

AMERICAN UNIVERSITY OF ARMENIA

**POLITICAL AND ECONOMIC CONSEQUENCES
OF OPENING THE ARMENIAN-TURKISH BORDER:
IMPLICATIONS FOR ARMENIA AND TURKEY**

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ABSTRACT

The given study aims to explore the political and economic consequences of opening the border between Armenia and Turkey. The essay proposes the argument that for Armenia the opening of the border implies economic benefits, whereas for Turkey it gives a framework to receive political dividends. For analysis of the study scholarly articles, statistical data, various databases, analytical documents, reports, and other studies are used. The essay demonstrates that the closed border strongly hampers Armenia's economic development. Furthermore, Turkey's eastern regions also can have economic benefits with open border. However, the analysis shows that Turkey will mainly gain in political terms by improving its international image and becoming a neutral actor in Nagorno-Karabakh conflict.

Introduction

Borders between two states have both material and symbolic uses. They appear to be gateways to the outside world, areas of opportunity, contact and cooperation. Meanwhile, they can serve as barriers in dealing with the rest of the world, zones of insecurity, conflict and hostility.

For the last nineteen years Armenian-Turkish closed border has been serving as a barrier rather than a gateway. Armenia has four borders, two of which are currently sealed. Moreover, Armenia is a landlocked country without a direct access to the sea which is a pledge for international trade. Thus, the closed border is not only a national security issue for Armenia but it also hampers the country to develop economically. That is why this is an issue the solution of which cannot be delayed.

It is noteworthy to mention, though, that in recent years the situation has slightly changed. At least, we can mention Football Diplomacy in 2008 which being a milestone in Armenian-Turkish relations boosted a new wave of optimism towards normalization of relations between Armenia and Turkey and opening the border.

Though 2008 initiative was frozen, both Armenia and Turkey showed explicitly that they are seeking for possible way-outs from the deep deadlock in which they have stuck for nineteen years. Though at the very beginning it was obvious that the rapprochement process was complicated by the Genocide issue and Nagorno-Karabakh conflict, this notwithstanding, both countries went on with the intention realizing the lost potential, both political and economic, that the deteriorated relations and the closed border bring about.

Being a smaller country and having smaller economy as compared with Turkey, Armenia is considered to be the main beneficiary in case of the open border. Indeed, Armenia will have

substantial gains if the border opens. Moreover, this essay argues that the benefits will be more of economic nature. Armenia will have diversified routes which will help to reduce transportation time and costs, will have an access to the Mediterranean Sea and improve its export potential. Furthermore, with the open border the conflict risk will be lower than it is now. The latter will increase the foreign direct investments in Armenia contributing to higher inflow of the capital and production capacity.

However, Turkey's benefits are also significant. Due to its size and economic dynamism, there is a tendency to underestimate the economic, political and social costs to Turkey that the closed border brings about. The open border will help Turkey to fill the development gap that exists between its western and eastern regions. But, according to this essay Turkey will mostly benefit in political issues. With the open border Turkey will be able to realize its foreign policy aspirations; to reach "zero problems with neighbors," at least with Armenia, perhaps become a regional power with more influence in resolving regional conflicts such as Nagorno-Karabakh, improve its international image, and go boldly with EU membership process.

Taking into consideration the importance of the topic, the current essay is devoted to the Armenian-Turkish relations and the closed border. It will examine the political and economic consequences of opening the Armenia-Turkish border and demonstrate the costs and benefits both for Armenia and Turkey. Besides, the essay will address the issues that can challenge Armenia in case of the open border.

In order to examine all the above-mentioned issues, the essay will try to answer the following research questions:

RQ #1: What are the political and economic costs of the closed border between Armenia and Turkey?

RQ #2: What are the potential political and economic benefits of the open border between Armenian and Turkey?

RQ #3: What are the potential political and economic challenges of the open border between Armenian and Turkey?

The essay proposes the following **hypothesis**: opening the Armenian-Turkish border implies economic benefits for Armenia and political dividends for Turkey.

In order to conduct the current study about the costs of the closed border between Armenia and Turkey and the potential benefits and challenges in case of the open border, analysis of secondary sources is done. In particular, scholarly articles are examined so as to have the picture of the events that describe the relations between Armenia and Turkey. Statistical data both concerning Armenian and Turkey are brought in the paper in order to show the full picture of the situation. Various databases, analytical documents, reports, studies and other documents prepared by credible international institutions and experts are further examined.

The essay consists of introduction including research questions, hypothesis, methodology and literature review, two parts, conclusion and a bibliography. In part 1 the essay will illustrate the impact of the closed border on Armenia viewed both from political and economic perspective. It will also give a detailed description of challenges that can be anticipated with the open border. Part 2 of the essay is describing Turkey's potential costs and benefits in case of the open border. Again, both political and economic aspects will be explored. At the end, conclusion and bibliography will be given.

Literature Review

Despite the studies carried out with regard to the border issue between Armenia and Turkey, there are still controversial arguments around the consequences of the open border. Iskandaryan and Minasyan argue that from the perspective of Armenia, the relations with Turkey are a national security issue. Closed borders with two neighbors from a total of four put Armenia into a complicated situation where the dependency upon the other two neighbors rises.¹ The open border would provide access to new markets, lower the transport costs and increase flexibility, and bring potential savings from removal of the embargoes and opening of the railway line.² Furthermore, Armenia is bypassed in many regional projects; export and foreign investment are in poor conditions. The opening would also favorably impact Armenia's political development and open the way to the country's full integration into the region contributing to the accession process of Armenia into the EU.³

As for Turkey distorted relations with its neighbor first of all are an 'issue of historical liability' that has a negative impact on its international image and serves as a hindrance in its foreign policy aspirations. Being a country that is able to solve its problems with its neighbors and is ready to negotiate and make compromises on the most controversial issues, Turkey would be able to have better image in the US, the Muslim world, and especially in the EU.⁴ Moreover, Tocci et al add that the open border would help Turkey in its efforts to become an energy hub connecting Europe and the Mediterranean to the Caucasus and Central Asia, a crossroads of

¹ Alexander Iskandaryan and Sergey Minasyan. 2010. *Pragmatic Policies vs. Historical Constraints: Analyzing Armenia-Turkey Relations*. Caucasus Institute Research Papers, #1: 41.

² Center for Socio-Economic Research and Analysis. 2009. *Doing Business in Armenia and Turkey*. White Paper: 5.

³ Nathalie Tocci et al. 2007. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*. Study for the Foreign Affairs Committee of the European Parliament made under the framework contract with the Trans European Policy Studies Association (TEPSA): 10-13.

⁴ Aybars Görgülü et al. 2010. *Turkey-Armenia Dialogue Series: Assessing the Rapprochement Process*. Caucasus Institute, TESEV Publications: 23.

north-south and east-west trade. Turkey's integration in to the EU's TRACECA program would be welcomed as Turkey-Caucasus-Caspian route is considered to be a cheaper and strategically beneficial railway.⁵ However, Suvaryan et al do not agree with Tocci's argument explaining that Armenia could be of Turkey's interest in terms of transit routes, however the role of Azerbaijan is crucial in such developments; the latter will be possible if the border with Azerbaijan is open.⁶

From the economic perspective, Turkey's economy is much bigger than of Armenia. Indeed, according to IMF estimates for 2011, Turkey's GDP in PPP terms constitutes 1.073 trillion which is nearly 60 times bigger than of Armenia's GDP (17.941 billion)⁷ being the 16th on the list of world countries.⁸ Thus, due to Turkey's size and economic dynamism there is a tendency to underestimate the economic potential that Turkey loses because of the closed border. The open border is not likely to have much impact on Turkey's total foreign policy. Yet, a number of authors argue that Armenia could become a critical partner and market for Eastern Turkey, the least developed and poor region in Turkey.⁹ The closed border has had negative repercussions on the possible political, economic and social development of eastern Turkey, particularly Kars, Iğdır, and Ardahan that are bordering Armenia. It is worth mentioning that

⁵ Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*: 18.

