

The Stakes of the Opening of Turkish- Armenian Border

The cross-border contacts between Armenia and Turkey

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Introduction

Evolution of the cross-border exchanges and the implementation of the new regional cadre

The opening of Doğu Kapi, the first border gate between Turkey and the USSR dates back to 1927. This border gate is situated at about 20 kilometers from Kars, and at a few kilometers from the Turkish village, Akyaka. After the construction of the railway network which traverses the whole Anatolia, the border village Akyaka becomes the last station of the Orient-Express¹. Despite the accountancy problems between Turkish and Soviet railway networks, the opening of the border gate and the construction of the railway line permit a flow of commercial exchanges with the USSR.

Wheat and animal products are the principal exports. As of 1937 an exploitation which is established at the border specializes in the exportation of animal products to the USSR. This flow of exchanges is allowed as a result of the mutual consents of Turkish and Soviet governments, who sign in 1930s a series of bilateral economic agreements. On the other hand, the USSR supports by loans the industrialization efforts of the young Republic of Turkey. In 1960s, the Soviet Union becomes an important market for the exporters in the region. Disease of aphtae fever which breaks out in 1974 interrupts this flow of exchanges. Deterioration of the economic situation in the Soviet Union as from the second half of 1980s will not allow anymore the exchanges to recover.

The opening and the closure of the border seem to refer to a relative concept: interruption of this flow is perceived by the inhabitants as the closure decision for the border.

Interruption of the transport of goods does not put an end to the cross-border contacts: the flow of passengers continues. A railway communication continues twice a week between Akyaka and Gumry, an Armenian border city.

The post-Cold War context radically changes the political data in the region and modifies the schema of the border exchanges. With the dissolution of the Soviet Union and the independence of the Caucasian states, Turkey has to deal with new neighbors. The idea of sharing henceforth a common border with the Republic of Armenia brings out some worry. Due to this new regional context which appears in 1990s, the city of Kars, traditionally called *Serhat Kars*², loses its border city status. After the official closure of Doğu Kapi in 1993, Kars becomes the easternmost Turkish province.

¹ Doğu Ekspresi

² Border city

Evolution of the situation in the Upper-Karabagh, particularly the Armenian attacks to Azeri villages and the aggravation of the conflict between Azerbaijan and Armenia force Turkey to react.

On April 3, 1993, the government announces its decision to put an end to the wheat delivery which Turkey makes towards Armenia, and not to let anymore any kind of aid destined for Armenia, over the Turkish territory³. The border gate Doğu Kapı closes. The closure of Doğu Kapı and the decision of not to open the border outpost Alican Kapı/Makara, which is situated at a few kilometers from the center of Iğdır and from Yerevan, are considered as the de facto imposition of an economic embargo on Armenia.

Meanwhile, Turkey gains new borders. It discovers its new neighbor Georgia, as from 1989 with the opening of Sarp Kapı, the opening of a second border gate in 1994 grants Ardahan the status of border city. In 1993, Iğdır opens to Nakhitchevan, the Azeri enclave. On a decision of Council of Ministers, the provinces of Artvin, Ardahan and Iğdır are authorized to trade with their border neighbors.

Two new dates are significant in the evolution of contacts between Armenia and Turkey: in 1996, the opening of the air corridor between the two countries allows Armenian Airlines Company to provide a direct air connection between Istanbul and Yerevan; in the first years an air connection is also available between Yerevan and Trabzon. As of December 2000 a measure enters into force, which imposes on the Armenians the necessity to obtain a visa before entering the Turkish territory; retaliatory measure against the discussions concerning the recognition of the Armenian genocide in the American Congress.

Recalling the dates indicating the evolution of contacts between Armenia and Turkey makes it possible to discern different stages of the implementation of the new regional framework. At the bipolar age, the cross-border exchanges between Turkey and Armenia strictly depend on the economic situation prevailing in the Soviet Union. Turkish exportations which go to the USSR from Doğu Kapı and which traverse Armenia, are not of considerable amounts, however the gains for the breeders cannot be neglected. Deterioration of the economic situation in the USSR puts an end this flow of exchanges.

Closure of the sole border with Armenia and opening of borders with Georgia and Nakhitchevan are significant in 1990s. The relations between the newly independent Armenia and Turkey insert in the new regional framework: Turkey defines its relations with Armenia within the context of the Upper-Karabagh war and the Armenian invasion of the Azeri territories following this war.

The new decision imposing on the Armenian citizens the necessity to obtain a visa reveals the existence of a new factor which influences the course of relations between two States: although not being the sole actor, Armenian Diaspora becomes a factor that cannot be ignored.

1. Trade in South Caucasus and Economic Results of Peace

³ Governmental declaration dating 3 April 1993. "Due to the Armenian attacks and the continuation of the occupation, our government has decided to suspend the wheat delivery towards Armenia and to terminate all the facilities granted for the routing of aid through our territory."

Illuminating the geography of exchanges and the transport costs will be an explanatory indicator of the economic effects of embargoes. This study is backed by the data collected by World Bank⁴.

A. Principal commercial partners

The fact that Russia and the other members of the Commonwealth of Independent States (CIS) continue to represent an important part in the exchanges of three South Caucasian countries must not hide the tendency to diversify the exchanges. This process is more or less accentuated according to the country.

Armenia records an increase in its exchanges with European Union and Iran, Azerbaijan its exportation towards Turkey and Georgia; while Georgia who retires gradually from the regional markets, inclines towards the European Union. Russia and the CIS stand as Armenia's important markets of brandy, crude copper ore, processed diamonds (imported as raw and then exported) and equipment goods; these countries constitute a market for hydrocarbon sector of Azerbaijan.

Although three Caucasian countries increased their exportations towards the USA, this amount is negligible considering the total amount of the exportations. On the other hand, it can be noticed that there is not any official registration regarding the existence of a commercial flow between Armenia and Azerbaijan.

European and Turkish exporters compete with the CIS countries in the markets of south Caucasus. The European Union and Turkey become the principal suppliers of the region. Russia stays as a big commercial partner for the three south Caucasian countries while Turkey increased its presence in Armenia. Turkey officially does not have commercial relations with Armenia: merchandises exported to Armenia traverse a third country, usually Georgia. America makes itself felt especially by humanitarian aid supplies. Importations from the United States of America represent a small part in the total amount of importations of South Caucasian countries. The amount of importations from North America, which is more significant in the case of Armenia, experiences a drastic fall: in a few years their part in the total of Armenian importations decreases from 24.5 % to 11.3 %.

B. Commercial regimes, trade flows and transport costs

South Caucasian countries export principally energy and mineral products and semi-processed products. Armenia exports principally copper and Azerbaijan exports petroleum and gas. The process of dismantling Soviet productive machinery renders possible the exportation of ferrous and non-ferrous metals. Chemical industry in Armenia, metallurgical industry in Georgia and petroleum refineries in Azerbaijan continue their production and participate in the flow of commercial exchanges in the region. Agricultural and forestry products are also exchanged in the region.

Multilateral and bilateral commercial agreements contributed to the liberalization of the exchanges more than the agreements concluded within the framework of the CIS. Georgia concluded free-trade agreements with Armenia, Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Moldova. However, as the Georgian Parliament did not ratify these agreements, suppression of the customs duties could not take place.

⁴ Evgeny Polyakov, *Changing Trade Patterns After Conflict Resolution in South Caucasus, Poverty Reduction and Economic Management Sector Unit – Europe and Central Asia Region*, World Bank, Washington DC, 2000.

Georgia is a member of World Trade Organization (WTO), Armenia is supposed to join the Organization very soon⁵, while Azerbaijan has just an observatory status and its accession to the Organization seems rather far.

The average rate of Armenian customs tariffs is 10 %; certain merchandises, in particular average consumer goods and agro-alimentary goods, are exempted. Georgian customs tariffs for 2000-2005 period, as approved by WTO, are expected to be at the level of 12 %. The situation presents more complexity in Azerbaijan where three different tariff levels are effective.

Even though the level of customs duties does not constitute a major obstacle for the development of regional trade, the corruption and the situation of infrastructures strongly restrict the volume of exchanges.

Absence of clarity in customs procedures represents a considerably high cost. Corruption does not affect all the importers equally. They are divided into three categories: some of them pay official customs tariffs; others have to bribe and pay a little amount of the customs duties while a third group gives only the bribe.

Development of the external exchanges of Armenia and Azerbaijan is particularly affected by the political context which leads to the abandonment of the traditional commercial roads, while Georgia becomes an indispensable point of passage.

Economic results of the resolution of the discords are not limited to a diminution of transport costs. The inexistence of trade in some sectors is also important in the evaluation of the cost of the embargoes: thus, creation of new commercial flows within the peace context offers a clearer idea of economic results of the conflict resolutions. Actually, there are not any flows of exchanges from Armenia towards Azerbaijan, and from Azerbaijan to Armenia. Similarly, there is officially no commercial activity from Armenia towards Turkey, and the exchange volume of Turkey towards Armenia is very limited.

Roads in South Caucasus

- The trade between Armenia and Georgia is made via the railway and road networks which connect the two countries. Georgia is the principal country which connects Armenia with its other commercial partners.

- The trade between Armenia and Iran benefits from the road which passes across an Armenian border city Megri. The road passing from Nakhitchevan, which is shorter, is supposed to cut the transport costs. At the Soviet age, it was principally the railway which allowed the delivery of merchandises between Iran and Armenia. It could be the same in case of the reopening of the borders.

- Since the border between Turkey and Armenia is officially closed, the merchandises exchanged between these two countries traverse Georgia.

- Delivery of merchandises between Russia and Armenia is realized by railway network via Azerbaijan⁶, but in very limited proportions via Georgia by road. The energy flows also traverse Georgia.

- The trade between Azerbaijan and Turkey is directly made by road and railway, as the roads connecting the two countries are not affected by the eventual conflicts.

⁵ Armenia joined the WTO at the end of 2002.

⁶ According to the official registrations, destination of the exportations is Georgia, as in the case of trade between Turkey and Armenia.

- The trade between Iran and Azerbaijan is made through the common border.
- The merchandises exchanged between Turkey and Azerbaijan has to traverse either Georgian territory or Iranian territory. The shortest road connecting the two countries passes through Armenia.
- Commercial roads between Turkey and Georgia, which are riverside countries of Black Sea, are not affected by eventual conflicts.
- Commercial flows between Georgia and Russia are effected by sea, road and railway via Azerbaijan. Closure of the railway line traversing Abkhazia a little affected the commercial flows, because it was principally aiming the transport of passengers.

Source: Evgeny Polyakov, *Changing Trade Patterns after Conflict Resolution in South Caucasus*; Poverty reduction and economic management sector unit – Europe and Central Asia Region, World Bank, Washington DC, 2000.

C. Energy Flows in the Region

Current Flows

Energy flows are of fundamental importance for the economies of the region. Armenia and Georgia import natural gas and oil products: degree of dependency on these flows is very important. Armenia has excessive amount of electrical energy. Azerbaijan has large energy resources and so is not an importer country.

Schema of Energy Flows in the Region

Armenia imports natural gas from Russia, while oil products come from different countries such as Iran, Georgia and for a little time from Turkey. Armenia exports electricity to Georgia and Iran.

Georgia imports natural gas from Russia and petroleum from Azerbaijan, Iran and countries of the Gulf. Georgia exports electricity to Turkey and Azerbaijan, and in a little amount to Russia.

Azerbaijan imports electricity from turkey, Georgia, and Russia; and exports petroleum to Russia, Turkey, Iran, Georgia, countries of the Gulf and also, out of the region, to the European Union and other countries of the CIS.

The absence of integration between electrical systems causes important costs. It has on one hand political reasons, and on the other hand technical reasons. The nature of the relations between Armenia and Turkey on one side, and between Armenia and Azerbaijan on the other, keeps Armenia from exporting electricity to these two countries.

Armenia is the country with the largest capacity of electricity production. This capacity can satisfy the demands of new markets. As a nearby grand market Turkey, in case the border opens, is supposed to offer new exportation possibilities to Armenia. The increase in energy exportation of Azerbaijan or Georgia would then be less. Annual capacity excess in electrical energy of Armenia reaches 1000 MW, which will lead to an energy exportation amounting to 190 millions of dollars according to the current prices. Armenia henceforth exports to Iran (especially in summer) and Georgia in amount of 100 millions of dollars annually.

