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THE PROSPECTS FOR ARMENIAN- TURKISH ECONOMIC RELATIONS

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In May 1996, the Black Sea Summit of presidents took place in Istanbul. At that time, the Armenian Union of Manufacturers and the Istanbul Board of Trade decided to create a Non-Government Organization (NGO) that would be able to coordinate Armenian-Turkish economic relations in the absence of official diplomatic relations between Armenia and Turkey. The NGO would attempt to fill the information gap and become the pipeline for the information flow between Armenia and Turkey. It would create a basis for more formal relations in the future. At that time, there was a lot of talk that the issues of the blockade would soon be resolved. Every six months, we expected that railways and roads would soon be opened, and there would be a new phase in our relationships. Three years have passed, but nothing has changed.

Each time we organize a business meeting, whether in Armenia or Turkey, journalists ask us when we expect to have more active, tangible relations.

Our committee was able to accomplish a lot in three years. First, we were able to break the mold of Turkish public opinion under conditions of very cold, almost hostile (from Turkey's viewpoint), inter-state relationships. We were able to make them aware of our existence, even just as an NGO. No matter how hard people in Turkey try to close their eyes and say



that there is an official embargo and that it is impossible to have trade links; these links nonetheless exist. There is a circulation of goods between Armenia and Turkey.

The next achievement we attained in the past three years was that we managed to bring in a significant change in Turkey's public opinion about the stereotypes of Armenians, Armenian businesses, and Armenian culture. Our many meetings and wide-ranging press conferences played a significant role. If we had the attention of Turkey's media, we saw that they spoke more seriously about us as a society, state, and nation, than they did three years ago. This modest success was all that could have been achieved in the existing conditions.

First, let me explain to you the current state of Armenian-Turkish trade and economic relations, and then speak about their prospects.

What are the current relations like? Based on the official prohibition from Turkey, no importing or exporting can be carried out with Armenia. This is done through intermediary countries, mainly Georgia, and sometimes Iran. Despite Turkey's official prohibition of capital flow; the official annual circulation is 200-250 million United States dollars. This is an

approximate estimate because the statistics department of Armenia does not have precise information: goods are very often imported from a third country. The information we have is more of an unofficial poll of sorts from the business world, rather than scientific data. In this case, under such conditions, US\$ 200-250 million is a large number. This mainly consists of importing Turkish goods into Armenia — food products, certain raw materials, electronics, and consumables. There is also illegal exporting from Armenia to Turkey. A large amount of black scrap metal was once exported to Turkey, but is now suspended. The buyers were mainly German, French, and Dutch companies that redirected it to Turkish factories in and around Samsun, Izmir, and Istanbul.

Having studied the current situation, we have concluded that Turkey's economy is ahead of Iran's. The quality and service of Turkish goods has gradually pushed Iranian goods out of our market. I am not familiar with Iran. I personally do not work in that region, but I am convinced that the Turks surpass the Iranians in this respect. Perhaps, a major role here was played by the contacts between Armenian and Turkish businesspersons: we understand them more quickly and easily than we understand a society governed by religious rules and ideology. Turkey, regardless of what it is, is nonetheless a civilized country. I venture to say, perhaps incorrectly, that the similarity of lifestyles and cultures between Armenian and Turkish businesspersons makes our understanding of one another easier than in the case for Iran. Furthermore, the quality of Turkish goods matches the needs of the middle economic stratum of our society. They are gradually pushing Iranian goods out of the Armenian market.

This is the current situation. Very few Turkish enterprises needed or dared officially to declare their operations in Armenia to be operations of a Turkish company. Very few understood that Armenia imposes no legal or political boundaries in this regard. On the contrary, our state has consistently carried out an

open-doors policy. A good example of what I have just explained is the activities of the "Cultrade" corporation. In 1997, in a public communiqué, they declared that they use Turkish, rather than Swiss capital, and that they represent one of the richest private families in Trabizond that has established, and is developing, a business in Armenia. Perhaps they periodically have cycles of difficulties and successes; nonetheless, they are still in business. We have the experience of many Turkish businesses coming into Armenia under the guise of European or American organizations so as to avoid political harassment in their country. Often they are afraid to declare that their capital in Armenia is Turkish.

In the past three years, on four or five occasions, we have brought here representatives of large Turkish businesses. They studied our industry, the branches of our economy, and our legislation, and returned amazed at our projections for the future. That was all. The market remained in the hands of small and medium businesses, and did not go further than simple trade links.