⁶ Yuri Suvaryan et al. 2010. *Trade and Economic Relations between Armenia and Turkey: Possible Developments and Tendencies*. "Tntesaget" publishing house: 62.

⁷ International Monetary Fund. 2012. *Report for Selected Countries and Subjects*. 20/07/2012 (<http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weorept.aspx?sy=2009&ey=2012&scsm=1&ssd=1&sort=country&ds=.&br=1&c=911&s=NGDPD%2CNGDPDPC%2CPPPGBP%2CPPPCC%2CLP&grp=0&a=&pr.x=67&pr.y=6>).

⁸ International Monetary Fund. 2012. *Report for Selected Countries and Subjects*. 20/07/2012 (<http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weorept.aspx?sy=2011&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&c=186&s=NGDPD%2CNGDPDPC%2CPPPGBP%2CPPPCC&grp=0&a=&pr.x=68&pr.y=13>).

⁹ James Bosbotinis and Irina Ghaplanyan. 2007. *The Economic and Social Consequences of Reopening the Armenian Turkish Border: The Implications for the South Caucasus, Turkey, and Europe*. Armenian Journal of Public Policy. Special Issue. Yerevan, Cost Press 72-73; Aybars Görgülü. 2008. *Turkey-Armenia Relation: A Vicious Circle*. TESEV Publications: 28; Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*: 15; Suvaryan et al. *Trade and Economic Relations Between Armenia and Turkey: Possible Developments and Tendencies*: 63.

Iğdir and Ardahan have somehow improved their situation when they got the status of separate provinces. When Posof/Vale border opened, it linked Ardahan with Georgia, and the Dilucu border connected Iğdir with Nakhichevan. So, the closed border between Armenia and Turkey had its negative impact particularly on Kars. Similarly, the province Trabzon has also suffered from border closure as the economic power of Trabzon harbor was reduced and as compared with the Georgian harbors, its competitive power has decreased.¹⁰

Concerning the economic consequences of the open border for Armenia, the opinions of different authors substantially diverge. Thus, Polyakov using the gravity model developed by Baldwin evaluates the potential trade flows between Armenia and Turkey. He makes conclusions that in case of the open border the potential export from Armenia to Turkey could be \$35.6-65.7 million (the lower bound represents the calculations under the GDP levels of 1996, and the higher bound shows the projection for 2002 GDP levels). He argues that due to the export of electricity and construction materials, Armenia's export of energy and natural resources could increase up to \$230 million which was equivalent to Armenia's total export in 1999.¹¹ Moreover, the potential exports would probably have a multiplier effect on the GDP which in case of a multiplier of 2.0 will lead to 30-38% increase in the GDP.¹²

Later, in their study Beilock et al criticized Polyakov's conclusions calling them 'overly optimistic' and arguing that they were derived from a model estimated for already developed countries having strong trade relations.¹³ In order to reveal how the trade flows between Armenia and Turkey can change in case of the open border Beilock et al employed a gravity model for a

¹⁰ Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*: 16.

¹¹ Evgeny Polyakov. 2000. *Changing Trade Pattern After Conflict Resolution in South Caucasus*. The World Bank. Washington, DC: 26-27.

¹² Ibid: 39.

¹³ Richard Beilock and Karine Torosyan. 2007. *A Phased Strategy for Opening Armenia's Western Border*. Armenian Journal of Public Policy: Special Issue. Yerevan, Cost Press: 2.

wide range of countries including transition and developed European countries, Turkey and Israel. The authors estimate (for 2004 levels of GDP) that if the border opens imports from Turkey will constitute \$51,041,170 that is 50% higher than it is in case of the closed border. Moreover, every 10% reduction in distance will result in extra 15.6% growth in Turkish imports. With regards to Armenian exports to Turkey, it is estimated to increase by 38% reaching \$5,404,574. In addition, every 10% distance reduction will lead to extra 12.6% growth in exports from Armenia.¹⁴

Meanwhile, the study carried out by Jrbashyan et al presents data that are contradictory to what Polyakov and Beilock et al have estimated. Generally, Jrbashyan et al assume that the open border will not bring many benefits to Armenian economy. The main problem that the open border can solve is the possibility to reduce the transport costs.¹⁵ A study made by Armenian-European Policy and Legal Advice Centre (AEPLAC) estimates that transport costs on traded goods are at 20-25% of their nominal value.¹⁶ Reduced transport costs will lead to increased import and export. Thus, using a gravity model of trade between Armenia and its 20 most important trading partners, the authors estimate the short-term (1 year) and medium-term (under 5 year) effects of the open border. In short-term they expect 4.1% reduction in transport costs which will lead to 4.7% and 5.9% increase in import and export respectively and real GDP growth by 0.67%. In medium-term, the imports will increase by 13% whereas the exports will

¹⁴ Ibid: 17-20.

¹⁵ Tigran Jrbashyan et al. 2007. *Study of the Economic Impact on the Armenian Economy from Re-Opening the Turkish-Armenian Borders: Implications for External Trade*. Paper presented at the conference *The Economic and Social Impacts of Opening the Armenia-Turkish Border*: 15.

¹⁶ Armenian-European Policy and Legal Advice Centre. 2005. *Transportation Costs in Armenia*. Report: 4.

rise by 17.7% and the real GDP will increase by 2.7%.¹⁷ As we can notice, the estimates are rather different than the previous ones, ‘too conservative’ as Beilock would call them.¹⁸

But another important difference in the calculations of various authors is that according to one estimates Armenian imports will increase more than its exports whereas in other studies the situation is quite the opposite. Like Jrbashyan et al, Baghramyan also considers that with open borders Armenian exports will increase more than imports. Thus, employing Heckscher-Ohlin model the author compares the trade structures of Armenia and Turkey with those of Georgia and Iran in order to show the advantages and disadvantages of Armenia.¹⁹ The assessments that the author has made show that with open border the import from Turkey will rise by 2.6 times whereas the export from Armenia will increase by 14 times which will lead to a 3.73% growth in total Armenian export.²⁰

Hence, to predict whether Armenia will benefit from the open border economically is a controversial issue. Though, there is an interesting argument proposed by Tharakan and Thisse which analyzed the effects of international trade between two countries that differ in size. According to the authors, the small country will gain from the market expansion and free trade whereas the large country will lose.²¹ If we employ the model that was developed by Tharakan and Thisse, then Armenia will be a winner in case of the open border as when engaged in trade with Turkey, Armenia will be the small economy. However, this theory is challenged by the analysis demonstrated in the study carried out by Tsaturyan et al in 2009.

¹⁷ Jrbashyan et al. *Study of the Economic Impact on the Armenian Economy from Re-Opening the Turkish-Armenian Borders: Implications for External Trade*: 13-14.

¹⁸ Beilock and Torosyan. *A Phased Strategy for Opening Armenia's Western Border*: 2.

¹⁹ Mher Baghramyan. 2007. *Estimating the Change in Trade Flows between Armenia and Turkey if the Border is Open: Case Study Based on Georgia-Turkey and Armenia-Iran Trade*. Paper presented at the conference *The Economic and Social Impacts of Opening the Armenia-Turkish Border*: 2.

²⁰ Ibid: 11.

²¹ Joe Tharakan and Jacques-François Thisse. 2000. *The Importance of Being Small: Size Effects in International Trade*. CORE, Université catholique de Louvain: 2.

The authors argue that the customs policies of Turkey are very much diversified ensuring protection and opportunities for internal markets and producers, and hard competition for other countries to export to Turkey. Such a system is not the case in Armenia: protection system does not work in the same way as in Turkey and the import regime is free which make both the internal market and the producer considerably vulnerable. For instance, the differences are vivid in the agricultural sector. In Turkey agriculture has low level of supervision and is not taxed, gets state direct support in the form of subsidies.²² Whereas in Armenia it is vulnerable to climate, the irrigation system should be replaced and there is no fixed policy in order to support its development.²³ Thus, the authors believe that since Turkey has numerous advantages and is ahead of Armenia in different spheres, in the case of the open border the Armenian economy will not only be subject to Turkish import expansion, but also will have little potential for exports to Turkey.