Russia and Azerbaijan are the principal natural gas suppliers in the region. In case of the resolution of conflicts, Azerbaijan could easily provide Armenia with natural gas. Diminution of transport costs would allow economizing by 25%. In

such a case, Azerbaijan could increase its exportations by 100 millions of dollars. By the way, the situation of the infrastructures which have not been used for 10 years will need supplementary investments.

Similarly, in the long term, Turkish market is of crucial importance for the development of hydrocarbon sector in Azerbaijan. Turkey is one of the rare solvent markets in the region: natural gas suppliers will be in competition to supply Turkish market.

D. Effects of the Normalization of Regional Economic Relations on the Balance of Payments

According to the calculations made within the framework of a study conducted by World Bank⁷, a normalization of its economic relations will allow Armenia to economize between 6 and 8 millions of dollars on transport costs for non-energy importations, and about 45 millions of dollars by preferring other suppliers for natural gas and petroleum. Potential increase in exportations would then be annually between 269-342 millions, which double the current total amount of exportations. In parallel to this, the amount of supplementary importations necessary to support this effort of exportations would increase to 100 millions of dollars. Balance of payments is supposed to see an amelioration of 220 millions of dollars, an amount which is equal to the 38% of the current commercial balance deficit. These estimations do not take into consideration the effects of a liberalization of exchanges in the region. Certain economists in the region expect the doubling of the GNP.

In case of a normalization of economic relations, Azerbaijan could see its exportations to increase by 100 millions of dollars, which is equal to 11% of the current amount of its exportations. This increase would reduce the commercial deficit by a quarter.

Georgia's revenues from the transits realized across its territory could decrease. This reduction, yet, is not expected to exceed a quarter of revenues of transit; that is 1.5% of its commercial deficit. Similarly, Georgia would profit from the implementation of an economic cooperation, especially from the gains realized by the integration of electrical systems.

South-Caucasian countries export especially basic products and energy products. Customs tariffs are low and free trade in Armenia is more advanced than two other neighbor countries. Furthermore, customs tariffs do not constitute a major obstacle to the development of exchanges. Non-tariff obstacles, of which the majority is non-official, seriously harm the importers and the exporters. On the other hand, traditional commercial roads in the region are usually out of use. This situation of conflict gravely harms the foreign economic relations of Azerbaijan and Armenia, while Georgia becomes a passage that cannot be ignored. In the field of energy, certain commercial flows are non-existent: there is not any commercial flow of gas nor petroleum from Azerbaijan to Armenia neither is there any electricity supply from Armenia to Turkey.

The economic consequences of a peace agreement show themselves on one hand as newly created flows, on the other hand, the integration possibilities in the energy sector can lead to reach a grander economic rationalism and to realize considerable gains.

⁷ Evgeny Polyakov, *Changing Trade Patterns after Conflict Resolution in South Caucasus*, Poverty Reduction and Economic Management Sector Unit – Europe and Central Asia Region, World Bank, Washington DC, 2000

Reduction of transport costs may produce a positive effect on the balance of payments: Armenia, who suffers very seriously from the prohibitive transport costs, is expected to be the first country to profit from it, while Georgia who – because of its geographical position and political context – has become a passage which cannot be ignored, is supposed to lose its centrality.

Resolution of conflicts, normalization of political relations, removal of economic embargoes and opening of borders render the conception of a regional integration strategy possible. Regional approach is of enormous importance for the small-sized national markets: the perspective of creating economies of scale and the possibility of directing the production to the regional market are expected to stimulate the direct foreign investments.

Armenia is the country which is expected to profit the most from the economic outcomes of the peace: enclosure of the country and the closure of its borders with Turkey and Azerbaijan harm the exportation capacity of the country and considerably increases the importation costs.

Development of the economic relations between Turkey and Armenia in 1990s is felt in the new political and economic framework of the post-Cold War period. Turkish-Armenian border is closed by a governmental decision in 1993. This decision, which renders impossible a direct commercial flow between the two countries, is interpreted as an embargo.

2. Strategies to circumvent the embargo: evolution of the economic exchanges between Turkey and Armenia in 1990s

The decision to close the border in April 1993 and to suspend all kind of supplies towards Armenia constitutes an important obstacle for the development of commercial exchanges between the two countries. Nevertheless, 1990s are marked by the elaboration of the strategies to circumvent the embargo, which allow the implementation of a bilateral commercial flow. In the absence of diplomatic relations, the merchants and the private entrepreneurs have become the sole mediators between the two countries.

The exchanges and the contacts between Turkey and Armenia are executed via different ways of communication. The air corridor which was opened in 1996 connects Istanbul and Yerevan: Armenian national company provides every Tuesdays and Fridays a flight between the two cities. Road transport traverses across a third country: merchandises and passengers have to traverse either Iranian territory or Georgian territory. Certain illegal passages through Turkish-Armenian border are signaled at Alican/Magara border gate. On the other hand, certain products may be delivered to Armenia via Nakhitchevan. Current research did not extend to Nakhitchevan, no verification is done on site. However, lack of transparency of certain transactions and absence of regulations in the enclave permit to verify a little these affirmations.

A. Are the businessmen mediators between the two countries?

In the absence of diplomatic relations, are the businessmen possible mediators between the two countries? Does not the nature of the bilateral political relations constitute, on the contrary, a heavy handicap for the development of economic exchanges? Is it really possible to consider the development of economic exchanges separately from political relations?

An institutionalization of economic contacts between the two countries which do not maintain diplomatic relations necessitates a pragmatic approach that places economic logic under political logic. Merchants and private entrepreneurs have to have the possibility of *'talking about trade without talking about politics.'* The margin of maneuver from which businessmen profit, as well as its capacity to influence the decision making processes are all relatives: the influence of businessman is quite important in a context where the acts and the perceptions are modeled not on rhetoric but on facts; and where the priority is given to the establishment of a network of commercial ties, which is considered as more solid than a political dialogue.

In 1997, during the Summit of the Head of States of the Black Sea Economic Cooperation (BSEC) in Istanbul, institutionalization of the economic relations between Turkey and Armenia was put on the agenda. A group of Turkish and Armenian businessmen, mostly working in the transport and logistics sector and having collaborated for the delivery of American humanitarian aid to Armenia, proposed forming a Turkish-Armenian Business Council. This initiative was supported not only by BSEC, but also by the businessman Telman Ter Petrossian, brother of the Armenian president. However, the absence of diplomatic relations renders impossible the creation in Turkey of a proper Turkish-Armenian business council. The business councils are of official structures. Yet, the perspective of a future normalization of political relations convinced of the necessity of establishing a mediator between the two countries. Thus, the Turkish-Armenian Economic Relations Development Council is founded. This council cannot be integrated into the *Foreign Economic Relations Board*⁸, which assembles under the title of DEIK all the business councils, so it is set up as an informal structure.

The end of the Petrossian age in 1998, the death of Telman Ter Petrossian and Robert Kocharian's coming to power are the sources of new tensions. The perspectives of normalization of the political relations and the establishment of diplomatic relations, which were planned in 1997, are thus farther away.

In 1997, the volume of bilateral exchanges between Turkey and Armenia was about 70 millions of dollars, but certain estimations give an amount of approximately 150 millions of dollars.

In this case, the Council becomes the only mediator between Turkey and Armenia, and undertakes the intermediary role in all kinds of contacts. The Council tries to put in touch the merchants and the entrepreneurs of the two countries. Since 1998, business visits are organized. One of the objectives is to approach the private sectors of the border regions. The Council works strictly with businessmen associations and the chambers of commerce of Kars and Iğdır. In 1998, the businessmen from Kars go to Gumru and Yerevan, accompanying the Council. The project of creating a Turkish commercial center in Yerevan aims at fulfilling this same function. The objective is to provide a flow of information between the two business communities. In fact, the relations between the entrepreneurs and the merchants, quite strict at a period, are interrupted with the closure of the border. Certain breeders in the region of Kars, who was exporting to the USSR, certainly maintained their contacts with the other side of the border. Those who never had contacted with Armenian businessmen are totally disappeared.

The political context does not allow the committee to function properly as a business council. The primary objective is to prepare a favorable terrain which will allow the trade to develop: the absence of diplomatic relations was considered by businessmen as a major handicap before the development of the economic

⁸ *Dış Ekonomik İlişkiler Kurulu (DEIK).*

relations between Turkey and Armenia. The economic rationalism is expected to impregnate with the logics and to guide the conducts of political authorities. The approach developed by the Council is out of the traditional cleavages in the two countries and avoids the polemics.

The Council is also interested in the academic field. Thanks to its initiative, a protocol was signed between the Middle East Technical University (ODTÜ) and the Yerevan State University. Also, the University of Ankara signed an accord. ODTÜ received some Armenian students for a few weeks. Professors and research assistants met in Yerevan do not conceal their satisfaction and recognize that the Armenian students were hosted in the best conditions. They regret not to have invited, in their turn, the students of ODTÜ to Yerevan. A visit of the lecturers from ODTÜ to Yerevan was planned in 1998: however, the accentuation of political tensions in the Armenian capital caused the annulment of this visit. These protocols did not permit the establishment of a cooperation between Turkish and Armenian academic circles. The council wishes to continue its investment in the field of academic cooperation to revive the accords signed between the universities and to involve more institutions and persons. The Council is characteristically of a Turkish-Armenian joint structure: since February 2001, the two councils convene under the same roof and the importance of co-presidency is emphasized. On the other hand, the wish to privilege the economic logic more than the political considerations and the possibility to invoke a double Turkish-Armenian identity keep the Council from taking any sides and allows the Council to find a place above the traditional cleavages. Thanks to this joint structure, Armenian businessmen are considered as economic actors on the internal political scene. The president of the Armenian branch of the Council has recently been elected to the presidency of the Association of Armenian Businessmen and Industrialists. The economic reforms and the restructuring initiatives implemented by the Armenian government with the support of World Bank insistently underline the importance of this structure. The accomplishment of institutionalization of the private sector is perceived as a *sine qua non* condition to accomplish the economic and political reforms. The democratization effort necessitates, in fact, the reinforcement of private sector structures.

The Committee essays to include the Armenian Diaspora in its actions as much as possible. The regional economic development which will result from the intensification of exchanges between Turkey and Armenia and from the implementation of joint projects will take more support with the participation of the Armenian Diaspora. The members of the Diaspora are considered on one hand as the potential investors in the region and as commercial mediators on the other. The Committee is in contact with the Armenian Diaspora in the USA, Europe and Russia. A Turkish-Armenian business council is planned to be opened in New York, Paris/Brussels and Moscow.

Armenian and Turkish businessmen convened under the body of the Council for the Development of Economic Relations provide a flow of economic and commercial information between the two countries, and try to impose a logic depending on the economic rationalism. The Council carries out lobbying activities for the opening of Turkish-Armenian border, the normalization of the political relations and the establishment of diplomatic relations. Progressively, it aims at gaining the confidence of Turkey and of Armenia by maintaining strict relations with the institutions of Armenian Diaspora. The grandest success of the Council is to have elaborated a language and to emit propositions admissible by Turkey, Armenia and the Armenian Diaspora. The supports of Turkey, Armenia and the Armenian Diaspora contribute to define the perimeter of the Council actions.

The overlap between the political and the economic dimension forces the Economic Relations Development Council to be involved in various activity fields. The major obstacle before the development and the intensification of commercial and economic relations is political. As a result, the preparation of a favorable political terrain is perceived as pivotal. In parallel, *'talking about trade, but not about politics'* easily allows to send consensual messages.

This institutionalization initiative allows the businessmen of the two countries to be included in the political and the diplomatic fields. The absence of any other form of mediators between Armenia and Turkey forces the Council to be involved in various activity fields and to act sometimes as a group of amity. It provides an information flow between the two countries. This flow does not only include economic information: the primary task is to psychologically bring closer the two business communities, the two nations and even the two States.

The Council organizes trips to Armenia, along with the chambers of commerce and the businessmen associations. On the other hand, it managed to draw the representatives of the grand Turkish groups to Yerevan. In 1998, 150 Turkish firms were ready to participate in the exposition of Turkish and Armenian products in Yerevan, but the organization was cancelled at the last moment by the intervention of the Turkish Ministry of Foreign Affairs.