The first reason for this is the strict regulation of business activity by the Turkish government. In 1998, we were planning, together with the Istanbul Board of Trade, to hold an exhibition-sale of Armenian-Turkish goods in Armenia. Everything was arranged. About 150 Turkish companies were registered to participate. Cars and cargo boxes were loaded and waiting. At the last moment, the Foreign Affairs Ministry of Turkey suspended this event for an indefinite amount of time. While it is true that they were very polite in their official denial (they were currently celebrating the anniversary of the Turkish republic, the country was busy, we should postpone it until the fall, spring, etc), there was a different reason. When our president spoke from the UN podium for the first time, and for the first time ever, spoke officially about the 1915 Genocide, Turkish society was confused, bothered, and shocked. The suspensions immediately followed. This was the real reason. Unless we have official diplomatic relations, unless our



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states try to take the first step in recognizing the other as a state, Turkey cannot value the one-sided readiness of Armenia. The late Prime Minister, Vazgen Sarkeessyan, after returning from meetings in Washington, said that unless there is a political solution to the issue, it is useless to talk about large economical projects. Unfortunately, this is the situation.

What is the reason? Why is the development of Armenian-Turkish economic relations impossible either now or in the future -- unless the situation changes? I do not want to stop on this pessimistic note. Let us rather say what would happen if these relations were put on the right track in a month, a year, or ten years. What are the prospects? In fact, we speak so much about it; the public has so many perceived desires for and expectations about these relations! Ultimately, what will happen? Is it worthwhile to think about, plan, and work in this direction? What will the lifting of the blockade give us? Can we expect a qualitative jump, or will this become another casual neighbor for us -- just like Georgia, which is not a significant trading partner; other than using its ports for transit purposes.

Let me brief you on the results of the analysis that our committee has made. Having studied Turkey for the past three years, we have learned to rid ourselves of many complexes. We had old visions of Turkish society consisting of Medieval Turks with swords and turbans

who knew no better than to abuse, terrorize, and kill Armenians. It is a fact, however, that Turkey is industrially and economically the most developed country in this region. The proof of this is that all the large transnational corporations, including those of America, Japan, and Europe, enter the Caucasus region and Central Asia through offices in Istanbul and Ankara. This is the case for Phillips or Sony in the field of electronics, or other gigantic machinery companies. This is because Turkey is more advanced than all the CIS countries and Iran, which is 20 years behind. Turkey is integrating European cultural values, economic structures, and infrastructures. No matter how people try to block Turkey's efforts at becoming a full member of the European Community, it currently stands closer to it than anyone else. The development of Turkey's economy in the past 25 years, and its current state, show us that beyond Ararat, we have a neighbor that is much more powerful than we are. In discussions, some often people say that it may have been a blessing in disguise that Turkey imposed a blockade in the summer of 1993. Perhaps it was good that we had no open borders with Turkey at the dawn of our independence. Turkish capital could have

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turned us, very politely and democratically, into hired hands. The Iranians did not succeed in doing this because the companies that came here from Iran were not its larger ones; they came through intermediaries. Besides, Iran remains Iran because of its social lifestyle. Perhaps this was the better course of development of events. Perhaps time will show this after we have performed a deeper and more informed analysis.

What will we gain from making our relationships with Turkey official? First, it will be the restoration of Armenia's historic role as a crossroads. Currently, we are an impediment. No matter how much we say that Armenia is participating, through TRACECA, in the "Silk Road", it is false and imaginary. We are currently a railway dead end, with limited volumes. If nothing changes, we will be of no value for our neighbors. If, God forbid, someday Georgia decides for political reasons, to close its ports for a couple of months, it will have no affect on their economy, but we will be destroyed, since we will be the only ones affected by it. If the borders were opened, our railway, which runs from Akhooreek to Doukap, will give everyone the opportunity to use the

least-cost, shortest, and most developed and practical way to reach the Mediterranean Sea. This means that freight circulation will become much cheaper, even for Central Asia, by going using the Baku-Tbilissi-Gyoomree-Ghars route to the Mediterranean Sea, and return. We inherited, from Soviet

times, the transition point in the Akhooreek station. It is a railway exchange system and is in good working condition. It is capable of servicing the volumes of the past. This is the first advantage that we will gain: we will become a transit country with a freight volume that will make our railways profitable. Nevertheless, if we continue like this, in three to four years we will not be able to afford to keep our railways because expenses exceed revenues. The opening of the border will sharply change our political and geographic importance.