Thus, different assessments of possible developments leave us with contradicting forecasts. These controversial figures once again prove that in order to estimate the consequences of the opening of the Armenian-Turkish border further research and detailed studies are needed.

²² Mher Tsaturyan et al. 2009. *Trade and Economic Problems of Reopening of Transportation Routes between Armenia and Turkey*. The Armenian Revolutionary Federation. Yerevan: 66. (In Armenian).

²³ Ibid: 78.

Part 1. Political and Economic Consequences of Opening the Armenian-Turkish Border: Implications for Armenia

When the Union of Soviet Socialist Republics (USSR) was broken up in 1991 and Armenia became an independent country Turkey was amongst the first countries to recognize Armenia's independence. However, in 1993 Turkey sealed its border with Armenia and imposed an economic embargo on Armenia to support Azerbaijan in its over with Armenia over Nagorno-Karabakh. Since then the border has remained closed. However, throughout these years there were a number of attempts to find a solution for this thorny issue. A significant step towards ending the stalemate was made in 2008, an initiative, that became known as 'Football Diplomacy.' It could prove to be a milestone in the relations between the two neighbors and become a major factor having its positive impact on the stability of the entire Caucasus region. Though 2008 initiative was frozen, both Armenia and Turkey showed explicitly that they are seeking for possible way-outs from the deep deadlock in which they have stuck for seventeen years. Though at the very beginning it was very well known that the rapprochement process was complicated by genocide issue and Nagorno-Karabakh conflict, this notwithstanding both sides went on with the intention realizing the price that they pay if consider the economic, political and social costs and benefits that the closed border brings about.

Though frozen, 2008 initiative laid ground for Armenia's better image in the international community – a country that is ready to negotiate and find solutions with its neighbors. Better image in the international community is one of the benefits that Armenia will gain in case of the normalization of relations with Turkey and the open border.²⁴ Currently Armenia is bypassed in many regional projects. Thus, the opening would also favorably impact Armenia's political

²⁴ Alexander Iskandaryan. 2010. *Armenia-Turkey Reconciliation: Motives and Impediments*. Prospects for Reconciliation: Theory and Practice. Yerevan, Printinfo JS LLC: 40.

development and open the way to the county's full integration into the region.²⁵ Though analyzing the regional integration of Armenia, the role of Azerbaijan should be taken into account. Furthermore, the double blockade has forced Armenia to closer cooperate with Russia and eventually fall into Russia's zone of influence.²⁶ Thus, the rapprochement with Turkey and the open border will help Armenia to somewhat lessen Russia's influence.

More importantly, the open border would contribute to the accession process of Armenia into the EU. The EU launched the Eastern Partnership program in 2009 to deepen ties with the South Caucasus states. Under the program, the EU plans "deep and comprehensive free trade agreements with those countries willing and able to enter into a deeper engagement, gradual integration in the EU economy, and gradual visa liberalization."²⁷ European Neighborhood Policy and later the Eastern Partnership were tools to stimulate the process of reforms. Moreover, in July 2010 the EU started negotiations of Association Agreements with all three countries to "achieve closer political association and gradual economic integration between the EU and these countries."²⁸ However, it becomes clear that without an open border Armenia will not be able to actively engage in the European Neighborhood policy that is the extension of the European Partnership and Cooperation Agreement between the EU and Armenia.

However, the examination of the consequences of the open border between Armenia and Turkey shows that the benefits of the open border for Armenia will be mainly of economic nature.

²⁵ Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*: 10-13.

²⁶ Görgülü. *Turkey-Armenia Relation: A Vicious Circle*: 31.

²⁷ Delegation of the European Union to Georgia. 2012. *Eastern Partnership*. 07/08/2012 (http://eeas.europa.eu/delegations/georgia/eu_georgia/political_relations/political_framework/eastern_partnership/index_en.htm).

²⁸ Europa. 2010. *EU launches Negotiations on Association Agreements with Armenia, Azerbaijan and Georgia*. Press Release. Brussels. 06/08/2012 (<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/955>).

Armenia already has losses in economic terms as it is a landlocked country without direct access to seaborne trade which is essential for conducting international trade. Thus, the landlocked condition already has negative impact on developing countries as compared with transit developing countries. Tables 1, 2, and 3 based on the data of 2006 illustrate the negative consequences of being a landlocked country in term of gross domestic product (GDP), foreign direct investment (FDI), and merchandise import and export.²⁹

Table 1: Impact of landlocked condition, by GDP (2006)

Economy	Nominal GDP (US\$, millions)	Per capita GDP (US\$)
Landlocked developing countries	262,535	688
Transit developing countries	6,918,024	1,768

Table 2: Impact of landlocked condition, by FDI (2006)

Economy	Direct investment in reporting economy (FDI inward)		Direct investment abroad (FDI outward)	
	US\$ millions (current price)	Percentage of GDP	US\$ millions (current prices)	Percentage of GDP
Landlocked developing countries	11,366	4.33	338	0.13
Transit developing countries	169,701	2.45	68,640	0.99

Table 3: Impact of landlocked condition, by merchandise import and export (2006)

Economy	Merchandise trade exports (US\$ millions)	Percentage of world total	Merchandise trade imports (US\$ millions)	Percentage of world total
	Landlocked developing countries	96,722	0.80	93,156
Transit developing countries	3,685,197	30.54	1,741,417	14.15

²⁹ Poul Hansen and Liliana Annovazzi-Jakab. 2008. *Facilitating Cross-Border Movement of Goods: A sustainable Approach*. The Global Enabling Trade Report. World Economic Forum: 68.

Hence, for landlocked developing countries it is of utmost significance to address the issue of transit cooperation. However, Armenia's situation is aggravated by another factor – the double blockade imposed by Turkey and Azerbaijan. However, though the border is closed, nevertheless it is impossible to elude geography. Even with no diplomatic relations and closed border trade is conducted between the two countries though through a roundabout way via Georgia and Iran. The invoices are issued in Georgia, as the companies in Turkey do not have the authority to make an invoice with an Armenian address.³⁰

According to the National Statistical Service of Republic of the Armenia, in 2011 the imports from Turkey to Armenia amounted to \$240.248.200 and the exports from Armenia to Turkey constituted \$1049.400. Thus, in 2011 the trade turnover between Armenia and Turkey constituted more than \$241.000.000. The figures show that Armenian imports from Turkey exceed Armenia's exports to Turkey. Whereas it is estimated that the opening of the border would not only play a significant role in the increase of trade volumes but also almost all the studies concur that the rise in Armenia's exports would be more substantial than in imports. Thus, Baghramyan argues that in case of the open border, Armenian export to Turkey will rise by a factor of 14 whereas import from Turkey will increase only by 2.6 times contributing implying 3.73% growth in total Armenian export.³¹ Another study made by Jrbashyan et al estimates that the open border in the mid-term (under 5 years) will allow the Armenian overall exports to grow by 17% against a 13% rise in imports.³²

³⁰ Tevan Poghosyan et al. 2011. *Perspectives for Development of Transport and International Corridors in Armenia, Turkey and the Region*. International Centre for Human Development: 28.

³¹ Baghramyan. *Estimating the Change in Trade Flows between Armenia and Turkey if the Border is Open: Case Study Based on Georgia-Turkey and Armenia-Iran Trade*: 11.

³² Jrbashyan et al. *Study of the Economic Impact on the Armenian Economy from Re-Opening the Turkish-Armenian Borders: Implications for External Trade*: 13.