Although the Council benefits from the support of Turkish and Armenian authorities, it criticizes clearly the political officials. The essence of the criticisms is mostly related to the regional politics of Turkey: Turkey's politics about Armenia restricts its margin of maneuver in the Caucasus and prevents it from undertaking a mediator role in the settlement of conflicts. On the other hand, this politics seems to contrast with vital interests of the country. So the efficiency of this embargo is being questioned. The efficiency of resorting to economic sanctions in order to satisfy the political objectives is disputable. The research on the economic weakness of Armenia does not lead to a softening in the politics of the government. After the sufferings experienced during the war, the living standards of the Armenian population were obviously ameliorated. This normalization of the economic situation began to be felt after 1996. In the first half of 1990s, Armenian capital could have electricity only half an hour per day, and there were problems with the running water in the city center. The inhabitants of Yerevan had to cut trees in the city in order to warm themselves in winter. Current economic problems of Armenia constitute a reality; however the population is aware of the considerable amelioration in their living standards.

On the other hand, the embargo has a very negative impact on the Armenian public opinion: Turkey is considered as the source of all daily difficulties and as the origin of all the evils in Armenia. Everyone recognizes the cruelty of Turkey's politics: Turkey, considered as a powerful country which continuously arouses fear, would continue to oppress the newly independent Armenian population. Similarly, the recent decision of Turkey stipulating the obtaining of a visa for every Armenian citizen who wants to go to Turkey is a very unpopular measure. The closure of the Turkish politics towards Armenia excites an anti-Turkish trend among Armenian public opinion which shows itself sometimes by boycotts against Turkish products. Despite the closure of the border and the implementation of the embargo, Turkish products penetrate into the Armenian market, which is perceived as a supplementary proof of inefficiency of the politics Turkey adopted in the region.

B. Strategies to circumvent the embargo

Despite the closure of the border, is established a flow of exchanges between Armenia and Turkey. Ministries of Foreign Affairs of the two countries try to evaluate the amount of the commercial transactions. Turkish authorities evaluate it between 70 and 150 millions of dollars per year while the estimations of the Armenian authorities give an amount increasing to 250 millions per year. The exportations from Turkey towards Armenia constitute the essence of the commercial exchanges. Armenian authorities notify that their commercial deficit aggravated especially as from 1995. On the other hand, the data of the Ministry of Foreign Affairs and the Ministry of Industry and Commerce of Armenia point out that there exist some twenty companies with Turkish-Armenian mixed capitals. Certain enterprises using Turkish capitals are sometimes represented by the national of a third country.

According to the data collected by the American Embassy in Yerevan; Turkey is the seventh commercial partner of Armenia. The closure of the border rendered necessary a deviation of the commercial roads. The final destination of the Turkish exportations to Armenia is mentioned to be Georgia and sometimes Russia. Similarly, Turkey is not generally mentioned to be the origin country: exportations are made through a screen firm or company usually established in Switzerland.

The information concerning the commercial flow between the two countries lacks precision: statistical data can rarely be obtained; most of the data are collected during the conversations. As a consequence, in order to understand the strategies implemented to circumvent the embargo, we decided to proceed with case studies. First of all, we will deal with Turkish merchants who are involved in importation-exportation activities between Turkey and Armenia; then a strategy study carried out by the Turkish group Kaltrade will allow us to understand how the bilateral commercial transactions can expand more; and lastly we will touch on the shuttle trade between Armenia and Turkey.

1. Malatya Pazarı

The market of the popular quarter of '*Bangladesh*', situated at a few kilometers from the center of Yerevan, is called '*Malatya Pazarı*'⁹. Turkish wholesalers working in importation-exportation sector and the shuttle-tradesmen feed the market of Malatya.

A visit to the market rapidly allows noticing the existence of a commercial flow from Turkey to Armenia. A grand amount of the products are of Turkish brands. Especially agricultural products, cleaning products, textile products, fruits and vegetables can widely be noticed. Asking whether a production comes from Turkey is a way to start a conversation. It is possible to be understood while speaking Turkish. Some of the merchants state that they speak Turkish in family, with their parents and others say that they have learned it during their stay in Turkey. Certain wholesalers directly go to Turkey to purchase merchandise while others buy their products from a wholesaler whom they know is a Turk. Certain merchants prefer to present their Turkish-brand product as Iranian and Russian products. It is possible to formulate two hypotheses to explain this attitude which do not have anything systematic. The mal-quality of Turkish products may be a reason; on the

⁹ Market of Malatya. Malatya is a Turkish city in Anatolia.

other hand the boycott against the Turkish-brand products carried out at the time of political tensions may have incited the merchants to be prudent.

A Typology

Turkish wholesalers working in the importation-exportation sector feed the market of Malatya. A typology helps to discern certain common faces among these merchants. They are from the transport and logistics sector and most of them possess a transport company in the Turkey. They are mostly from the Black Sea region, especially from the port of Trabzon. They import in Armenia various products, especially raw materials, fruits and vegetables and consumer goods. Turkish merchants in Armenia are divided into two categories. A minority is settled in Armenia. They have started to work with Armenia since the first years of the independence. The majority spend only a few months in Armenia.

What is the beginning? Why Armenia?

The fact that an imposing majority of Turkish merchants working in Armenia are from the Black Sea region, more clearly, from the port of Trabzon does not seem to be by chance. The persons interviewed declare that they were attracted by the voyages and they constantly live both in and out of their country. They state that it is possible to see the *Karadenizli*¹⁰ in any region of Turkey and in a lot of countries. This attractiveness of expatriation is presented as a characteristic of the Black Sea region and especially of the port of Trabzon. The persons interviewed declare that it is possible to meet merchants from Trabzon in nearly 'every country of the world'. One of them mentions his wish to orient his importation-exportation activities towards Siberia. On the other hand, it is interesting to record that the entrepreneurs from the Black Sea region dominate the logistics and the transport sector.

At first, these merchants were oriented to Russia, Georgia and Azerbaijan, before entering the Armenian market, but they unanimously declare that they preferred to operate in the Armenian market. The principal reason may be the preference for the markets where '*there are not many Turks*'¹¹.

The merchants are ready to deliver every kind of products. They accept easily that the exports in Armenia¹² are of mal-quality and declare to suffer actually from this situation.

Although they define themselves as businessmen, they confess not to have inevitably made rational choices. Choosing to stay in Armenia pendant the war years, at the beginning of 1990s and continuing to operate in a market which was no more fruitful, cannot be easily justified. They state to have a certain taste of adventure¹³.

Certain merchants interviewed have particularly attracted our attention. Some cases, which will be mentioned below, will help to have a clearer idea on the profile the merchants who have begun to supply the Armenian market since the first years of the independence of Armenia.

¹⁰ Person who is originally from the Black Sea region. Karadeniz means the Black Sea in Turkish.

¹¹ 'I was told that there were not any Turks in Armenia, and I did never hesitate to go to Armenia', declares one of the merchants interviewed.

¹² 'There was a tendency, at a time, to deliver very mal-qualified merchandises, the products impossible to sell of in the Turkish market.'

¹³ 'The more we lose, the more we continue, it is impossible to give up!' states one of the merchants interviewed.

Ahmet, who is in his thirties, possesses a transport company in Trabzon. He has recently decided to enter the Armenian market especially due to the economic difficulties in Turkey. He sells fruits, particularly oranges and says he can deliver them all. He has just received an order at a loss.

Ertuğrul, who is in his forties, had a timber company in Artvin. Sefer, who was originally from Urfa and then settled in Trabzon, has been living in Yerevan since 1991. He works with Ertuğrul and exports especially oranges and imports leather in Turkey.

Mustafa, who is in his forties, represents the bus company Aybaki which communicates Yerevan and Istanbul. Aybaki is one of the three firms to be able to still operate in the market.

Mustafa's objective was to be able to transport, without a mediator, the merchandises he wants to sell in the Armenian market; his courier company has progressively become a company of passenger transport.

Turkish businessmen are present in textile¹⁴, various raw materials¹⁵, construction materials and timber¹⁶ sectors.

We also notice that there is a Turkish patisserie in the center of Yerevan. Its owner is Sezai, who is originally from Giresun.

The general evaluations resulting from the negotiations between the Turkish merchants and businessmen reveal the difficulties of the Armenian market. On the other hand, these evaluations which take into account the last ten years illuminate the evolution of Armenia's economic context as from the first years of the independence.

- a) It becomes more and more difficult to penetrate the Armenian market and to remain there. The fact that the market becomes more and more structured complicates the access of the businessmen, who have small capitals and who want to operate from Turkey, in the market. On the other hand, creation of distribution networks renders the sale of the imported products more and more difficult.
- b) Turkish businessmen often complain about the behavior of their Armenian partners. Armenian partners look for profit in short term and do not have any knowledge in marketing. Certain witnesses insist on the lack of their creditworthiness. Their objective is to cause the Turkish merchant to quit Armenia leaving behind the merchandises imported from Turkey.
- c) The annulment of the orders is a major risk, particularly in the case of perishable goods or the products of which the transport costs are very high.
- d) The determination of the prices of the products for exportation is made in a doubtful way. The seller may tend to increase the prices when the buyer is Turk and especially when he understands that the merchandise is for exportation.

¹⁴ There are a few companies with mixed capitals.

¹⁵ They provide particularly the commercialization of the sugar and the flour.

¹⁶ We refer in particular to a Turkish businessman we met at the Armenian-Georgian border gate Sadakhlo. He has a firm in Trabzon and exports construction materials and timber to Armenia for many years. The merchandises are delivered via Georgia.

- e) The payment of transactions poses enormous problems: payment is usually made in liquid money.
- f) The campaigns against Turkish products, which were organized in the period of political tensions between Turkey and Armenia, also worry the Turkish merchants in the Armenian market.

2. *The Kaltrade Strategy*

Kalafatoğlu group is installed in Trabzon. It operates essentially in logistics and transport fields. The name 'Kalafatoğlu' is very usually heard either in Armenia, in Trabzon or in Kars. The enterprise entered in the Armenian market by joining the efficient circumvention of the embargo imposed on Armenia.

This starts in 1994, at a time where the entrepreneurs from Trabzon elaborate new strategies taking into consideration the data of post-Cold war. Kerim Kalafatoğlu decides to make trade with Russia in 1994; however this initiative results in a failure: the enterprise cannot overcome the Russian crisis and goes bankrupt in a short time. Therefore, the entrepreneur decides to make a second try; this time his choice is other regional markets, especially Georgia and Iran. The Kaltrade enterprise transports enormous quantities of sugar. The volume reaches to 150.000 tons. Kerim Kalafatoğlu realizes that the final destination of the merchandises is in fact neither Iran nor Georgia, but Armenia. Meanwhile, the enterprise is in search of new markets. Iran and Azerbaijan do not seem very promising: the number of actors in these markets causes a very grand competition. So, Kerim Kalafatoğlu is interested in the Armenian market. At the first stage, he collects some information from the Armenian merchants working in the Grand Bazaar in Istanbul¹⁷, and then goes to Armenia together with a university member from Trabzon Technical University. This first contact permits him to get a general idea on the macro-economic context. The efficiency of the banking system or the situation of the infrastructures persuade him to take a chance in the Armenian market.

The year 1995-1996 indicates the beginning of the Armenian adventure for the enterprise Kaltrade. Kerim Kalafatoğlu decides to send the merchandise from the port of Poti towards Armenia. At that time, he does not have any warehouses. Two young employees, equipped with portable computers, are responsible for checking and signing for the merchandises... This initiative becomes fruitful and the young employees manage to sell the merchandises in the Armenian market. Kaltrade becomes, in a very little time, one of the principal suppliers for the Armenian market.

The commercial transaction is done through an international off-shore trade company based in Switzerland. Kaltrade feeds itself generally from the European market, specifically from the London market of raw materials.

Kaltrade delivers to Armenia alimentary products, consumer goods and hygiene products. The enterprise transports especially sugar and flour, which means that Armenia is fed by a Turk!

Kaltrade has at the moment a warehouse in the market of Malatya and an office on the central Baghramian Avenue, and it employs 150 persons. Kaltrade thinks of launching into flour production; its objective is to open a flour factory in

¹⁷ *Kapalı Çarşı*. Armenian merchants working in the Grand Bazaar are in particular the jewelers. They sometimes serve as mediators in the commercial transactions with Armenia. They undertake an intermediary role in the payments that are made after a commercial transaction between the two countries.

