Turkey's trade partners are driven by the EU:** If the EU signs a free trade agreement with a third country, Turkey has to follow suit whether it is in Turkey's interests or not. On the flip side, it is argued that, Turkey cannot enter into an FTA with a country that the EU has not already entered into an FTA with. However, according to Akman, this is only true if the FTA is in direct conflict with the EU's trade policy, which is unlikely to be in Turkey's interest anyway.³ Indeed, Turkey has signed an FTA with Georgia when the EU has none.

In summary, despite some problems the CU has been beneficial for Turkey. Trade increased, Turkey became more competitive and FDI skyrocketed. However, with the onset of the EU's new trade policy, problems have started to arise. For many, the crux of the problem stems from the fact that the CU is neither part of a longer term membership process nor a full trade integration.

II. Free Trade Agreements: The Georgian Case

In the 1990s Turkey started to adopt an export-oriented trade policy in place of its previous policy of import substitution to aid domestic production. This export-orientated policy reached an apex under successive Justice and Development Party (AKP) governments in the 2000s. In addition to CU with the EU, Turkey started to sign FTAs with many countries. As of November 2011, Turkey has effective FTAs with the EFTA countries, Albania, Bosnia and Herzegovina, Chile, Croatia, Egypt, Georgia, Israel, Jordan, Macedonia, Montenegro, Morocco, the Palestinian Authority, Tunisia, Serbia and Syria.⁴ Among the three countries of the South Caucasus, Georgia is the only country that established an FTA with Turkey.

After the end of the Cold War, Georgia quickly became one of the most important actors in Turkey's economy and foreign policies in the region.⁵ Both countries cooperated on various projects including the Baku Tbilisi Ceyhun (BTC) oil pipeline as well as tourism and security issues. Unlike Russia that mingled in Georgia's

3 Akman, S. "The European Union's Trade Strategy and its Reflections on Turkey". Dokuz Eylül Üniversitesi, 2010.

4 Ministry of Economy Web Page: List of Countries with Effective FTAs

<http://www.ekonomi.gov.tr/sta/index.cfm?sayfa=D92A2C56-D8D3-8566-4520C47A42E543E0> (accessed 3 Nov. 2011).

5 Kamer Kamer Kasım, "Georgia: An Important State for the Stability in the Caucasus". Journal of Turkish Weekly, 14 September 2005.

ethnic issues, Turkey had a neutral approach in the conflicts of Abkhazia and Ossetia. Its continuous support for the territorial integrity of Georgia helped greatly to improve bilateral relations; Turkey rapidly became one of the largest trading partners of Georgia just after independence.

Georgia and Turkey signed a FTA on November 2007 that came into effect in November 2008, only a couple of months later after the Five Day War between Georgia and Russia. The agreement presented a good opportunity to advance bilateral trade and strengthen political relations. The FTA increased expectations in Georgia in terms of “encouraging agricultural industry and gaining access to exports of agricultural products, juices, wine, citrus fruit and other items to the Turkish market”.¹

The FTA significantly increased trade volumes between the two countries. As of 2010, Turkey is Georgia’s largest trade partner: around 18% of all Georgia’s imports come from Turkey and 20% of all its exports go to Turkey. In 2010, the trade volume between Georgia and Turkey was \$1.06 billion dollars from around \$287 million in 2000.² Georgia’s exports to Turkey in overall exports are 17.6% in 2008 and 20% in 2009 while imports from Turkey in overall Georgia’s imports amount to 14.92% in 2008 and 18.03% in 2009. Indeed, according to the Turkish-Georgian Business Council, “Turkey needs Georgia as a gateway to open up to Asian markets, and Turkey also plays an important role as Georgia’s window to Europe”.³ However, Turkey’s exports to and imports from Georgia do not even constitute 1% of Turkey’s total trade volume.⁴

After 3 years of the FTA in effect, we can argue that the agreement was beneficial for Georgia in terms of getting better access to Turkey’s market and provided a significant growth in exports as well as in foreign investments. As for Turkey, the EI-LAT report suggests that the “FTA represented an additional long-term guarantee for its exports against potential turbulences in a politically unstable neighbourhood”.⁵

Textile, agriculture and energy are the main sectors of Georgia’s economy that attract investment. In addition there are many construction projects that are being

1 “Georgian-Turkish Free Trade Agreement 2008: Implications Two Years After”. The European Initiative Liberal Academy Tbilisi (EI-LAT) Report, March 2011. pp. 30 <http://iliablog2011.files.wordpress.com/2011/03/geo-turkish-fta-2008.pdf> (accessed 3 Nov. 2011).