The closure of Armenian-Turkish border seriously impedes Armenia's trade realization opportunities as well. Thus, under the condition of Turkish as well as Azerbaijani blockade, Georgian and Iranian roads are the only transit routes that Armenia can use to have an access to European and Middle East markets. However, it should be mentioned that Iranian option remains less preferable for Armenia as the transit time is longer than the Georgian option can provide. For instance, the distance from Bandar-Abbas to Yerevan is 2750 km and it takes 7-9 days to transit goods. Whereas through Georgia the road is shorter and faster, only 680 km to sea port Poti. Besides, Iran has several transit restrictions, especially in the event of transporting cigarettes or alcohol.³³ Hence, as the Turkish and Azerbaijani rail and road links are blocked, and the usage of Iranian narrow border is limited and less preferable, about 70% of Armenian trade is conducted via Georgian territory.³⁴

Under the current state of double blockade, Georgian transit route remains the most profitable one. However, the reverse situation will occur if the border between Armenia and Turkey opens. First of all, with the open border and direct trade with Turkey, Armenia would have an improved access to European and Middle Eastern markets. For Armenia the usage of harbors Poti and Batumi and the mere shipping route across the Black Sea represents a loss in competitiveness and an obstacle for EU-trade especially if compared with the Turkish harbors like Trabzon and the ones that are in the Mediterranean Sea, which have higher capacity than their Georgian counterparts. Mediterranean seaports are of great significance for Armenia as they allow using ocean container carriers and thus imply lower cargo transportation cost price. That is why the cost of freight from Beirut to Marseille using ocean ships is only 100 USD whereas the

³³ Poghosyan et al. *Perspectives for Development of Transport and International Corridors in Armenia, Turkey and the Region*: 37.

³⁴ This figure was cited by Armenia's foreign minister, Edward Nalbandian, during an interview with the French journal *Politique Internationale*, No. 122. 2009. 05/08/2012 (http://www.politiqueinternationale.com/revue/article.php?id_revue=122&id=789&content=synopsis).

cost of freight from Poti to Marseille is 7-8 times higher, constituting 700-800 USD per container.³⁵ Table 1 reflects the differences of liner shipping connectivity between Georgia and Turkey. This index is generated from components such as number of ships, container carrying capacity and maximum vessel size.

Table 1 Liner shipping connectivity index, annual 2004-2011³⁶

	2004	2005	2006	2007	2008	2009	2010	2011
Georgia	3.46	3.81	2.94	3.22	4.03	3.83	4.02	3.79
Turkey	25.6	27.09	27.09	32.6	35.64	31.98	36.1	39.4

Measure: Index (Maximum 2004=100)

Thus, it shows the overall capacity of Turkey's and Georgia's harbors and their connection to world trade meanwhile reflecting the huge capacity that Turkish ports and the vessels attached to them can hold in comparison to Georgian ones. In addition, Trabzon port represents another important opportunity due to the fact that it does not freeze in winter allowing conducting trade all year round.

Georgian transit routes are much longer vis-à-vis the direct transport route between Armenia and Turkey which implies further negative consequences. For example, the road between Yerevan and the Turkish border town of Iğdır is 10 times longer because of the transit through Georgia.³⁷ The road between Yerevan and Istanbul is 1625 km, but because of the blockade it is lengthened by about 300 km (route through Georgia).³⁸ Longer distances imply longer transit time. Thus, currently, the transit time for transporting goods from Istanbul to Armenia totals to about 5-6 days whereas in case of open Margara-Alican border it will take 3,5-

³⁵ Jrbashyan et al. *Study of the Economic Impact on the Armenian Economy from Re-Opening the Turkish-Armenian Borders: Implications for External Trade*: 14.

³⁶ UNCTADstat. *Liner Shipping Connectivity Index, Annual, 2004-2011*. 27/07/2012 (<http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=92>).

³⁷ Beilock and Torosyan. *A Phased Strategy for Opening Armenia's Western Border*: 16.

³⁸ Poghosyan et al. *Perspectives for Development of Transport and International Corridors in Armenia, Turkey and the Region*: 32.

4 days.³⁹ Georgian transit route has another trade distortion effect in view of higher transport costs. A study made by Armenian-European Policy and Legal Advice Centre (AEPLAC) estimates that transport costs on traded goods are at 20-25% of their nominal value.⁴⁰ In addition, increased distance and higher transport costs influence negatively Armenia's capacity to export heavy goods (e.g., building stone) and goods that have special transport requirements (flowers, meat or glass).⁴¹ That is why Armenia mainly specializes in the export of light products with high value like precious metal and stones, jewellery and base metal which was the case in 2011.⁴²

In addition, the war between Russia and Georgia in 2008 once again exposed the danger of relying on only one country for most of its trade turnover. When the traffic to and from Armenia was ceased because of the bombing of a Georgian bridge, Armenian consumers were caught in a panic expecting the supplies to run dry just in a few weeks. The drivers began to purchase car petrol in such amounts that the petrol stations had to do ration sales.⁴³

Though the open border can help Armenian businessmen to lower the transport costs, there is an important factor that should be addressed before the border opens. Recent years the diplomats of Azerbaijani consulate located in Kars gaining the support of Azerbaijanis from Nakhichevan as well as the support of the ultra-nationalists from Eastern and Southeastern regions of Turkey have managed to spread wide anti-Armenian sentiments in the mentioned places.⁴⁴ This should be considered as a matter of national security that is likely to have further

³⁹ Ibid: 32.

⁴⁰ Armenian-European Policy and Legal Advice Centre. *Transportation Costs in Armenia*. Report: 4.

⁴¹ Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for Overall Situation in the Region*: 11.

⁴² National Statistical Service of Republic of Armenia. 20/07/2012 (<http://armstat.am/en/?nid=379>).

⁴³ Iskandaryan. *Armenia-Turkey Reconciliation: Motives and Impediments*: 40.

⁴⁴ Vahram Ter-Matevosyan. 2011. *Perspectives of Armenian-Turkish Relations in the Framework of National Security*. *Turkic and Ottoman Studies*, v. 7. Yerevan, National Academy of Sciences of the Republic of Armenia: Institute of Oriental Studies, 371-372. (in Armenian)

negative developments. Thus, the government of Armenia should take such developments into account in order to ensure the security of the people and businessmen travelling to Kars, Iğdir and other regions of Turkey.

However, doing predictions about the sectors that may be potential winners and losers is more difficult. With regard to this, there are certain manufacturing sectors that are considered to be potential winners in case of the open border. They are iron and steel and articles thereof, copper and its articles, aluminum and articles thereof, lead and its articles, other base metals; cermets; articles thereof; watches and clock and their parts.⁴⁵ Furthermore, taking into consideration the fact that there are ongoing construction works throughout Turkey, including the eastern regions, there is likely to be a great demand for Armenian high-quality (high-quality cement of 400 and 405 category) cement produced by Ararat and Hrazdan cement plants. Currently, the wholesale price of one ton of high-quality cement in large Turkish harbors constitutes minimum \$110-120, whereas the price of one ton of Armenian high-quality cement for export is estimated to be approximately \$50. Thus, the difference between Armenian cement price and of other countries will be \$60-70. It is, hence, obvious that the cement imported from Armenia will be much more profitable for Turkish construction companies (all expenses and taxes are included).⁴⁶

The next product that is considered to have high level of export is electricity. There are forecasts that Armenian export of electricity to southeastern regions of Turkey will increase at least until the Southeastern Anatolia Project (GAP) is complete.⁴⁷ Generally, Turkey is a country

⁴⁵ Ara Khanjian. 2007. *Opening Armenia's Border: Sectoral and Distributional Consequences*. Armenian Journal of Public Policy. Special Issue. Yerevan, Cost Press: 117.

⁴⁶ Yuri Suvaryan et al. 2010. *Trade and Economic Relations Between Armenia and Turkey: Possible Developments and Tendencies*: 73-74.

⁴⁷ Richard Beilock and Karine Torosyan. 2007. *Economic Potential for Regional Integration of Armenia and Eastern Turkey*. Paper presented at the conference *The Economic and Social Impacts of Opening the Armenia-Turkish Border*: 55-56.

that imports electricity though it has thermal and hydroelectric power plants. Thus, Turkey can be considered a potential importer of Armenian electricity.⁴⁸ However, it is noteworthy to mention that during assessments of possible export of electricity we should not forget about the electric power station that will be probably completed in 2014. This development is likely to change the picture of Turkish imports of electricity from Armenia.