The second thing which the opening of the roads will give us is the development of some of the branches of our economy which, because of high transport costs, are currently not functioning. We will be able to deliver our products to the nearest consumers at the lowest possible costs. First, this is Turkey; second, the Near East. Cheaper and quicker freight transportation through Turkish ports will improve our current performance through Poti and Batumi. Let me mention the example of cement production, which has been widely discussed. Our plants have high capacities, and can produce great

volumes even now, but they do not have a consumer market because they were created for the market in the Soviet Union by using illogical transportation cost calculations. If we export cement, we can only do it through Turkey and for Turkey. In other cases, no matter how we calculate things, our cement will cost more than the international market. It is a fact that Turkey's economy needs our cement and that it is worthwhile to talk about a high level of exports.

The next thing is energy. Although I praise Turkey very highly by saying that it is a developed country, I must admit that it has not wanted, or has not been able to provide, an adequate level of energy supply for its eastern regions. This is logical because the coastal areas have developed more. Production capacity has been concentrated around the Black and Mediterranean seas. The situation in the eastern region is quite sad, particularly in terms of energy. Even at current levels, Armenia has a surplus of energy production, and there are some difficulties related to the sale of it. The only consumer is Georgia, which is not able to pay for it. Moreover, Georgia buys energy from us and sells it to Turkey for several more drums (The Armenian currency is the drum – ed.). We do not object to their mediating in such a way and protecting their interests. We are capable of having profitable energy exports to Turkey.

The third branch related to transit, which will be profitable and a good prospect for us, is the export of gas through Armenia. All that needs to be done is the building of 60-70 km of gas pipeline to connect our grid with Turkey's in order to export gas from Russia. We will have the same kind of benefits that Georgia and Azerbaijan currently enjoy in relation to the export of oil through their territory. By exporting electricity and gas to an unfriendly neighboring country, we may have an important advantage in international politics.

These are the three major directions that can be considered the cornerstones of Armenian-Turkish economic prospects. Other fields of service infrastructure may be created and developed around these three.

As for production cooperation, all know that we have a large inheritance from Soviet times in heavy and light industry. It is currently estimated that if we can restore just 25% of this capacity, we

will be considered a heroic generation! This can easily be achieved if we simply learn to cooperate with our closest neighbor, Turkey, which lacks this production capacity. First, I am referring to machinery building, textile and hosiery production, because Turkey does not currently produce enough to satisfy its export demand. Turkey makes clever use of its cheap labor force and its re-equipped plants to cover Europe and the United States with its quality goods. In fact, Turkey cannot satisfy all of the demand that comes from these countries. This is not our opinion: it is the consideration of the Turkish Textile Producers' Association that, in 1998, visited our plants in Gyoomree and Vanadzor. Turkey looks to Armenia as a means of organizing export to the USA. They are currently doing this through Israel. Israel, just like Armenia, does not have export quotas to the USA. This means that we, as a developing country, and they, being Israel, can sell to the US as much as can be produced. Turkey has limits on this. Production can be exported as unfinished goods or raw materials with a tag saying "Made in Armenia". This would provide large returns. At least in the first phase, this can be a good opportunity for us to create new jobs.

Another important field is metallurgy. The new government is currently developing a policy to restore this branch or completely rebuild it. We have adequate sources for the supply of raw materials, but simply selling them is not enough. There is highly

developed metallurgy in large centers of Turkey such as Caesaria, Samsun, and Izmir.

If the roads were opened, we would be able to export our mineral resources to those places, rather than to Europe as we are currently doing. Consequently, we will have a 10-20% increase in profitability.

This is as far as prospects go, but I would like to conclude my speech with the following assessment: there are realistic prospects, we can speak about good economic relationships if we understand that these are secondary to politics.

In this case, classical Marxism does not apply (the base does not define the construction). It is only necessary to maintain relations at the small- and medium- business levels. So far, this has succeeded. We must provide an adequate level of information exchange, to know each other better, and to wait for politically supportive conditions for global integration.

If this subject were presented to you by a Turkish state minister -- rather than by me -- he would have presented, in a much more convincing way, the losses that Turkey has endured in the past six years due to the one-way blockade.

QUESTIONS AND ANSWERS

-You mentioned that in the current covert conditions, the annual circulation with Turkey is \$200-250 million. If diplomatic relations were to be established or if the border were opened, what is your estimate of the possible increase in volumes? What are the expectations?

- Numbers may be very tentative because they are theoretical. However, we can expect an increase of four or five times the current amount in the next three to four years.

- You mentioned several branches. I would like to know whether the integration of agricultural production has any prospects.

- It is more likely that we will become competitors with Turkey because our climate zone and the Ararat valley have very high yields and similar qualitative characteristics. However, I do not think that there will be much integration because we solve our problems in this area independently anyway. If Armenia continues to implement agricultural projects at the current pace, this branch may be among the first to be restored in the next three to four years. Naturally, there will be some integration. I did not mention the areas of the production, processing, and packaging of toxic chemicals. There are many other such branches.