Leninkian, near the Turkish-Armenian border. The strategy of Kaltrade is usually designated an example to follow to circumvent the embargo. The enterprises which have logistic means and which have an international dimension can begin to make trade with Armenia, while the small and medium sized enterprises established in the border regions do not have any means to deliver their products. Furthermore, the closure of the border constitutes a heavy handicap for these enterprises, which, because of the transport costs, cannot make exportation: regional markets allow the small and medium sized enterprises to sell their products and to get an international experience.

Kaltrade plays a pioneer role in Armenia. It shows itself by introducing the first publicity campaigns there. On the other hand, Kalafatoğlu incarnates the image of the Turks working in Armenia: thanks to him, Armenia 'eats bread made from Turkish flour'.

Kaltrade takes political support from the group of the president Ter Petrossian. The response of Kerim Kalafatoğlu to those asking about the supports the enterprise takes is as follows: 'All the Armenian people as well as the laws in Armenia!' The offices situated on the Baghramian Avenue become a point of passage that cannot be ignored and receive sometimes Turkish authorities.

Since 1998, the Kaltrade strategy has reached its limits. The year 1998 indicates the beginning of political and economic difficulties for the group. Russian crisis in 1998, which caused a considerable devaluation of the rouble, gravely affected the enterprise Kaltrade. It could not react on time to anticipate the effects of the devaluation. The difficulties of delivering the merchandises pushed Kaltrade to operate with important stocks. Deliveries were being made in grand quantities and the provisions were monthly. On the other hand, the merchandises coming largely from the European markets were brought in foreign currency. The devaluation of the rouble permits the Russian flour producers, who have never entered the Armenian market before, to win the competition. Kaltrade is not in a position to enter into this competition: the company finds itself in the incapacity of selling its stocks.

On the other hand, Kocharian group's coming into power in 1998 starts a new period. This direction change is interpreted as the creation of new networks, and so, the ways to enter the political sphere modify. Henceforth, the game is run by the businessmen originally from Upper-Karabagh¹⁸. The economic advantages granted in the form of fiscal exemption allow the enterprises, which are included in these networks, to enter the market. The other suppliers cannot overcome this new competition. This process gradually proceeds towards the constitution of oligopolys; a trend which is also obvious in the flour market. The financial fraud which, according to the general director of the Kaltrade¹⁹, is made with the benevolence of the Armenian authorities, allows importing flour which is exempt from all customs duties: the indicated final destination is Upper-Karabagh.

The enterprise Kaltrade is affected both by the devaluation in Russia and by the creation of these new networks. It decides to leave Armenia in 2000. The Kaltrade case is a good illustration of the impact of economic and political restructuring on the strategies of foreign firms in Armenia. The margin of maneuver of the foreign enterprise which wants to make exportation or production in Armenia is restricted. The structure and the rationalism of the Armenian market lead to the creation of production and distribution networks. This also means the reinforcement

¹⁸ Interview with Kerim Kalafatoğlu in May 2001 in Trabzon.

¹⁹ Interview with Kerim Kalafatoğlu in May 2001 in Trabzon.

of the regulations. However, this judicial structure is on a par with the development of corruption. Elaboration of the legislation accompanies the creation of the networks of which the objective is to circumvent the corruption. It becomes gradually more difficult for the foreign enterprise to compete with a local enterprise which can juggle the newly established laws. According to the interviewed businessmen, the solution may be to work with an Armenian partner so as to enter the 'sphere of political economy'.

3. Shuttle trade between Turkey and Armenia

Entrance into force, in December 2000, of the decision compelling the Armenian citizens to obtain a visa to enter the Turkish territory radically changed the data regarding the shuttle trade and the conditions in which this transaction takes place. The interviews clearly indicate that the implementation of the decision marks a turning point in the shuttle trade and the contacts between the two countries. This study depends on the data collected during our travel from Yerevan and Istanbul by bus.

Bus companies shuttling between Yerevan and Istanbul constitute an important information source. Since January 2001, the number of bus companies has recorded a net decrease: the activity is continued largely by two Turkish firms, Aybaki and Mahmudoğlu. There are two other companies: AST and Buse. A company which is 100% Armenian cannot work in this sector as long as the buses registered in Armenia are not allowed to enter the Turkish territory. The buses communicating Yerevan and Istanbul are all registered in Turkey. The directors of the companies confess that these buses, of 1992 model, cannot be used in Turkey.

As from the beginning of 2001, the companies do not reach anymore satisfying passenger rates. A particular attention will be paid to the company Aybaki in our study, as we chose this one for traveling.

Typology of passengers

The women constitute more than 80% of passengers. The average age is between 35-40 years. It is possible to classify them into different categories according to their reasons for traveling to Turkey.

Women who make shuttle trade constitute more than the half of passengers. They do not stay in Istanbul more than three days as their objective is to do shopping in the minimum time and to spend minimum money during their stay. Some of them use Turkey as a transit country as their destination is the European Union. The oldest ones among them usually go to work illegally for the Armenian families in Istanbul. The last group indicates that they go to '*work in the hotels*': the prostitution is one of the activity domains.

The number of passengers

The data are collected from the company Aybaki. Before December 2000, the company was transporting 800-1000 passengers per month and the average over three months was about 2500 passengers. Since January 2001, the date of new legislation, the number of passengers is divided by ten. Aybaki declares not transporting more than 150 passengers per month anymore. 250 passengers traveled between Yerevan and Istanbul from January 15 to the beginning of April 2001.

Estimations on the amount of shuttle trade

The companies estimate that the passengers of one bus do shopping of approximately 100.000 dollars. In the period before January 2001, the sum of shuttle trade was estimated to be about 2 billions of dollars per year. Four firms were operating in the market and every company was having two tours in a week between Yerevan and Istanbul. The buses were equipped with a trailer. The trailer, almost empty while going²⁰, weighs nearly 15 tons while returning.

Evolution of the shuttle trade

In the first years, the final destination was Trabzon: Armenian merchants were purchasing the merchandises from Trabzon. However, very rapidly, this port of the Black Sea is forsaken for Istanbul. The merchants became professional and FILIERES of provision are put into practice. The prices in Trabzon are not in a position to compete with the prices of the market of Istanbul. In fact, the merchandises are purchased only from certain places, directly from the producer or the wholesaler. The Armenians, who are specialists of shuttle trade, know very well the market of Istanbul. The Turks who accompany them know at which point the market studies of Armenians are reliable²¹. Two days spent in Istanbul are sufficient for them to do all their shopping. In consequence, despite the supplementary distance, purchasing merchandises from the market of Istanbul is more profitable than doing it in Trabzon. As Trabzon is not a center of production, the prices of merchandises incorporate the transport costs. On the other hand, the choices in Istanbul are more. Yet, the markets relatively close to Yerevan – it is the case of Trabzon – permitted the Armenian merchants to gain experience which they were gravely lacking during the first years of the independence and of opening outwards²².

During the years, the Armenian merchants began to orient themselves towards other destinations. Turkey, especially since the entrance into force of the new legislation about visas, is seriously competed against by Russia, Iran²³, Hong Kong, China and Dubai. This last destination deploys a particular effort to attract Armenian merchants, by very interesting travel formulae.

The effects of the new legislation related to the visa requirements for the Armenian nationals

Until recently, Armenian citizens could easily enter the Turkish territory. They just had to pay a sum and buy a vignette at the Turkish border: it was mostly related to a regulation about an entrance tax, not obtaining a visa. No other preliminary action was necessary. In consequence, traveling between Yerevan and Istanbul was very easy. The new legislation, entered into force at the beginning of 2001, enormously complicated the entrance of Armenian nationals in Turkey. This new legislation was presented as a retaliatory measure against the initiatives of Armenian Congress trying to recognize the Armenian Genocide. The adoption, by the French Parliament, of the law recognizing the Armenian genocide rendered politically impossible every kind of initiative to cancel the new legislation. Absence of diplomatic relations, the closure of the border and the economic embargo had

²⁰ The companies also transport certain merchandises.

²¹ 'They know the places which we have never heard of!', note usually the Turks whom we met in the bus companies or on the way.

²² A detailed description of the traveling conditions is given in the following part, under the title of "Georgia, a transit country".

²³ Iran is not a usual destination, particularly because of the visa fees increasing to 150 dollars.

reduced the contacts between the two countries to minimum. They had only two trump cards to use against Armenian government: first, the closure of the air corridor which might be perceived as a radical measure, second, the imposition of the visa requirement for the Armenian nationals was an intermediary measure.

This new measure did not affect all the Armenians equally. The most influenced group is those who go to Istanbul by bus. Should Armenia and Turkey do not start diplomatic relations, visa demands must be made to a Turkish Embassy in a third country. This demand is made either to the Turkish Embassy in Moscow or to the Embassy in Tbilisi. Armenians who wish to go to Istanbul by plane apply to the Embassy in Moscow. The consular section grants visa in two days, while getting a visa from the Turkish Embassy in Tbilisi takes at least one month. However, the shuttle merchants who prefer to travel by bus apply to the Embassy in Tbilisi. A round-trip plane ticket for Yerevan-Istanbul is about 280 dollars, while the price of a bus trip does not exceed 100 dollars²⁴. Visa demands are made through the bus company which collects files and send them to Tbilisi. The response is received only after one month. Those who get a positive response can set out on their trip. The long time in obtaining a visa limits the number of travelers towards Istanbul. That is why the buses serve only once a month.

The new regulation forces the bus companies to alter their course: Tbilisi has become an obligatory point of passage, because those who get a positive reply to their visa demands have to approach in person the Turkish Consulate in Tbilisi, with their passports, to get their visas. This obligatory passage from Tbilisi prolongs the voyage for half a day.

Departure from Yerevan takes at about 19.00-20.00 hours. The bus arrives at the Georgian border at about 24.00, and enters the Georgian territory towards 03.00-04.00 in the morning. Then, the bus halts at the station of Tbilisi to wait for the opening of the Consular services. Towards 09.30, the bus arrives in the city center of Tbilisi and sets out to the Turkish Consulate. The passengers hand in their passports at the entrance of the Consulate and pay 30 dollars per person to the Georgian guard who is in charge of collecting the passports. Officially, visas are granted gratis to the Armenians²⁵. A Turkish officer working at the Consulate descends to look at the passengers from a distance. The passengers have to come back at 16.00 to collect their passports. The bus returns back to the station and the waiting starts. Very few passengers leave the station during these waiting hours; the objective being to spend as less money as possible on the road, most of them prefer to stay and have their lunch in the bus. After these waiting hours at the station, come the supplementary kilometers on a road of which the state seriously prevents to progress.

It is not difficult to imagine at which point the new legislation is unpopular among the Armenian population. These measures bring out an "anti-Turk" trend in the country. Turkey is considered as an oppressor country which tries to strangle the Armenian population by inhibiting them from leaving their country. Turkish authorities of the bus companies declare witnessing an increase in the protests against Turks since January 2001.

May 2001

²⁴ Note that the price of bus tickets is variable. It depends on the agreement between the passenger and the company. Usually, what is invoiced is not the price of the ticket, but the cost of transportation of the merchandises by the trailer while returning from Istanbul.

²⁵ A law text is necessary to determine the fee of the visa granted to the Armenians. Without this text, no Turkish Consulate can demand money for visas. Unofficial taxes of 30 dollar collected by the Georgian guard are paid by the Armenian passengers without any objection.

January 2002: liberalization of the visa regime

In January 2002, Turkey decided to return to the visa regimes which were in force before January 2001.

Henceforth, Armenian nationals could penetrate the Turkish territory by paying a 10 dollars tax at the border. The new measure is adopted during a meeting between the representatives of the Foreign Affairs and Industry Ministries in order to establish the visa and the immigration regimes for the year 2002. In fact, this meeting is held traditionally in January every year; however the fact that the revision of the visa regimes applied to the Armenian nationals took place a few days before the governmental visit of the Turkish prime minister to the United States did not escape notice.