The sector of tourism is predicted to have positive progress in case of the open border. The head of the Tourism Department at Armenia's Ministry of Economy Mekhak Apresyan has mentioned that according to experts the scarcity of roads is one of the main hindrances to tourism development and that, "the opening of the border will have an essential impact on the development of tourism in Armenia."⁴⁹ The former deputy minister of culture and tourism of Turkey Ismet Yilmaz has agreed with the optimism of his colleague and stated, "more than 26 million tourists visited Turkey in 2008, which makes Turkey the third most popular tourist country in the world. If the border is opened, many of these 26 million tourists could also go to Armenia for a couple of days."⁵⁰

Interestingly enough, according to the study conducted in 2011 by the union of manufacturers and businessmen of Armenia, tourism and textile are the two sectors where both Armenian and Turkish businessmen find a room for cooperation. Figure 1 shows the sectors of possible cooperation.⁵¹

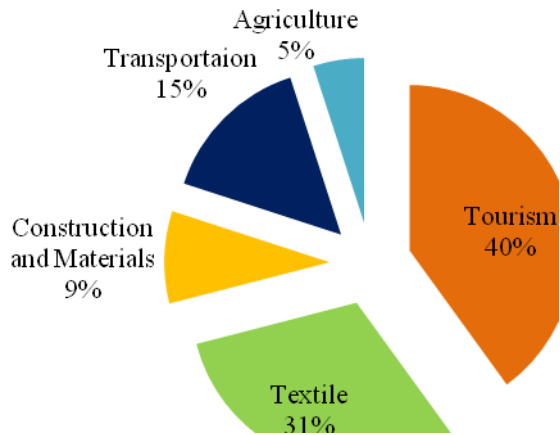
⁴⁸ Suvaryan et al. *Trade and Economic Relations Between Armenia and Turkey: Possible Developments and Tendencies*: 75.

⁴⁹ Sara Khojoyan. 2009. *Travel and Turkey: Open Border Expected to Boost Tourism Market in Armenia*. 22/07/2012 (http://www.armenianow.com/news/10692/travel_and_turkey_open_border_expe).

⁵⁰ Ibid.

⁵¹ Union of Manufacturers and Businessmen of Armenia. 2011. *Armenian-Turkish Business Relations through the Eyes of Business Opinion*. Study Report: 26.

Figure 1 Sectors of Possible Cooperation, %



There are sectors where the businessmen of both countries have different perceptions. Particularly, the sectors of energy, the gold industry and medicine are considered to be mutually beneficial for Armenian businessmen while for Turkish businessmen cattle breeding is the sector that can lead to mutual benefits.⁵²

Armenian monopolies such as oil and sugar would be potential losers if the border opens⁵³ which would provide positive consequences as monopolies not only negatively influence Armenian economy by increasing market prices, but also often times they have their impact on political and economic situation of the country. Moreover, there are certain types of goods that Turkey has a vivid advantage to export to Armenia which in turn can seriously impede the local production in Armenia. These are meat products, vegetables and other edible root-crops, edible fruits and nut, vegetable planting materials, sugar and sugar confectionery, natural and artificial fur, knitted or crocheted fabrics and etc.⁵⁴ These sectors may be potential losers and according to

⁵² Ibid: 5.

⁵³ Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for Overall Situation in the Region*: 12.

⁵⁴ Khanjian. *Opening Armenia's Border: Sectoral and Distributional Consequences*: 104.

this view, cheap Turkish goods will flood the Armenian market, and the Armenian producers will not be able to compete with large amounts of imports. As a result local production will decrease, forcing the country to become economically dependent and posing challenges for national security.⁵⁵ For example, if we examine the sector of agriculture of Turkey, then the above mentioned fears may be justified. The producers of agricultural sector receive significant export subsidies and support through the following ways: established purchasing price and privileged loans, direct state support (income payments and support connected with production) and high import fees. In addition, most of the local production is not taxed.⁵⁶ By removing taxes on most of the local production and raising import fees, the government not only helps to make the local products cheaper but also creates privileged advantages for export over the import. Whereas in Armenia it is vulnerable to climate, the irrigation system should be replaced and there is no fixed policy in order to support its development.⁵⁷ Thus, it becomes obvious that Armenia also needs support and protection from the government in order to confront the cheap Turkish products and not to concede to Turkish imports.

However, it should be mentioned that according to former deputy minister of agriculture of Armenia Samvel Avetisyan, the situation is as bad as it is perceived. He has stated that from 46 goods markets that had been surveyed by them, only six types of Turkish goods were cheaper as compared with Armenian ones. There would be competition but the situation would not go out of control. “We have the opportunity to protect our farmers by means of tariff and non tariff tools.

⁵⁵ International centre for Human Development. 2009. *Armenia-Turkey Rapprochement and Related Concerns*. A Report on Discussions Held during Regional Town Hall Meetings in the Republic of Armenia: 13.

⁵⁶ Suvaryan et al. *Trade and Economic Relations Between Armenia and Turkey: Possible Developments and Tendencies*: 20.

⁵⁷ Tsaturyan et al. *Trade and Economic Problems of Reopening of Transportation Routes between Armenia and Turkey*: 78.

We have conducted work in that direction. The Ministry has its program and when the border opens we will put that program into action.”⁵⁸

Though the former deputy minister of agriculture comports us a little, nevertheless, agriculture is not the only sector that can pose serious challenges for Armenian economy. Thus, different Turkish markets should be further fully examined in order to provide the full picture of possible fluctuations and differences and the ways to overcome them.

The closure of Armenian-Turkish border has another negative impact on Armenian economy; it constraints foreign direct investments (FDI) reducing the inflow of the capital and production capacity. Armenia already has losses in terms of FDI by being a landlocked country (See Table 2). But still there is another factor – external conflict risk. “The creation of a more stable regional political environment is a necessary prerequisite for establishing favorable conditions for increased foreign direct investment into the region. FDI is vital for Armenia (and its neighboring states) and an increase in FDI will contribute toward the improvement of governance, economic and social development.”⁵⁹ International Country Risk Guide has estimated that Armenia is among the riskiest 10% countries in the world.⁶⁰ Meanwhile, high degree of external conflict risk increases the possibility of war and assets disruption, trade and production destruction reducing the expected return to an investment. Thus, it is estimated that if the level of external conflict risk is reduced by 25%, FDI will increase by 50% which will bring to an increase in the level of the real GDP by 3-4%.⁶¹

⁵⁸ American Chamber of Commerce in Armenia. 2009. *Possible Outcomes of Opening the Armenia-Turkey Border on the Armenian Economy*. Official Opinions. American Chamber of Commerce in Armenia: 39.

⁵⁹ Bosbotinis and Ghaplanyan. *The Economic and Social Consequences of Reopening the Armenian Turkish Border: The Implications for the South Caucasus, Turkey, and Europe*: 68

⁶⁰ King Banaian and Bryan Roberts. 2007 .The Impact of Conflict Risk Reduction on the Armenian Economy. *Armenian Journal of Public Policy*. Special Issue. Yerevan, Cost Press: 33.

⁶¹ Ibid: 41

From the other hand, there is a lack of information about Turkey's investment capacities which is important in order to prevent Armenia from impulses. It is noteworthy here to mention about the new breed of entrepreneurs in Turkey that is termed as Anatolian Tigers. Mostly engaged in small and medium enterprises Anatolian Tigers are supporters of Sufi Islam, and the leading justice and Development Party mostly relies on them in realizing its economic programs. They have reached considerable success in the spheres of manufacturing and trade. Moreover, by 2023 Anatolian Tigers are going to export \$500 billion and widen their sphere of activities.⁶² Thus, in case of the open border they may consider Armenia as a new market for import and trade.