2 Ministry of Economy Web Page: Georgia Country Profile. <http://www.ekonomi.gov.tr/upload/73035033-D8D3-8566-4520B3906E040FEF/gurcistan.pdf> (accessed 3 Nov. 2011).

3 “Turkish business interests are at stake with the Russian-Georgian war”. Today’s Zaman, August 12, 2008. <http://www.todayszaman.com/tz-web/detaylar.do?load=detay&link=150011> (accessed 3 Nov. 2011).

4 EI-LAT Report. pp. 26

5 Ibid, pp. 58

carried out by Turkish contractors in Georgia, with a total value of more than \$1 billion.¹ Turkey is also heavily active in Georgia's tourism industry.² The Five Day War of 2008 became an important turning point for the economic relations between the two countries. Following the war, Turkey's foreign investment in Georgia slowed down, mostly in the field of construction. Nonetheless, it was Turkish firms that built Tbilisi's new airport, another airport in Batumi and developed new projects. TIKA built new houses and prefabricated buildings in the bombed areas of Georgia such as Gori in 2009.

Turkey's geographical proximity and its economic importance in the region make it an important player in Georgia's as well as in Azerbaijan's economies. In addition, the Kars-Tbilisi-Baku railway will enhance the mobility of goods from Turkey to Georgia and Azerbaijan, the project is scheduled for completion in 2012 and once it is finalized, greater mobility is expected.

III. Armenia-Turkey Relations

Until recently, the probability of establishing diplomatic relations and opening the land border between Armenia and Turkey has remained very small. On the other hand, a number of political contacts have been established over the past couple of years. These political moves have increased hopes of a solution to a problem that has lasted nearly two decades. The most important step in this regard was taken in October 2009 when Turkey and Armenia signed two protocols in Zurich in order to normalize their relations. The signing of these historical texts has raised hopes to end to the current impasse.

Despite this, the process has encountered obstacles along the path and the protocols are still not ratified as of today. The challenges are numerous: insufficient dialogue channels and lack of understanding between the two sides, Turkey's close relations with Azerbaijan and the deadlock in the resolution of the protracted Nagorno-Karabakh conflict and finally a common tragic past about which both sides have significantly different interpretations.

Armenia, in contrast to Azerbaijan and Georgia, has almost no direct or official trade with Turkey even though Turkish products enter the Armenian market via Georgia. According to the Turkish-Armenian Business Development Council

1 Ivane Chkhikvadze, "Zero Problems with Neighbors: The Case of Georgia". Turkish Policy Quarterly Vol:10 No:2

2 Kirişci, K. (2011).

(TABDC), in comparison to \$2.151 billion dollars with Azerbaijan and \$1.06 billion with Georgia, Armenia's trade volume with Turkey was 300 million dollars in 2009.¹ Even so, this volume makes Turkey Armenia's fifth biggest trading partner.²

Interestingly, Armenia is able to import Turkish goods mainly via Georgia and Iran. Armenian businesses import products from Turkey into Georgia and then bring them to the Armenian market from Tbilisi. If the Zurich Protocols would be ratified and implemented by Turkey and Armenia, the land border would be opened. For Armenia, this would mean the end of regional isolation and has the potential to trigger long-term economic transformation.

On the other hand the opening of the border will affect Georgia's interests who benefit from the transit trade. This is, of course, an unexpected and unforeseen impact of the closed borders between Turkey and Armenia on Georgia's economy. De Waal quotes the country manager of the World Bank in Armenia and notes that there are "figures predicting that when the border with Turkey re-opens, imported goods will be cheaper and their volume will increase by 13% over five years; transportation costs will be cut by 20%. Armenia will benefit from sharing an open border with a country that since 1996 has had a customs union with the European Union for trade in non-agricultural products".³

As for Turkey, the opening of the border is important in terms of accelerating the development of Eastern Anatolia which is the least developed region. Also the port of Trabzon that lost its importance lately could also become an attractive destination especially if Anatolia becomes a crossroads of north-south and east-west trade following the opening of the border.⁴

It is apparent that Armenia will benefit more than Turkey economically by the normalization of relations. However, disorder in the South Caucasus which is a transit region for oil and natural gas from the Caspian Sea to Europe concerns Turkey and its objective to become an energy hub. That is why ensuring the sustainable stability of the South Caucasus region is one of the major strategic goals for Turkey.