The Turkish Ministry of Foreign Affairs presents this decision as "a sign of good intention", which can be explained by humanitarian considerations: "We took into considerations the numerous problems with which the Armenian nationals are facing to get their visas from the Turkish Consulates situated abroad", explains a representative of the Turkish Ministry of Foreign Affairs²⁶.

3. Georgia: a transit country

Georgia considerably benefits from its geographical location. It has a geographical and even geopolitical profit. On the other hand, the strategies elaborated by the Armenian administration²⁷ or the ones supported by the programs that are financed by the EU²⁸ contributed to accentuate the centrality of Georgia. The reactivation of the theme of "the silk road" under different forms accentuates the centrality of Georgia. The TRACECA – or the Europe-Caucasus-Asia corridor – program elaborated by the EU gives a preponderant place to Georgia and the port of Poti is presented as the transit port, in particular, of the new system.

A. TRACECA, Europe, Caucasus, Asia corridor

In May 1993, a conference reunites, under the auspices of the European Commission, the representatives of eight States of the former Soviet Russia. At the end of this conference, the participants adopt three principal commitments: the States undertake;

- to contribute to the development of the cooperation in the field of trade,
- to promote the concept of the transport corridor of "Central Asia-Tran Caucasus-Europe",
- to define the content and the calendar of the technical assistance program which will be financed by the EU.

Hence, the TRACECA – a piece of the intergovernmental program of TACIS comes into being. Sectorial working groups are formed and a special team provides the coordination. The participants in the TRACECA program are the national railway companies, the road transport and logistics companies, the chartering companies

²⁶ "Turkey eases visa restrictions for Armenians", *Turkish Daily News*, 17/01/2002.

²⁷ The Baku-Tbilisi-Ceyhan pipeline project and the "Silk Road Strategy Act" of the American government. Sam Brownback, Cf. *US Economic and Strategic Interests in the Caspian Sea Region: Policies and Implications*, June 1999.

²⁸ The TRACECA-TRACIS program of the European Union: www.traceca.org

on the Caspian Sea and the ports of Odessa, Poti, Baku, Turkmenbashi, Aktau and lastly the transport and logistics companies and the Customs agencies.

The objective of the EU is to link the Caucasus and the Central Asia with Europe by a road alternative to the traditional road passing across Russia. At this juncture, it must be kept in mind that the implicit motto of TRACECA is "circumvention=destabilization".

At that time, the EU undertook the finance of 25 technical assistance projects, amounting to 35 millions of euros, and 11 investment projects for the rehabilitation of infrastructures, amounting to 47 millions of euros.

On the other hand, searching for dialogue and cooperation between the governments participating in the program constitutes one of the principal preoccupations of the EU. A series of accords aim at increasing the commercial attractiveness of this road. The TRACECA corridor, the commercial road connecting Central Asia and the ports of the global markets, will be a road commercially profitable: consequently, the transport of merchandises across this will be rapid and cheap.

A conference held in Tbilisi in April 1997, in which participated 16 countries including the members of the BSEC emphasized the necessity of connecting the TRACECA corridor with the European transport corridors. These 16 States came together one more in 1997 in Helsinki during the Pan-European transport area²⁹ was made. The objective was to extend the European transport networks eastwards.

The following year, these same States meet in Baku, with the initiative of the president of Azerbaijan, Aliyev and his Georgian counterpart Shevardnadze. A multilateral agreement on the international transport on the international transport³⁰ is ratified. The objective is to prepare a favorable terrain for the development of economic and commercial relations and therefore of the transport networks between Europe, the Black Sea region, Caucasus, the Caspian Sea region and Asia.

The road of the TRACECA corridor augmented the importance of certain ports in the region. European Bank of Reconstruction and Development (EBRD) undertook the finance of the projects aiming to ameliorate the maritime connections in the Caspian Sea region. Therefore the Bank lent money for the renewal of some ports in the region:

- the port of Turkmenbashi benefited from an amount of 20 millions of dollars,
- the port of Baku benefited from an amount of 18 millions of dollars,
- 54 millions of dollars are lent for the port of Aktau.

Poti constitutes a central element in the plan of the TRACECA corridor and is included in a special strategic development plan; because the Georgian territory provides a connection between Yerevan, Tbilisi and Baku, places Poti in the center of the renewal and the infrastructure programs in Caucasus and Central Asia: as it is the sole point in the Asian-Caucasian region opening to the Black Sea, it is normal that Poti plays a central role in the projects aiming to communicate the TRACECA corridor and the Tran European transport networks.

²⁹ Pan-European Transport Area

³⁰ *Basic Multilateral Agreement on International Transport for the Development of the Transport Corridor Europe-Caucasus-Asia*, September 1998.

During the first joint conference unifying the BSEC member countries and the countries participating in the TRACECA program, Ukraine and Georgia demanded the reinforcement of their maritime communication. The two countries wanted a *ferry-boat* line to be put into effect between the Georgian port of Poti and the Ukrainian port of Illiychevsk. This application is expected to render possible a connection between the Corridor IX and the TRACECA. The project is undertaken and will be financed by EBRD.

For the time being, two ferries provide connection between the Georgian port and the Ukrainian port with a capacity of 108 wagons, and can also transport heavy vehicles or cars. On the other hand, Poti has a connection to the Bulgarian ports of Verna and Burgos. Verna is one of the ports privileged by the project of communicating the TRACECA corridor to the Pan European Transport Corridors.

B. The port of Poti: outlet of Armenia to the Black Sea and regional port

The data presented below are collected by the Belgo-Georgian House, the bureau of economic and cultural relations between Belgium and the Republic of Georgia.

- Currently, the port of Poti has a superficies of 72 ha.
- Out of these 72 ha., 26 are reserved for industrial production.
- 25.000 m² are for depots.
- 3 quarters are for containers and 1 petroleum terminal (project).
- There are 14 factories specialized in the transformation of oleaginous products (in progress).

Direct and round maritime communications are established between Poti and Verna (Bulgaria), Burgos (Bulgaria), Sochi (Russia). And new lines will be opened towards Constantza (Romania) and Ilychevsk (Odessa, Ukraine).

At present, the factories of oil transformation can produce up to 5.000.000 tons/year. The construction of a cereals terminal with a grand capacity is in progress in the port, and is financed partly by the European Community, World Bank and numerous private firms.

Some works are also being carried out in collaboration with the Hamburg Port International Transport, Engineering and Construction (Germany): (IBTCC-Cornel Group). These studies are carried out to optimize and to ameliorate the technical profitability of the port of Poti.

Source: Belgo-Georgian House,
<http://home.worldonline.be/~acrosier/poti.htm>

List of the projects that are carried out

- Within the framework of the TACIS Program, the German firm HPIT currently undertakes the repair works of the quays no 6 and 7, which are destined for receiving the containers resulted from the tenders financed by the European Community. The budget is 14.000.000 \$.

- For the quay no 8, to rehabilitate the cereals terminal, the EBRD prepares a finance of 15.000.000 \$, for which a tender will be launched.

- For the rehabilitation of the quays no 9, 10 and 11, Netherlands made investments within the framework of the F.S.O project. The Dutch firm TEBODÏN Ets. has started to work.

- The Japanese firm "Mitsubishi Corp." in collaboration with the Turkish firm "Sovtour" is interested in the construction of a universal complex for the quay no 15. This project is now under feasibility study. 39.000.000\$. 315 meters long, 3200 m² of closed depot and 26.000 m² of open depot.

- 22.5 hectares of the port of Poti will be devoted to the establishment of a gas terminal which is planned to receive 600.000 m³ of gas to be transferred to the ships on the open sea (in progress). This project is a collaboration between the Georgio-Turkish firm "Dabgaz" and the executives of the port of Poti.

- The northern container terminal is a work of Georgian government, financed by a credit of the Japanese government. The Japanese firm "Nippon koey" won this tender. In January 1999, "Saprof" made the last application to the tender for the extension of the development of the zoning.

- On 09/02/1998, the European Community established a railway communication project between Poti (departure: quay no 2) and Ilychevsk (Odessa, Russia). The goal of this project is to optimize the use of the TRACECA corridor. On the same occasion, Europe develops the project of renewing the road corridor between Poti and Ilychevsk. The Greek firm "Athena Helleniki Technolomiki" has recently undertaken a part of the works within the framework of the tenders.

- This project includes:

1. construction of bridges,
2. construction of a road network 10.000 km.,
3. general infrastructure (signalization of the roads).

The financing of the EC amounts to 5.000.000 ecus.

Capacity of the port of Poti

No of the Quay	Length in meters	Unloading specialties	Equipment
01	200	- minerals - oleaginous products	- 3 cranes with a lifting capacity of 20 tons - <i>Light oil handling terminal</i>
02	185	- minerals - chemical products	- 3 cranes with a lifting capacity of 20 tons - <i>Liquid chemicals handling equipment</i>
03	215	- metals - equipments - pipes	- 5 cranes with a lifting capacity of 20 tons
04	174	- manures - scrap iron - diverse freights	- 2 cranes with a lifting capacity of 20 tons
05	173	- manures - scrap iron - diverse freights	- 2 cranes with a lifting capacity of 20 tons
06	200	- metals	- 2 cranes with a lifting capacity of 20 tons
07	170	- containers	- 3 cranes with a lifting capacity of 40 tons
08	220	- cereals	- 3 cranes with a lifting

		- diverse freights	capacity of 20 tons
09	180	- perishable goods	- 3 cranes with a lifting capacity of 6 tons
10	180	- perishable goods	- 3 cranes with a lifting capacity of 6 tons
12	220	- passenger terminal	
13	97	- passenger terminal	
14	250	- fishing float	

Source: Belgo-Georgian House, <http://home.worldonline.be/~acrosier/poti.htm>

Projects for the modernization of the port of Poti

Name of the project	Type of investment	Cost in \$	Length of the works	Return of investments
Construction of the ferry-railway terminal at the port of Poti	Long-term	30.700.000	24 months	4 years
Construction of the ferry-automobile terminal at the port of Poti	Long-term	8.573.150	27 months	3 years
Construction of the container terminal at the port of Poti	Long-term	21.374.000	18 months	14 years
Construction of the loading quay of the port of Poti	Long-term	7.699.230	25 months	14 years
Construction of the cereals terminal at the port of Poti	Long-term	42.253.370	27 months	12 years
Construction of the oil, gas and chemicals terminal at the port of Poti	Long-term	55.330.000	30 months	10 years
Construction of the ferriferous terminal at the port of Poti	Long-term	1.350.000	5 months	3 years

Source: Belgo-Georgian House, <http://home.worldonline.be/~acrosier/htm09.htm>

C. The transit incomes

Georgia exploits this geographical profit and takes a considerable advantage of the incomes from the transit. The passage fees, which constitute an obstacle for the development of the intra-regional trade, represent a considerable cost for the countries of the region.

The communication roads which connect Armenia to the rest of the world traverse Georgia. The road passing across Sarp-Batumi allows Turkey to enter Caucasus, Russia and Central Asia. As the railway line between Akyaka and Gumru has become unusable due to the closure of the border gate of Doğu Kapı, the construction of a railway line connecting Turkey and Georgia has come on the agenda. The railway network is planned to start from Ahalkalaki, in the southwest of Tbilisi and extend southwards about 114 km until reaching Mezra and joining the existing railway line between Doğu Kapı and Kars. 32 km of the network will be in Georgia and 82 km in Turkey. However, the realization of this project is not certain yet because of its excessive cost (more than one billion of dollars).

The development of the external economic relations of Armenia suffers from the passage fees collected by Georgia. Armenia, who has to face with a double embargo and whose borders with Turkey and Azerbaijan are closed, has to get along with its neighbor, Georgia. As to Georgia, it benefits from this good rapport of force which is clearly in its favor.

Turkey also complains about the passage fees collected by Georgia. Georgia, considered as a strategic partner, is rarely criticized. However, it is sufficient to go to the region to catch on that numerous Turkish enterprises are injured.

About thirty enterprises implemented in the free zone of Trabzon complained in 1996 to the Turkish Ministry of Foreign Affairs about the improper passage fees collected by Georgia. The enterprises denounced especially that the heavy vehicles registered in Turkey were more heavily taxed than those registered in a European country. The enterprises demanded the support of Turkish authorities to struggle against the Georgian practices which limited the exportation capacities of the enterprises, harming the development of the free zone of Trabzon.