When analyzing the costs and benefits of the open border, we should also take into consideration the social aspect of the issue. From this perspective one of the most important benefits that both Armenia and Turkey will gain is the normalization of mutual perceptions of both sides that are the consequences of the bloody past. The open border will contribute to the increased cross-border contacts which will in its turn increase the sense of security diminishing the perception of potential threat coming from the other side of the border.⁶³ From the other hand, Armenia is a small country with a population of less than 2.9 million,⁶⁴ whereas Turkey's population constitutes 74 724 million.⁶⁵ Thus, due to the open border Armenian society can be significantly influenced by the Turkish human and cultural involvement in Armenia. Moreover,

⁶² Atul Aneja. 2012. *Anatolian Tigers Drive Turkey's silent Revolution*. 14/08/2012 (<http://www.thehindu.com/news/international/article3364873.ece>); David Kenner. 2010. *The Happy Story of the Anatolian Tigers*. 14/08/2012 (http://blog.foreignpolicy.com/posts/2010/03/18/the_happy_story_of_the_anatolian_tigers).

⁶³ Görgülü. *Turkey-Armenia Relation: A Vicious Circle*: 35-36; Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*: 14.

⁶⁴ National Statistical Service of Republic of Armenia. Press Release. 15/08/2012 (<http://www.armstat.am/file/doc/99469163.pdf>)

⁶⁵ Turkish Statistical Institute. 2011. Press Release. 10/08/2012 (<http://www.turkstat.gov.tr/PreHaberBultenleri.do?id=10736>).

people from eastern provinces of Turkey where the unemployment rate is about 17% can immigrate to Armenia in order to find a job. Armenian economy with an unemployment rate of 27.5% can be seriously challenged.⁶⁶

There are a number of other challenges that Armenia should consider beforehand. Illegal migration, human trafficking and, particularly, drug trafficking will be other challenges posed for Armenia. Due to its excellent strategic location between Europe, Central Asia and the Middle East, Turkey is considered to be one of the most negatively affected countries by drug trafficking in Eurasia. It is estimated that 75% of heroin that is seized in Europe is somehow connected with Turks or Kurds.

Another important issue that Armenia should take into consideration is the protection of high officials in Turkey. The normalization of the relations and opening the border implies that the two countries should have their representatives in respective countries, which means that the security of high officials and the staff working in the consulates or embassies should be guaranteed in very careful manners. Thus, Armenia should ensure that Turkey does not violate Article 64 “*Protection of honorary consular officers*” of Vienna Convention on Consular Relations which states that “*The receiving State is under a duty to accord to an honorary consular officer such protection as may be required by reason of his official position.*”⁶⁷

Furthermore, we should not forget about the factor of Armenian Diaspora communities, some of which are against the open border. The demonstrations in Lebanon, France, the United States and other places showed the stance of Diaspora. Armenians abroad claimed that to recognize the existing border with Turkey that was agreed upon with Kars in 1921 means to sell

⁶⁶ Simon Schmidt. 2011. *Taking the Reins: Effects of an open Armenian-Turkish Border and its Significance on European Integration*. International Center for Human Development: 8-9.

⁶⁷ United Nations. 1963. *Vienna Convention on Consular Relation*. United Nations: 25.

out Armenia's heritage.⁶⁸ Deteriorated relations with Diaspora communities are not a good start for Armenia, so we need to find ways in order to incorporate it.

Overall, Armenia could gain substantially if the relations with Turkey are normalized and the border is opened. Moreover, the analysis of the first part of this demonstrates that the benefits would be mainly in economic terms. However, there are also numerous issues that should be thoroughly examined and addressed before the border is opened.

⁶⁸ European Forum for Democracy and Solidarity. 2009. *Massive protests in Armenia against Armenia-Turkey Protocols*. 20/07/2012 (http://www.europeanforum.net/news/743/massive_protests_in_armenian_diaspora_against_armenia_turkey_protocols); NEWS.am. 2009. *Serzh Sargsyan's pan-Armenian tour: Diaspora this week*. 20/07/2012 (<http://news.am/eng/news/5777.html>).

Part 2. Political and Economic Consequences of Opening the Armenian-Turkish Border: Implications for Turkey

With the collapse of the Soviet Union a new period began in Turkey's foreign policy called 'New Activism.' Pursuing a deliberate and balanced foreign policy as well as owing to shared historical and cultural ties, Turkey attached further importance to the Caucasus and the Central Asia. That is why Turkey was among the first countries to recognize the independence of the Republic of Armenia in 1991 together with Azerbaijan and other former Soviet Republics.⁶⁹ However, the strained neighborly relations did not last long as Turkey sealed its border with Armenia in 1993 at the height of the war escalation in Nagorno-Karabakh to support its ethnic brother-state Azerbaijan. Since then the border has remained closed.

Football Diplomacy was a significant step towards ending the stalemate. It seemed as if the two countries were already ready to normalize their diplomatic relations and open the border. However, Turkey put forward a number of preconditions and thus, at the same time, putting an end to the initiative as Armenia was against these prerequisites. Turkey demanded to resolve the Nagorno-Karabakh conflict by giving the territories to Azerbaijan, denounce the efforts of Armenian Genocide recognition and the reference to "Western Armenia" (currently part of Eastern Turkey) in the Armenian Declaration of Independence.⁷⁰

Actually, by referring to the Nagorno-Karabakh issue, Turkey one more time exposes the difference of the attitude that it has towards Azerbaijan and Armenia which in its turn neutralizes Turkey's previous attempts to act as a mediator in this conflict.⁷¹ Without having diplomatic relations with one of the countries involved in the conflict, Turkey will not be able to pursue this role. At the same time Turkey is considered to be the country that is able to contribute to the

⁶⁹ Görgülü. *Turkey-Armenia Relation: A Vicious Circle*: 7.

⁷⁰ Görgülü et al. *Turkey-Armenia Dialogue Series: Assessing the Rapprochement Process*: 19-20.

⁷¹ Görgülü. *Turkey-Armenia Relation: A Vicious Circle*: 31-32.

settlement of the Nagorno-Karabakh conflict. The newly-elected OSCE Secretary General Lamberto Zannier has made comments about the role that Turkey can assume arguing that “Turkey is an important player in the region. It has a political contribution to offer. Bordering both countries involved in the conflict, Turkey needs to create conditions to promote dialogue between Armenia and Azerbaijan.”⁷² Thus, the rapprochement with Armenia and the opening of the border will help Turkey to show that it is a neutral actor in the conflict. Consequently, the international community will perceive Turkey’s such a step as a sign to play a constructive role in the solution of the conflict.

Moreover, if Turkey wants to realize its ambitions and become a transport hub with diversified routes connecting Europe and the Mediterranean to the Caucasus and Central Asia, then open border with Armenia is of great importance. The reason for this is that transport links between Turkey and Azerbaijan cannot pass through the South Caucasus as the road that goes through Armenia is blocked. Whereas if the border opens, Eastern Turkey would become a crossroads of north-south and east-west trade and Turkey’s economic ties and interests in the Caucasus-Caspian regions would be improved. Transport corridor through the Caucasus to Turkey would lead the integration of production and distribution networks, and thus implementation of regional projects, enhancing sub-regional integration. With this regard, EU would welcome Turkey in TRACECA program as Turkey-Caucasus-Caspian route is a cheaper, commercially viable and strategically beneficial east-west railway.⁷³

This argument can be debatable as Turkey already realizes its projects via routs other than Armenian and, more importantly, in this case the role of Azerbaijan cannot be ignored.

⁷² Nelly Grigoryan. 2011. *Turkey can be a Mediator between Armenia and Azerbaijan*. 05/08/2012 (<http://www.aravot.am/en/2011/11/09/4304/>).

⁷³ Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for Overall Situation in the Region*: 18.