- Normally, economic institutions dictate politics. Turkish businesspeople have often declared the importance of economic relations and the opening of the border, primarily in favor of Turkey. Is the political pressure from Turkish businesspeople weak? Are they doing any lobbying?

- As I said, although we are Christians and they are Muslims, we are very similar in certain cultural aspects and in our lifestyles. We are also very similar in terms of public institutions and the exercising of political authority within the state. Turkey, being a stable and sovereign country that is 600 years old, nonetheless has a very unstable political field. They also have a tradition of changing their government every six months. In Turkey, the army possesses the main levers of political authority. Having neighbors such as Russia, Iran, Syria, and now Armenia and Greece, Turkey is forced to have a qualitatively and quantitatively powerful army in the region. Being a member of NATO, Turkey has tense relations with Greece, and it is natural that in such conditions, the army and its generals play a decisive role, and civil power is dependent on their will. It is simply that in a country

like Turkey, it is done in a mild, unseen way. Even in meetings with ministers and heads of large agencies, they say that they understand their benefits. If this subject were presented to you by a Turkish state minister -- rather than by me -- he would have presented, in a much more convincing way, the losses that Turkey has endured in the past six years due to the one-way blockade. However, the dominance of the national interest and the highly developed legal consciousness in Turkey make these people accept reality and wait for their government to decide.

- You said that Turkish companies are currently working successfully in Armenia. It is known that "Cultrade," for example, has certain problems with flour imports, however.

- Don't Armenian companies have such problems themselves? Every businessperson has these problems in our current legal and tax fields. They have no political or national basis. We all feel the pressure from the tax administration. We all try to protect our interests in our relationships with the state, inasmuch as we work in newly - established economic conditions. The company you mentioned has the same problems that any business in Armenia would have.

- You spoke about the hidden economic relations with Turkey. People sometimes talk about hidden economic relations with Azerbaijan. Do you have any information on this?

- Many people in Armenia know the Azerbaijani economy and nation. These people continue to deal with Azeris in Russia, and they understand that, after political decisions have been made, our psychological rehabilitation will not take long. Throughout our history, we often faced this kind of situation: massacres, followed by a normal course of work and co-habitation, followed by more massacres and then a return to more normal circumstances. The current economic relations with Azerbaijan are very simple and limited. There are some large transactions that are done through the Georgians; however, I will not talk about these. I will, however, present to you an obvious example. During the worst years of the Nagorno-Karabagh war, fuel from Azerbaijan was used to re-fuel our tanks in Sadakhlo: even in such circumstances, the interests of certain Azeri companies prevailed. However, the relationships are currently so tense that it would be naive to say that economic interests

would lead to political decisions. Our countries are too young to understand that.

– **The prospects for the development of Armenian-Turkish trade and economic relations are clear. Do you think, however, that Armenian society is ready to acknowledge the significance of economic relations (at least) with Turkey?**

– *Armenian society does acknowledge it, because we, being less developed and having a larger need for this than the Turks, realize the necessity for it. It is perhaps because we, militarily being the winner in this relationship, do not have an inferiority complex about that relationship, while the Turks and the Azeris do. This is why we say in a very liberal manner: you are welcome, we are opening a one-way transit for Azerbaijan and Central Asia; but they refuse to accept our proposal. As for business, we do not have such problems at this level because we have overcome them long ago. What we need are interstate relations for business to grow and turn out serious economic projects.*

– **You made some arguments and said that perhaps it was better that there was no inflow of Turkish capital into Armenia during the first years following independence. Do you think that it is inappropriate to have this kind of fear now?**

I think not, because we were simply reconstruction cooperatives during the first few years following independence. In the last six or seven years, we have already attempted to form factories based on private businesses. In Armenia, we currently have more or less good economic foundations and financial-economic institutions that know the language of the West; they are experienced and can stand up to the competition. I think we are currently ready for that.

– **In the past three years, what have the dynamics of goods circulation been like?**

– *It has decreased a little because we have now learned to work skillfully in Europe. Several years ago, we had to fill our demand for goods with low-quality, top priority food products, which we imported from Turkey and Iran. Currently, we import better quality products, at a higher price, from European countries such as France, Germany, Holland, and Belgium. The spectrum has changed a bit in this sense.*

– **What is the technical condition of the railway that connects Armenia with Turkey? Is it currently usable?**

– *The line is in working condition. The rail ties need a very small amount of repair work. In a month, it will already be possible to accept railway cars.*



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