Even if the passage fees collected by Georgia limit the exportation capacities of the enterprises and the development of the Turkish ports on the Black Sea, their effects on the economic situation in Armenia are graver. Georgia is the country which allows Armenia to open towards the rest of the world.

1. Road connection

The Armenian road network (7.700 km) serves, despite its obsolescence, through the whole country. It is available the whole year. The passages through this road to Azerbaijan and Turkey are closed.

2. Passage fees for heavy vehicles and buses

A heavy vehicle which traverses the Armeno-Georgian border has to pay almost 700-800 dollars. In this case, a heavy large vehicle which goes to Armenia would have to pay about 1350 dollars. Generally speaking, the vehicles registered in Armenia pay maximum 700 dollars.

A witness in the area indicates that traversing the Georgian territory necessitates a payment of 2000 dollars. Other estimations made by businessmen who deliver merchandises from Turkey to Armenia or by the professionals of the transport and logistics sector, evaluate as 2500 dollars the cost of the travel of a heavy vehicle from Istanbul to Yerevan; the cost of fuel is not taken into account³¹. The cost of a travel between Istanbul and Tbilisi reaches 1500 dollars. Furthermore, the first 700 kilometers of 2200 kilometers which separate Yerevan and Moscow represent 80% of the total distance.

Traveling between Istanbul and Yerevan by bus necessitates 2000 dollars. Any vehicle penetrating the Georgian territory has to pay a passage fee of 360 dollars, on which a 140 dollars-tip is added systematically.

The principal roads

- Yerevan-Achtarak-Spitak-Tachir-Tbilisi or Yerevan-Achtarak, Spitak-Vanadzor-Bagratachen-Tbilisi linking Armenia and Georgia.
- Yerevan-Achtarak-Gumru-Achtosk Bogdan linking Armenia with the Georgian ports of Batumi and Poti. The average length of delivery is about 4 days (700 km).
- Yerevan-Erzakh-Vaik-Goris-Kapan-Meghri which extends until the occidental Iran border. The part traversing Nakhitchevan of this road is no more passable. There exists a deviation until Goris by another principal road.

The Yerevan-Vanadzor-Ayrum-Sadakhlo-Marneuli-Tbilisi line is the road the mostly used by Armenia. This 280 km long road communicates Armenia with the ports of the Black Sea, Georgia, Russia, Turkey and the EU. The Armenian transit trade, as well as the Armenian national traffic, uses essentially this communication axis.

The 130 km connecting Yerevan and Vanadzor has recently been rehabilitated thanks to the first credit of World Bank. The remaining 180 km, especially the first 20 km after the Georgian border, are in a catastrophic state. The road has completely collapsed; there is no macadamized road, and the grand crevices impede the progress³².

The rehabilitation of this part of the road is undertaken by the TRACECA program: the link between Yerevan and Tbilisi is included in the corridor designed by TRACECA. The works for the renewal of the roads between Baku, Tbilisi and

³¹ The cost of fuel reaches nearly 1000 dollars.

³² The Aybaki bus which provides communication between Yerevan and Istanbul also uses the same road. Although we were informed of the status of the road after the Georgian border, we are grandly stupefied: it is very difficult to believe that this is the commercial road the mostly used by Armenia and that a grand amount of road communications of Armenia with abroad is carried out through this road. Similarly, thinking that the Aybaki bus, with which we are traveling, will use the same road with its trailer weighing 15 tons while returning from Istanbul, is quite difficult.

Yerevan³³ are within the framework of the program considered at the Caucasus level³⁴.

The border line Ayrum-Sadakhlo is situated on the Dabbed river which constitutes the border. The circulation volume is relatively weak. Almost 125-150 vehicles traverse the border every month. 85% of the vehicles are light vehicles and the remaining 15% are the heavy vehicles of which the destination is Armenia. The circulation is increased by 40% during these three last years.

Source: The Commercial Guide 1999, Commercial Service of the French Embassy in Yerevan.

www.ambafran.am/ServComm/page6.htm

The authority of the Georgian Customs services functions partially within the limits of semi-autonomous regions. In the Abkhazia region, Georgian Customs services do not have any authority, while this authority is very limited in the region of Southern Ossetie and Adjarie. In Adjarie, almost the half of the incomes collected at the borders remains in the region. This judicial confusion and the decentralization of the Customs authorities accentuate the corruption phenomena. The limits of the Adjarie region are marked by a border gate on the Tbilisi-Batumi road. Money extortions from the passenger are considered as a current practice at the Georgian borders. This practice affects mostly the Georgian nationals and the Armenians. It can be noticed that Turkish bus and heavy vehicle conductors who, in majority, have been working for about 10 years in the region and who witnessed the Georgian civil war years, have gained a remarkable skill and experience. They know very well how to deal with the Georgian Customs guards. The domination of the transport and logistics enterprises from the Black Sea is again obvious. The conductors are mostly of *Iaz* origin and fluently speak Georgian.

The classical practice of extortion begins with the confiscation of passports, under the pretext of an identity control: the passenger who wants to collect his passport must pay the requested sum.

3. Poti: the port of Armenia

According to the data established by the authorities of the port of Poti, 5000 containers were transported between Armenia and the rest of the world: Poti is the transit port of Armenia.

Poti is equipped for the transport of the containers. Batumi is usually used for the transport of oil products. The length of delivery to these ports³⁵ can attain 10 days by railway³⁶ and 4 days by truck. There are many stocking sites and warehouses along this line. The most important ones are in Yerevan.

³³ TACIS/TRACECA, Feasibility Study for the Rehabilitation and the Reconstruction of the Road Link Between Baku, Tbilisi, Yerevan; www.traceca.org/projects.htm

³⁴ TACIS/TRACECA, Feasibility Study for the Rehabilitation and the Reconstruction of the Road Link Between Baku, Tbilisi, Yerevan; www.traceca.org/projects.htm

³⁵ The distance is 700 km.

³⁶ The length is about 12-24 hours in theory, but, in practice, a train transporting containers leaves Yerevan only if it is reasonably charged, and the formalities at the border can take 48 hours.

According to the data of the professionals of the logistics sector³⁷, the transport of a container for 600 km, from one of the Georgian ports on the Black Sea to Yerevan costs nearly 2000 dollars: the transport of a 20 feet container costs 1400 dollars and that of a 40 feet container costs 1800 dollars.

Furthermore, the opening of Armenia to the Black Sea is provided by the Georgian territory and Poti is the port of Armenia. The fact that 1.2 millions tons wheat is delivered every year from the port of Poti to Armenia gives a clear idea on the importance of the connection. The transport of about 40 trucks is available in two directions. This connection facilitates the transport towards or from Europe. The merchandises destined for Europe have compulsorily to traverse the port of Poti, 650 km far away from Yerevan. The proposed formulae intend to transport the 20 or 40 feet containers by truck or train between Yerevan and Poti, and then by ship towards Europe and the rest of the world.

The corridor chosen by the TRACECA program is devoted to this formula: the works for the renewal of the Yerevan-Vanadzor-Ayrum-Sadakhlo-Marneuli-Tbilisi road has gained so much importance that this road is perceived as the principal communication axis linking Armenia with the ports on the Black Sea.

4. The stakes in the opening of the border: the case of Armenia

Armenia, which was one of the most industrialized republics of the Soviet Union, subjects to an economic collapse at the beginning of 1990s. While the effects of the 1988 earthquake are still alive, the young republic has to face with a conflict with its neighbor, Azerbaijan. Armenia not only loses its traditional exportation markets, but also is exposed to a double embargo imposed by both Azerbaijan and Turkey. The interruption of petroleum and gas supplies coming from Azerbaijan plunges the country into a grave energy crisis. The suspension of this supply has an immediate effect on the capacity of electricity production. The shortage severely affects the industrial production and imposes the reopening of in 1995 the Medzamor nuclear power station, closed in 1989 after the earthquake for the security reasons.

In 1994, hyperinflation reaches 5273%. The government, thus, decides to implement a program of economic stabilization and budgetary rigor and launches a privatization program with the support of the international financial institutions. The inflation declines to 18.8% in 1996. Currently, Armenia is economically stable: the inflation rate does not exceed 5%, the budget deficit is about 4.9% of the GDP, and in consequence the exchange rates evolve. On the other hand, the Armenian economy record, since 1994, growth rates varying between 5-7%, and the growth rate for the year 2000 is of 6%. In 2001, the official statistics reveal a growth rate of 9.6%. However, the same year, the GDP of Armenia – about 2 billions of dollars – reaches only the two thirds of its level in 1991.

The structural reforms progressively permit to pass to a market economy: the government gives priority to the pursuit of the privatization program: in 1998, 5900 out of 7500 state enterprises were privatized, including some 1600 SMEs. On the other hand, 1998 is the year which sees the privatization of grand national enterprises such as the telecommunications company Armentel Telephone Communications, Hotel Armenia or the brandy production company Ararat. The government published the list of strategic enterprises which will be privatized before the end of 2001.

³⁷ Data collected from different firms of the logistics sector in Trabzon and Armenia.

However, the amelioration of the economic situation and the macroeconomic aggregations cannot cover a reality less cheerful: the industrial production is 64% less than its level in 1990, 55% of the population live under the poverty line, the unemployment rate is over 10% and Armenia is one of the countries which have the highest emigration rates in the world. The country is dependent upon the humanitarian aid, particularly on wheat, rice and fuel deliveries.

Armenia is the second grandest beneficiary of the American aid³⁸ after Israel. It also benefits from the money that the emigrated Armenians send to their families. The donations made by the Diaspora represent approximately 500 millions of dollars per year, or according to other estimations, more than 50 millions of dollars per month.

Despite these gains, Armenia gains very little from its production activities. Among all the members of the CIS, Armenia is the country which receives the least direct foreign investments: they represent only 8.8% of the GDP. The amount of exportations reaches only 2.5% of the GDP while this percentage is at the level of 20% in many countries in transition. Armenia imports goods and services four times more than it exports.

The Armenian economy is still very fragile and the economic future of the country is uncertain. The current economic and political context does not permit to follow long-term strategies. Armenia is affected by three evils: the weakness of the direct foreign investments, the narrowness of the market and the exorbitant transportation costs. These three evils have a common reason: the natural enclavement of Armenia which is aggravated by a double embargo. The closure of the borders with Azerbaijan and Turkey has an enormous cost and gravely handicaps the economic development of Armenia.

Reaching the port of Poti from Yerevan

The merchandises destined for Europe have compulsorily to traverse the port of Poti, 650 km far away from Yerevan. The formulae proposed by the transport companies intend to transport the 20 or 40 feet containers by truck or train between Yerevan and Poti, and then by ship towards Europe and the rest of the world.

The following tariffs all include the Customs and the transit taxes. The first number corresponds to the transport price of a 20 feet container, the second one corresponds to that of a 40 feet container.

- Transporting by train: 1100\$ and 2200\$. The length is between 7 and 10 days; the train does not depart until it is loaded (3 containers per platform).
- Transporting by truck: 1400\$ and 1800\$. The length is 3 days of which at least 1 is spent at the Customs for the formalities. This formula, which is the faster one, is used the most.

It is possible to communicate, by sea, from Poti to Novorossiysk, Odessa, Constantia, Varna, Istanbul and all the grand European ports: Malta, Naples, Venice, Genes, Marseilles, Barcelona, Valence, London, Anvers and Rotterdam.

The tariffs at the departure from the port of Poti are as follows:

- Poti-Marseilles: 700\$ and 1400\$
- From Poti to the Italian ports (Ancones, Trieste, Venice, Genes and Naples): 650\$ and 950\$

³⁸ It is calculated per capita.

- From Poti to the northern ports of Europe (London, Rotterdam, Anvers, Hamburg, etc.): 1200\$ and 2000\$

In destination to Poti, the tariffs are higher (importation taxes are included)?

- Marseilles-Poti: 1300\$ and 1950\$
- Odessa-Poti: 950\$ and 1650\$
- Italian ports-Poti: 1200\$ and 2000\$
- Athens-Poti: 700\$ and 1400\$
- Spanish ports (Barcelona or Valence)-Poti: 1400\$ and 2300\$

Source: The Commercial Guide 1999, Commercial Service of the French Embassy in Yerevan.

www.ambafran.am/ServComm/page6.htm

A. The cost of the embargo

Armenia is distant from the grand markets of Europe, North America and South-Eastern Asia. The entrance in the Russian market is limited by the mountainous relief; furthermore, the consumption centers are situated in the north of the country.