Azerbaijan's agreement is also needed in order to include Armenia in the projects. However, the war between Georgia and Russia in 2008 demonstrated the potential risks of relying on transport and communication through Georgia. When all communication and energy transportation through Georgia was disrupted, numerous Turkish experts and officials including Minister of Foreign Affairs Ali Babacan announced that Armenia could be considered as an alternative route for gas pipelines that run from the Caspian Sea to the West.⁷⁴

Furthermore, it is in Turkey's interest to assuage any instability in the Caucasus as they complicate Turkey's foreign policy aspirations regarding the economy, politics and the energy. Any step forward in the solution of the problems with Armenia, will reinforce Turkey's status as a regional power in the Caucasus. Whereas unresolved problems in the Caucasus are recorded as a loss in Turkey's foreign policy record towards the region giving other countries such as Russia the opportunity to take more initiatives and be more active and influential player in the region.

Thus, for Turkey the Armenian question is potentially an issue of historical liability that has a negative impact on its international image and is a hindrance in its foreign policy aspirations. Ankara can afford to make more progress in its relations with Yerevan in order to receive major political dividends at international level. If Turkey is able to demonstrate that it is an open partner – a country that can solve the problems with its neighbors and is ready to make compromises on the most sensitive issues – it would manage to improve its image in the US, Muslim world as well as the EU.⁷⁵

The EU has a crucial role here as the deadlock in the Armenian-Turkish relations further complicates Ankara's much-sought EU bid. The annual progress reports evaluating the state of the negotiations and the compliance of the country with the Copenhagen criteria always

⁷⁴ Görgülü et al. 2009. *Turkey-Armenia Dialogue Series: Breaking the Vicious Circle*. TESEV-Caucasus Institute Joint Report. TESEV Publications: 10.

⁷⁵ Görgülü et al. *Turkey-Armenia Dialogue Series: Assessing the Rapprochement Process*: 23.

emphasize the importance of good neighborly relations and resolving border disputes.⁷⁶ In addition, though the recognition of the Armenian Genocide is not a precondition for EU membership, notwithstanding, Genocide allegations are an obstacle in Turkey's accession process. The Parliaments of leading EU member states such as France have repeatedly announced that the genocide recognitions is a precondition for Turkey in on order to become an EU member.⁷⁷ Moreover, the European Parliament itself has passed a nonbinding resolution in 2005 stating that the recognizing the Genocide is a requirement for Turkey's membership.⁷⁸ Thus, by normalizing the relations with Armenia and opening the border Turkey would not only have substantial progress in resolving the border disputes but also could demonstrate the EU its attempts to make compromises on most sensitive issues.

Furthermore, Turkey has serious problems with regard to the regional imbalance of gross domestic product per capita. Though Turkey has one of the fastest growing economies in the world, its eastern regions have such a low level of development as compared with the western ones that they raise a serious cause for concern.⁷⁹ As it is known the EU has "structural fund" that help the member states to cover their regional imbalances. It has been estimated that if the mechanism of "structural fund" distribution is not changed, then 80% of these funds should be given to Turkey so as to develop the eastern regions.⁸⁰ Thus, the development gap between Turkey's eastern and western regions represents a serious concern that can again be an obstacle

⁷⁶ European Commission. 2011. *Communication from the Commission to the European Parliament and the Council: Enlargement Strategy and Main Challenges 2011-2012*. Brussels: 19.

⁷⁷ NEWS.am. 2012. *Turkey must acknowledge Armenian Genocide in order to enter EU – French Presidential Candidate*. 10/08/2012 (<http://news.am/eng/news/101961.html>); NEWS.am. 2012. *French politician says Turkey has to recognize Armenian Genocide to enter EU*. 10/08/2012 (<http://news.am/eng/news/102613.html>).

⁷⁸ David L. Phillips. 2012. *Diplomatic History: The Turkey-Armenia Protocols*. Columbia University: Institute for the Study of Human Rights: 9.

⁷⁹ Richard Rousseau. 2012. *Contributing Factors to Less than Equitable Social and Economic Development in Eastern Turkey*. 12/08/2012

(http://cesran.org/index.php?option=com_content&view=category&layout=blog&id=216&Itemid=234&lang=en).

⁸⁰ Jrbashyan et al. *Study of the Economic Impact on the Armenian Economy from Re-Opening the Turkish-Armenian Borders: Implications for External Trade*: 3.

in Turkey's efforts to join the EU. Meanwhile, the rapprochement with Armenia and the open border would help Turkey to partially solve the problem of regional imbalance.

Due to Turkey's size and economic dynamism, there is a tendency to underestimate the economic, political and social costs to Turkey that the closed border brings about. Indeed, according to IMF estimates for 2011, Turkey's GDP in PPP terms constitutes 1.073 trillion which is nearly 60 times bigger than of Armenia's GDP (17.941 billion)⁸¹ being the 16th on the list of world countries.⁸² In addition, in 2011 Turkey's total exports constitute \$134.906.868.83⁸³ as compared with Armenia's exports of only \$1.334.300.⁸⁴ The same huge difference is in the imports of both countries; Turkey's total import for 2011 constitute \$240.841.676.274⁸⁵ as compared with that of Armenia's figure of only \$4.145.300.⁸⁶ Thus, it is obvious that even if the border opens, the total foreign trade will not be much influenced. Yet, Turkey's economic benefits from the open border should not be underestimated. With open border Armenian could become a critical economic partner and market for Eastern Turkey that is the least developed and poor region of Turkey. Based on 2000 census, the GDP per capita in Eastern Turkey was TRY 841 while national GDP per capita was TRY 1837 and this region's share in the GDP constituted only 4.14%.⁸⁷ The situation has not changed through these years. If we compare the percentage of export and import of Eastern Turkey with Turkey's total figures, then we will find out that the

⁸¹ International Monetary Fund. 2012. *Report for Selected Countries and Subjects*. 20/07/2012 (<http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weorept.aspx?sy=2009&ey=2012&scsm=1&ssd=1&sort=country&ds=.&br=1&c=911&s=NGDPD%2CNGDPDPC%2CPPPGDP%2CPPPPC%2CLP&grp=0&a=&pr.x=67&pr.y=6>).

⁸² International Monetary Fund. 2012. *Report for Selected Countries and Subjects*. 20/07/2012 (<http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weorept.aspx?sy=2011&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&c=186&s=NGDPD%2CNGDPDPC%2CPPPGDP%2CPPPPC&grp=0&a=&pr.x=68&pr.y=13>).

⁸³ Turkish Statistical Institute. 15/08/2012 (http://www.turkstat.gov.tr/VeriBilgi.do?alt_id=12).

⁸⁴ National Statistical Service of Republic of Armenia. 15/08/2012 (<http://armstat.am/en/?nid=126&id=10003>).

⁸⁵ Turkish Statistical Institute. 15/08/2012 (http://www.turkstat.gov.tr/VeriBilgi.do?alt_id=12).

⁸⁶ National Statistical Service of Republic of Armenia. 15/08/2012 (<http://armstat.am/en/?nid=126&id=10004>).

⁸⁷ Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*: 15.

share of Eastern region in Turkey's total exports constituted in 2011 only 0.6% and the share in imports was less than 0.2%. If we compare these numbers with the share of the capital city Istanbul (45.5% in exports and 51.4% in imports)⁸⁸ then the huge disproportionality between the regions becomes vivid. Among other provinces, the closed border has undermined possible economic, political and social development of particularly Kars, Iğdır, and Ardahan that are bordering Armenia.⁸⁹

As it was already mentioned Iğdır and Ardahan have somehow improved their situation when they got the status of separate provinces. When Posof/Vale border opened, it linked Ardahan with Georgia, and the Dilucu border connected Iğdır with Nakhichevan. So, the closed border between Armenia and Turkey had its negative impact particularly on Kars. The authorities of Kars undertake various steps to show the benefits of the open border, in particular, the Association of Industrialists and Businessmen in Kars (KARSIAD), the Chamber of Commerce and Industry and the Union of Tradesmen and Artisans have constantly presented the facts about the benefits of the open border to national authorities.⁹⁰ As early as 1998, Mehmet Yilmaz, the President of the Kars Chamber of Commerce drew attention on the need to open the Armenian-Turkish border stating that “We want to open the border – it will mean jobs for everyone. Armenians will visit Kars to shop for foodstuffs and textiles.”⁹¹ In 2003, one of the members of the Turkish-Armenian Reconciliation Commission stated that “The city is dying.”⁹²

Besides, Trabzon would benefit a lot from the opening of the border as its development has been pushed back because its port does not function with full potential. Trabzon is 450 km

⁸⁸ Turkish Statistical Institute. 15/08/2012 (http://www.turkstat.gov.tr/VeriBilgi.do?alt_id=12).