1 "Turkey-Armenia trade volume reaches 300 million USD". TABDC Website February 8, 2010.

http://www.tabdc.org/index.php?subaction=showfull&id=1265625488&archive=&start_from=&ucat=11.45& (accessed 3 Nov. 2011).

2 Thomas De Waal, "Armenia and Turkey: Bridging the Gap". Carnegie Endowment Policy Brief, April 2010.

3 De Waal, 2010.

4 Nathalie Tocci, "The Case for Opening the Turkish-Armenian Border", TEPSA (July 2007), <http://www.europarl.europa.eu/activities/expert/eStudies/download.do?file=18288> (accessed 3 Nov. 2011).

The closed border not only impacts on trade but also on large multinational projects. The BTC pipeline, operational in 2006, was a significant development for Turkey's plans of becoming an energy hub. Another colossal energy project that Turkey supported was Nabucco.¹ This project was designed to limit Europe's dependence on Russian gas especially after the EU's decision to diversify its energy sources following the Five Day War.

Similarly to the BTC project, Armenia is excluded from Nabucco. Nabucco plans for gas from the Caspian Basin to flow into Turkey via Georgia instead of Armenia, which is actually the more natural route. The exclusion of Armenia from these mega energy transportation projects increases the construction costs and pushes Armenia to Russia's sphere of influence. In addition, the Five Day War demonstrated that Georgia can easily be destabilized and this constitutes a huge risk for the security and sustainability of multibillion dollar energy projects.

The rapprochement process between Armenia and Turkey was strongly supported by the West due to the fact that opening of the border between the two countries has the potential to transform the region. Europe's extreme dependence on Russia's gas and oil is a strategic challenge; mega-energy projects like BTC and Nabucco depend heavily on Georgia as a transit destination. So Armenia's integration with the West as well the stabilization of this country's relations with Azerbaijan and Turkey are strategic priorities of the EU and the USA.

¹ This pipeline project has an approximate worth of €7,9 billion. Nabucco project was designed as a gas bridge from Central Asia to Europe connecting one of the world's richest gas regions - the Caspian region / Middle East and Egypt - to the European consumer market.

Joint Conclusions of ICHD and TESEV

This paper tried to analyse potential economic benefits of an open border between Armenia and Turkey and the EU's role in this process. Although these benefits would differ for both sides, economy is still an important instrument for rapprochement. Open border trade has the potential to contribute to both countries' economies. In addition, the two countries have stronger alignment with the EU in order to achieve prosperity and growth. As a result, the EU emerged as an important trading partner for Armenia and Turkey.

Moreover, several expected transnational benefits may result from open border trade. For instance, the Armenian outlook to conduct business in Eastern Turkey is directly related to the development of the Eastern Turkish provinces. Another example is the usage of the Turkish port of Trabzon by Armenian businesses and transport companies. Due to an increased trading flow in Trabzon, the overall port development can be enhanced. It also needs to be mentioned that none of the expected economic gains for Armenia and Turkey are contradicting to each other.

There are however also differences between the expected benefits for the two countries. First it has to be recognized that the scope of the economic benefits resulting from an open border is different for Armenia and Turkey. While Armenia can expect decisive trade opportunities for its whole economy, the overall Turkish economy will probably only experience minor effects. Another mentionable obstacle is the fact, that both countries have very little previous cross-border experience regarding administration, custom control etc. Moreover, there is little political progress regarding the current status of border opening negotiations.

To overcome obstacles which are limiting a successful trade establishment, a broad bilateral cooperation can be seen as a precondition. Institutional preparedness, interacting civil societies and planned cross-border initiatives are important steps to unfold the advantages of prospective trade. The EU and the international community certainly take on the role as important supporters in this development. But despite this fundamental impact most responsibility should arise from the two countries themselves in order to address the trade benefits for both sides, to engage in joint preparation activities and to create mutual trust for businesses interested in cross-border interaction.

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The study aims to look at the Armenian-Turkish border opening within the context of a deeper European Integration. It analyzes the existing economic cooperation between Armenia, Turkey and the EU.

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