The markets of the neighbor countries are the best markets for the Armenian production. The regional market, which is limited considering the global scale, is not negligible for a country such as Armenia. Two factors permit to measure the cost of the embargo: the closure of the Turkish and the Azerbaijani border augments the transport costs and thus, overcomplicates the communication of the country with the rest of the world and interdicts it to enter the regional market.

1. The cost of the transit across the Georgian territory

The professionals of the transport and logistics sector declare that, in case the Turkish-Armenian border opens, the transit traffic towards Armenia may be forsaken, in a month, for the Turkish ports along the Black Sea. The traffic of containers is expected to be the most affected one; the general cargo transport may continue to be done through the port of Poti if the Turkish railway system does not efficiently provide the transport. In case of the utilization of the Turkish ports along the Black Sea, road transport costs might be diminished by 25%. The economies made may reach 1.9 millions of dollars, or, if a quarter of the traffic continues to be done through the port of Poti, 1.4 millions of dollars. In this case, Georgia's loss in transit revenues would be 5.6 and 7.4 millions of dollars; which would equal to a diminution by 16-20% of the excessive gains obtained from the cargo services, in the balance of payments.

2. The importance of the regional market

The regional market includes Georgia, Azerbaijan, north-eastern Iran and Eastern and South-eastern Anatolia³⁹: a market with 50 millions of consumers, which represents a GDP of 10 billions of dollars. In terms of GDP, eastern and south-eastern Anatolia and north-eastern Iran represent one third of the regional market.

³⁹ This region represents 9% of Turkey's GDP, it can be noticed that the products will easily be delivered to whole Turkey; the state of the Turkish road network will allow the Armenian producers to easily reach the Turkish market.

However, Turkish and Azerbaijani embargoes hinder entering the 44% of the regional market: the markets of eastern and south-eastern Anatolia and of Azerbaijan are closed. The embargoes increase the cost of entering the 38% of the markets represented especially by north-eastern Iran⁴⁰. The closure of the borders with Turkey, Azerbaijan and Nakhitchevan harms the communications between Armenia and Iran. The distance between Yerevan and Tebriz is 350 km, the road traversing the Turkish territory and Nakhitchevan become impracticable in 1990s. The road, which is currently being used is 50% longer than the traditional road and traverses an area more difficult due to the relief. On the other hand, the railway network linking Armenia and Iran passes across Nakhitchevan and is unused.

The difficulties of delivering merchandises hinder the flow of exchanges in certain sectors, particularly that of construction materials, certain products such as meat, flour or glass which necessitate special transport conditions.

A study prepared by the Armenian Ministry of Industry and Commerce reveals that, in case of the removal of the two embargoes, opening of a sole railway line will increase the Armenian exportations by 25%, while opening of four railway lines will double the exportations. The potential gain will be between 75-300 millions of dollars. The opening of the border between Turkey and Armenia as well as the one between Armenia and Azerbaijan will permit the Armenian exportations to increase by 62 millions of dollars and the GDP of Armenia will be multiplied by 3.

The importance of transport costs, the expenses of transit which is added on them, the narrowness of the national market which is intensified with the difficulty of entering the regional and global markets seriously harm the economy of Armenia and hinder the development of private sector. The narrowness of the national market cannot justify the investments which are yet necessary for the modernization of production; on the other hand, the transport costs limit the exportation capacities of the Armenian producers.

Armenian Customs

The time necessary for the merchandises to be cleared through customs while entering Armenia represents a considerable cost. The waiting hours spent at the border during our travel from Yerevan to Istanbul is a proof of it: it took us about 4 hours to wait; the wait was so long that the trailer of the bus was almost empty and the passengers did have nearly nothing to declare!

The time necessary to clear through customs a cargo going from Georgia to Armenia will be⁴¹:

- by road: 35.2 hours without gratuity and 11.2 hours with gratuity;
- by train: 29.9 hours without gratuity and 25.9 hours with gratuity.

⁴⁰ Richard Beilock, *Armenia's Economic Dead End*, Working Paper, University of Florida <http://bear.cba.ufl.edu/centers/ciber/workingpapers/armenia1.pdf>

⁴¹ Richard Beilock, *Armenia's Economic Dead End*, Working Paper, University of Florida <http://bear.cba.ufl.edu/centers/ciber/workingpapers/armenia1.pdf>

The information received from the passengers of the bus Aybaki confirm the existence of the long waiting hours. Frequently, the bus halts t days at the border while returning from Istanbul. On the other hand, the required customs duties seem exorbitant, especially with regard to the relatively liberal importation regime of Armenia. The passengers of only one bus have to pay 6000 dollars to make their merchandises cleared through customs.

Also the merchants working in the importation-exportation sector between Turkey and Armenia complain about the customs tariffs: a truck full of oranges bought from Adana for 5000 dollars is generally taxed by 6000 dollars while entering the Armenian territory!

B. Assessment of the economic costs of regional politics: perception of the Armenian private sector

The development of the two private groups constituted at the beginning of the privatization program illustrates the difficulties Armenia faced. These two groups are of different sizes, but as a common characteristic they both carry out varied production activities.

1. Armenian Business Corporation: ABC

The president of the enterprise settled in Armenia after the independence. Possessing a certain capital, he is the owner of a few enterprises of which the economic program foresees the privatization. He decided to make some acquisitions in various sectors and declares to have wanted to profit from the occasion when, with the pressure of the International Monetary Fund, the liquidity constraint pushed the Armenian government to "sell off" certain enterprises⁴². However, very usually, the enterprises bought are poisonous gifts: because many enterprises have hidden liabilities. The difficulties at the beginning are so difficult to overcome that the regional context is very unfavorable to the restructuring and the development strategies. The group had 600 partners, while today there are only 6. However, the president says that he is ready to open more the capital.

The ABC group operates in different sectors including the energy, automobile, textile and agriculture sectors. Lack of capital did not permit to make necessary investments for the modernization of production devices that are usually obsolete. On the other hand, the factories function with only 1-2% of their production capacity. These factories were supplying the whole Soviet Union. With the independence, an enormous market is lost. The orientation towards the new markets became so difficult that the transport costs were reducing the competitiveness of the production prices. Furthermore, the mediocre production quality could difficultly meet the demand which became gradually more exacting.

The possibility to enter the regional markets and the implementation of the regional cooperation forms can considerably increase the development perspectives of the group, according to the president of the ABC. The sector of the vehicles used for industrial and commercial purposes illustrates this fact the best. The ABC group owns a factory producing trucks and heavy-vehicles. The change of the regional political context is expected to render possible the modernization of the production devices, the diminution of the cost prices and the entrance in the regional market

⁴² "I have come to Armenia because there were opportunities at the time of the privatization of the State enterprises. We could buy for one million dollars what was costing 10 millions of dollars", underlines the president of the ABC company.

which permits to realize the economies of scale. The president of the ABC group thinks, in this case, of importing detached pieces from Turkey, particularly with the objective of working with Ford-Turkey and of exporting the production towards Turkmenistan where there is a great demand. The president plans to receive, by a clearing system, natural gas from Turkmenistan, in return for his vehicles. The realization of this project necessitates on one hand the opening of the Turkish-Armenian border in order that the delivery of detached pieces can be made with the minimum costs and on the other hand the opening of the Azerbaijano-Armenian border in case the Turkmen market is entered via Azerbaijan.

The president of the ABC group thinks that establishing joint-ventures with the Turkish firms will facilitate the modernization of Armenian productive sector.

3. Sil Group

Sil Group occupies a pivotal place in the economy of Armenia. Soukiassian's International Limited, a family enterprise structured as a holding, operates in varied activity sectors. The monthly volume of affairs of the enterprise is estimated to be millions of dollars and the number of employees is about 7000.

The Soukiassian family opens a service station in 1989, and as from the first years of Perestroika, the enterprise launches into the commercialization of the detached pieces for cars. The group is formed during the privatization process. It purchases many factories and begins its production activities. Currently, the group is composed of 25 enterprises and 8 factories.

The industrial production is very various: SIL GROUP operates in the construction sector (in particular in the field of commercial and hotel complexes), and in the sectors of furniture, plastic, cardboard, flour, pasta, pharmaceuticals, mineral water and alcoholic drinks production. It is also present in the restoration sector and banking sector and possesses casinos.

The group takes part in many commercial activities. A part of the revenues gained from the commercial activities is invested in the industrial production. SIL GROUP sells whole and retail the cereals it imports. The group established a distribution chain which it is trying to perfect. On the other hand, it carries out the representation of grand foreign trademarks. It is the official distribution of Procter & Gamble, Londa and Sara Lee, and the representative of Daewoo, Mitsubishi, Philip Morris and Adidas. The development of the connections with abroad occupies a crucial place in the strategy of the group. This search for international dimension conducts not only the commercial strategy but also the investment and production strategies. In the industrial sector, SIL GROUP possesses in general 51% of the factories acquired during the privatization operations and the rest of the capital is held by a foreign firm. Most of the factories and the enterprises of the group are joint-ventures. Cooperation with a foreign partner constitutes a priority in the strategy of SIL GROUP. On the other hand, the group owns an international trade company, SIL Trading, established in Dubai, in the United Arab Emirates.

This diversification strategy results from the narrowness of the market. The directors of the enterprise explain the success of the group by the efficiency of the administration: the productive pole is constituted by the purchases made during the privatization process; the flow of foreign capital and skill by means of joint-ventures allowed to modernize the factories of Soviet period. SIL GROUP developed partnerships in Italy, France, Austria, the United Arab Emirates and the United State. These partnerships permit particularly to transfer technology and to import new administration and marketing techniques.

To convince the foreign partners to invest and to produce in Armenia is a hard task. The personal rapports and the networks of the Armenian Diaspora are of great help in this regard.

The importation activities were occupying a very important place when the group was being formed. The second stage was composed of purchasing enterprises and factories and of establishing joint-ventures. The group wants to privilege its production activities in the future. In such a perspective, the question of marketing stands with acuity. The group wants to form an efficient distribution network capable to provide the commercialization of the production. However, it faces a major obstacle: natural enclavement of the country, which is aggravated by the regional political context. The closure of the borders with Turkey and Azerbaijan hinders the development strategy of the group, because the transport cost sometimes exceeds the cost price of the product.

In current conditions, the exportable products potentially display a good competitiveness in quality and call for cheap raw materials. Mineral water and gaseous drinks have not only low cost prices but also a good competitiveness in quality. Tires, copper or agricultural products such as apricots and grapes can also be exported. Nevertheless, the transport costs harm the competitiveness of these products on the exportation markets.

Relations with Turkey

SIL GROUP has close relations with Turkey. Above all, Turkey was a supplier of raw materials. SIL GROUP imported particularly timber, aluminum and other construction materials from Turkey. SIL GROUP represents the subsidiaries of certain foreign firms implanted in Turkey. SIL GROUP provides the distribution and commercialization of their production. They are especially the firms producing the consumer goods and home products. The products are delivered to Armenia across the Georgian territory.

The communication roads which are the most important ones for the development strategy of SIL GROUP pass across Turkey and Azerbaijan. Turkey is perceived as an important market for the production of the group. On the other hand, Turkey offers an entrance to the European market. Azerbaijan is a road extending towards Turkmenistan. The Iranian market is not considered as a principal market for the group. The protection level of the Iranian market renders this market less interesting.

The evaluation of the cost of the embargo, made within the status examination of SIL GROUP, permits to shed light on the constraints which weigh on the development strategies of the enterprises of which the activity is determinant for the future of the Armenian national economy. SIL GROUP is an example of success. Its commercial and production activities have a grand impact on the economic life of the country. The development of commercial links and the establishment of foreign partnerships constitute the principal strategic axis of the group. The cost of communication difficulties with the neighbor countries can thus be evaluated in terms of unexploited opportunities.

The enterprises of SIL GROUP

Masis Gofrotara

The carton factory founded in 1969 was meeting the demand coming from Caucasus, Russia and the Middle East. When it was purchased in 1995, it was functioning only with 8% its production capacities. In 1997, the firm has become a joint-venture by associating with the enterprise Harwal Ltd. from the United Arab

Emirates. The introduction of new technologies permits the factory to produce sanitary papers.