⁸⁹ Tocci. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*: 16.

⁹⁰ Ibid: 16.

⁹¹ Bosbotinis and Ghaplanyan. *The Economic and Social Consequences of Reopening the Armenian Turkish Border: The Implications for the South Caucasus, Turkey, and Europe*: 66.

⁹² Ibid 66.

far from Iğdır, the open Alican/Magara border gate between Iğdır and Yerevan would give the port of Trabzon an economic hinterland and an opportunity to compete with Georgian ports (Poti, Batumi).⁹³ The experts of the transport and the logistics sector mention that with the open border a great deal of transit trade will be oriented to Trabzon and the benefits are expected to go as high as 300 millions of dollars per year.⁹⁴

As was already mentioned in the first part of this essay, tourism is the sector where both countries want to cooperate. Indeed, Armenians especially Diaspora Armenians, would appreciate moving freely across the border and visiting Eastern Turkey, the land of their ancestries. For example, the pilgrimage organized by the Turkish-Armenian Business Development Council (TABDC) together with the Diocese of the Armenian Church of America in 2001 brought nearly 150 US Armenians to Turkey. TABDC has estimated that about \$1 million were spent in ten days during the pilgrimage.⁹⁵ Millions of Armenians live in Diaspora and all of them will want to come and see Ani, Akhtamar, Van, and so on. This would boost economic development not only in Armenia but also in eastern parts of Turkey.

Thus, the normalization of the relations and the open border with Armenia can provide Turkey with substantial economic benefits meanwhile paving the way for the businessmen to cooperate in different spheres. In general, Turkish businessmen avoid collaborating with Armenian counterparts in a more proactive manner as they are afraid because of the absence of the diplomatic relations, “We do not travel where we have no consular protection. It is not safe.”⁹⁶

All this said, however, this essay argues that despite the considerable economic gains, Turkey needs the normalization of relations and the open border with Armenia in order to gain political

⁹³ Tocci et al. *The Closed Armenia-Turkey Border: Economic and Social Effects, Including Those on the People; and Implications for the Overall Situation in the Region*: 17.

⁹⁴ Center for Socio-Economic Research and Analysis. *Doing Business in Armenia and Turkey*: 96.

⁹⁵ Yavuz Baydar. 2001. *Pilgrimage in Armenia and Anatolia*. 13/08/2012 (http://www.tabdc.org/index.php?subaction=showfull&id=992466000&archive=&start_from=&ucat=11,12&).

⁹⁶ Sven Behrendt. 2011. Getting to Yes: Prospect for the Armenian-Turkish Dialogue. Opportunities, Project Ideas, Advocacy Messages. Paper for the Eurasia Partnership Foundation: 14.

dividends rather than economic benefits. Though the open border can contribute to the development of Turkey's eastern regions and bring economic benefits, however Turkey itself is aware of the situation and is taking steps in order to change the situation.

Turkey has founded the Southeast Anatolia Project (GAP) that aims at reducing the regional imbalances. Currently it is a social and economic development plan that covers nine provinces: Adıyaman, Diyarbakır, Batman, Gaziantep, Mardin, Kilis, Siirt, Sirnak and Sanliurfa. Since 2002 the project has become one of Prime Minister Recep Tayyip Erdogan's priorities and funds allocated for the project has been increasing through these years reaching 7.1% of 2007 national budget. However, it is noteworthy to mention that GAP is not able to address all the problems successfully yet. Besides, a number of other disadvantaged Turkish provinces of Eastern Turkey like Kars, Iğdır, Van, and so on are excluded from the project.⁹⁷

Another project that Turkey is still working on is the construction of Baku-Tbilisi-Akhalkalaki-Kars railway. The project implementation began in 2007 and is expected to be completed by the end of 2012.⁹⁸ From Armenian perspective, this development is highly negative due as it is likely to downgrade the role of the existing Kars-Gyumri rail-link. But from Turkish perspective the project will not only effectively open a new rail corridor from the Caspian Sea to Europe via Turkey but also improve the economic situation at least in Kars.

Thus, it is obvious that though the normalization of relations with Armenia and the open border would have their positive impact on Turkey's economy at least in eastern region, however, Turkey itself is on the way of implementing different projects in order to improve the regional imbalance. Turkey has one of the fastest growing economies in the world and according to the International Monetary Fund is already the 16th on the list of world's economies. Hence, it is a matter

⁹⁷ Rousseau. *Contributing Factors to Less than Equitable Social and Economic Development in Eastern Turkey*. 12/08/2012

(http://cesran.org/index.php?option=com_content&view=category&layout=blog&id=216&Itemid=234&lang=en).

⁹⁸ Railway-technology.com. 10/08/2012. (<http://www.railway-technology.com/projects/baku-tbilisi-kars/>).

of time for Turkey to find a solution. Whereas from political perspective Turkey should act outside its borders. In case of economic imbalances Turkey can implement different projects so as to change the situation; the solution depends only on Turkey; while in case of political disputes the interests of other countries should also be taken into consideration. Turkey can improve its economic situation without Armenia which is not the case in the political dispute.

Conclusion

The developments of the past nineteen years show that the normalization of Armenian-Turkish relations and the opening of the border will be a long process. Any initiative launched towards this end has ended in a deadlock. However, it is noteworthy to mention that even the very fact that Armenia and Turkey are constantly trying to find a solution for this stalemate, demonstrates that the countries realize the lost potential, both political and economic, that the deteriorated relations and the closed border bring about.

With this regard, the examination of the consequences of the open border between Armenian and Turkey shows that the opening of the border would have rather positive impact on both countries.

From the political perspective, the main beneficiary would be Turkey for which the Armenian question is potentially an issue of historical liability that has a negative impact on its international image and is a hindrance in its foreign policy aspirations. Ankara can afford to make more progress in its relations with Yerevan in order to receive major political dividends at international level. If Turkey is able to demonstrate that it is an open partner – a country that can solve the problems with its neighbors and is ready to make compromises on the most sensitive issues – it would manage to improve its image in the US, Muslim world as well as the EU. Moreover, being a neutral player, Turkey will be able to become a mediator in Nagorno-Karabakh conflict. Armenia would also be able to improve its image in front of the international community which will help her in the EU accession process.

From the economic perspective, the picture is reversed. Turkey has considerable gains from the open border. It could partially resolve its problem with the regional imbalance and improve the economic situation in the eastern regions. However, the opening of the border

provides the framework for economic development especially for Armenia. Due to the new roads Armenia would be able to access the harbors of the Mediterranean Sea which are more important than the ones in the Black Sea. The time period and the distance spent on the transportation of the goods would be reduced which would lead to lower transportation costs and increase export potential. In addition, stable regional political environment as well the open border would lead to the increase of the foreign direct investments contributing to higher inflow of the capital and production capacity.

There are sectors like tourism that are likely to benefit due to the open border. But it is worth mentioning, that there are also some sectors that will suffer. In addition, there are numerous challenges connected with the open border that Armenia should take into consideration. Particularly, immigration from Eastern Turkey can pose a serious challenge for Armenian economy; furthermore, the level of human trafficking, and especially drug trafficking is likely to increase. Though the open border will lead to an increase of trade volume between Armenia and Turkey, notwithstanding, institutional preparedness and certain reforms are needed in order to avoid non-official barriers (for example: unofficial payments) that can decrease the potential benefits of cross-border trade.

These and other negative developments are likely to occur with the open border. That is why Armenia should prepare thoroughly before the border is opened as well as further research and detailed studies should be carried out in order to avoid such negative consequences as much as possible.

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