Yerevan Polyplast

The factory was purchased in 1996. Specialized in the production of plastic objects, the enterprise is the leader in the sector in Armenia. When purchased it was disused for 6 years. This Harwal-SIL joint enterprise produces pipes, floor coverings for cars, and diverse utensils. The raw material is imported from the UAE. The administration projects to produce linoleum and vinyl.

Bjini-mineral water

The factory Bjini was privatized in 1995. The enterprise is administered equally by SIL GROUP and the Castel-BGI Group. Currently, the factory produces, with the help of Castel-BGI, mineral and gaseous water which is exported to the CIS countries, Saudi Arabia and the Middle East.

ARM-ITAL

Arm-Ital company of Sevan was purchased in 1997. The factory imports European wheat and produces flour and pasta with Italian technology.

Norchine

SIL GROUP is the owner of the construction company Norchine which has recently finished the construction of the commercial complex Sil Plaza and a hotel.

Restaurants

The Group owns 3 restaurants and 5 open air cafés.

Armeconombank

It is one of the most important banks of Armenia. It possesses a network of 21 agencies in Armenia and works with the grandest banks of the world.

Source: Presentation brochure and web site of SIL GROUP

5. The stakes in the opening of the border: the case of Turkey

The opening of the Turkish-Armenian border is a vital question for Armenia. The natural division augments the political division: the difficulties in communicating with the rest of the world considerably augment the transport costs. On the other hand, the small size of the Armenian market and the impossibility to think at regional scale dissuade the potential investors. However, opening of the border and entering the Armenian market seem to be a secondary question for Turkish economy. At national level, the development of economic relations with Armenia cannot be considered as a principal axis.

According to Ankara, the economic cost of the permanence of the current situation can be neglected considering the expected political gains: gaining Armenia by taking the risk of losing Azerbaijan is not perceived as reasonable. A phrase of the ex-president of Turkish Republic resumes the approach which continues to prevail in Ankara. Mr. Demirel had got into the habit of responding to those who expressed their wish to make trade with Armenia as "*Turkey cannot take the risk of discontenting its Azeri brothers in order to permit some persons to gain more.*" This phrase is, in generally, very severely criticized in the border regions of Turkey.

However, there is an approach which privileges the economic logic. Istanbul Chamber of Commerce⁴³ is interested in Armenia for years. In 1998, many entrepreneurs who were members of the Chamber of Commerce had taken the initiative of organizing an exposition of Turkish products in Yerevan. The high tension in the bilateral relations did not allow concluding this project.

The Association of Industrialists and Businessmen in Turkey, TÜSİAD⁴⁴, states that it is in favor of the development of economic and commercial relations with Turkey. TÜSİAD tries to promote the relations with the Armenian private sector: a delegation of businessmen, who are members of the Union of Manufacturers and Businessmen in Armenia, UMBA, is expected to go to Istanbul in 2002 on the invitation of TÜSİAD. In this occasion, a meeting between the members of UMBA and the Anatolian businessmen is planned to be held in Kayseri.

On the other hand, the Unions of Exporters⁴⁵, official structures depending on the Undersecretariat of Foreign Trade, clearly criticize the politics regarding Armenia. The closure of the border, which means an embargo decision, does not have a political efficiency, according to the authorities of the Unions of Exporters in the visited regions⁴⁶. This measure has only limited the exportation capacities of small and medium sized enterprises implanted in the regions distant from the economic center and, on the other hand, punished the Armenian consumers by increasing the price of imported products. Armenia continues its commercial relations with the rest of the world. As we mentioned above, Turkish and Armenian businessmen succeeded to continue the commercial relations, through the strategies to circumvent the embargo. The authorities of the Unions of Exporters suppose that the embargo contributes to an anti-Turkish trend in Armenia.

Even if the businessmen and certain economic ministries are opposed to the embargoes and wish the border be opened and try to be in closer relations with Armenia, they do not follow common actions. The Turkish-Armenian Economic Relations Development Council, which tries to make its voice heard, cannot rely on the support of the central economic institutions and associations. We will try to define the stakes, for Turkey, in the opening of the border with three examples. The studies carried out in Kars, Iğdır and Trabzon, as well as the regional data, permit to define economic gains which Turkey can obtain in case of the opening of the border.

The stake in the opening of the border

The relations with the region and the distance from the center determine the relation with the border. The approach developed at the national level usually contradicts the perception of the population residing in the border regions. The opening of the border and the establishment of direct commercial relations with Armenia are the priorities for the cities of Kars, Iğdır and Trabzon.

Rarely is defended the inverse thesis. Those who do not consider the opening of the border as a priority, think within a national framework: for them, the underdevelopment of the region results from the indifference of the economic and political decision-makers. They estimate that "focusing on the question of opening the border" arouses derision and the priority should be given to the elaboration of a development project. Certain persons, who defend this thesis to the end, affirm that the opening of the border will increase the isolation from the center.

⁴³ *İstanbul Ticaret Odası*

⁴⁴ *Türkiye Sanayiciler ve İşadamları Derneği*

⁴⁵ *İhracatçılar Birlikleri*

⁴⁶ Our conclusions rely essentially on the interviews made in Trabzon.

Others put forth the arguments relating to the security. Those who reside in the cities which are mostly Azeri populated or are receiving lots of Azeri voyagers⁴⁷ are worried about a confrontation between the Azeri population and the Armenian population. According to them, the city runs the risk of turning into a battle arena. The opponents of the opening of the border represent only a tiny minority. They are severely criticized by the majority and accused of "being unable to profit from the occasion" and of "being lazy and incapable to discern the eventual opportunities".

Why to open the border?

The wish to "trade with the whole world" constitutes the principal motive. The entrepreneurs and the merchants residing in the border cities expect an immediate gain from the opening of the border. The objective is to sell the merchandise in Yerevan to the Armenian consumers who come to the city to do shopping. According to the interviewed persons, the necessity of the opening, and even the suppression of the border shows itself in terms of economic rationalism. "At the age of globalization", the borders cause economic burdens and constitute an aberration in political terms. The border does not provide a protection: "the borders have never protected the countries against whatever it is". Here, is emphasized the existence of "other means of watching for what is going on on the other side of the border".

The argument relating to the security indicates that the population of the region cannot clearly discern the potential menaces: they think that "Turkey can easily conquer Armenia".

Even if the interviewed persons think that "the conquest wars belong to another time, completely to the past", they cannot help adding that the opening of the border will modify the interaction of the forces in Turkey's favor. An official from Iğdır Chamber of Commerce proposes that the border be opened temporarily: the border may be opened for a determined time with the objective of augmenting the dependence of Armenia vis-à-vis Turkey.

The wish to establish relations with "those who are from the other side" is added to the economic gain search and the conviction that no security reason justifies the closure of the border. The desire to communicate with the neighbors is very high, because certain families in the region are originally from the villages currently situated in Armenia.

The city of Kars is at about 20 km from the border gate Doğu Kapı. The border village Akyaka, which is the last station of the Orient Express traversing the whole Anatolia, borders on an Armenian village. Similarly, on the road connecting Kars and Iğdır, in the neighborhood of Digor, Arpaçay river separates Turkish and Armenian villages. Nearby the border, conversations and mutual aid between Turkish and Armenian villages were very usual: Armenian villagers were used to walk around, even in the night, in order to bring their domestic animals, which passed the border, from the Turkish side.

The city of Iğdır is situated at half an hour by car from Yerevan. The road which leads to the border with Nakhitchevan, Dilucu, goes along Yerevan. Armenian capital is strongly attractive for the inhabitants of Iğdır. The lights of Yerevan have fascinated them for a longtime; the remarks of the border side inhabitants are a proof of this fascination.

⁴⁷ The data collected from the prefecture of Iğdır reveal that about 100.000 Azeri from Nakhitchevan were going everyday to Iğdır in the second half of 1990s.

Yerevan from Iğdır's point of view

- "At the Soviet age, the illumination of the Armenian side was very good; the electrification of the countryside was advanced. We were profiting from the Armenian lights to plough our lands."

- "When we come from Ankara by car, after a turning, we see the lights of a city. Generally, people think that it is Iğdır, but in fact it is Yerevan! And at the Soviet age, the illumination was better."

The closure of the border is essentially perceived as a restriction of the freedom of movement: "at the globalization and communication age", such a restriction is senseless and is considered as "inhuman".

- "It is totally absurd to restrict the freedom of movement of the people. If we want, we must be able to pass sometimes to Armenia!"

- "It is sad not to be allowed to go to the other side of the border and especially for Armenians, to contemplate the Mount Ararat without visiting it!"

A. The opening of the Turkish-Armenian border and the stakes for the city of Trabzon

The development of Trabzon strictly depends on the activities of the port. The construction of the current port dates back to 1995. However, as from the XIXth century the development of the port activities has transformed the city into an important commercial center.

The port of Trabzon in the XIXth century

Trabzon benefits from the regional and interregional liberalization of the foreign trade implemented by the Ottoman Empire as of XVIIIth century. The accord of Küçük Kaynarca, signed after the defeat of the Ottoman Empire vis-à-vis Russia, puts an end to the Ottoman monopoly on the trade and maritime transport in the Black Sea. Russian ships obtain the right to navigate freely in the Black Sea. Progressively, the privileges granted to Russia extend to all of the European States. The freedom of navigating in the Black Sea is granted to Austria in 1784, to England in 1799 and to France in 1802. The end of this monopoly has a considerable impact on the economy of the Ottoman Empire. The revenues of the musliman merchants diminish to the profit of Greek merchants settled in the cities bordering Russia.

Opening of the Black Sea to the international trade causes a change in the commercial roads between Iran and the Ottoman Empire. The Iranian merchants, who were accompanying their caravans until their destination, begin to work as mediators for the grand merchants of Istanbul and to demand service from the Armenians in Trabzon or in Tebriz. The diminution of costs permits the maritime transport to compete with the transport by caravans. The commercial road used by the English, which joins Istanbul and Tebriz via Trabzon, becomes more competitive than the Russian road traversing the Caucasus; this pushes Iran to change its sources of provision. From that time on, Russia begins to be interested in the status of the Armenian population in Trabzon and Tebriz.

Entrance of the European vessels to the Black Sea and the development of the communication with Iran transform Trabzon into a commercial center. Trabzon

becomes a center for Kars in the east, for Diyarbakır and Malatya in the south and for Tokat in the west. Its port provides communication with Erzurum, Tebriz and Tehran. Henceforth, the European industrial products arrive in Trabzon and are delivered to the eastern provinces of the Ottoman Empire and to Iran through Trabzon-Erzurum-Tebriz road, while the Iranian products are transported from Trabzon to Istanbul or Izmir.

The Russian Consulate opened in 1805 is the first consulate established in Trabzon. The wars between Russia and the Ottoman Empire at the beginning of the century negatively affected the trade.

The trade between England and Iran which begins to be realized via Trabzon is the origin of the commercial dynamism of the city. The port owes much to the initiatives taken by certain British consuls and entrepreneurs. Henry Sutter, the deputy-consul of Erzurum, and Henry Willock, the British first secretary, demand with insistence from Castlereagh the establishment of a direct communication between Trabzon and England. As of 1812, Sir Gore Ouseley tries to convince the East India Company of the advantages of the passage over Trabzon. The trade of the textile products between England, Erzurum, northern Iran and Armenia carried out by James Brandt and Sittik Han, his partner from Tebriz, who is of Armenian origin, contributes to the development of the port.

Edirne accord signed in 1829 between the Ottoman Empire and Russia indicates the beginning of the liberalization of the navigation and the trade through the Dardanelles and the Bosphorus. The privileges granted to Russia rapidly extend to the other European states. This liberalization is the reason for the development of commercial exchanges.

The trade between Europe and Iran via Black Sea was traditionally benefiting from the Succhumi port. A decree of the tsar, on 8 October 1821, had put into effect the advantageous customs tariffs in the Russian provinces in South Caucasus. The products coming from Europe were arriving Odessa and delivered by sea until Succhumi, then sent to Tbilisi or Yerevan. This trade was being entirely controlled by the Armenian merchants in Leipzig. The liberal importation regime which was in force in South Caucasus is abolished in 1832 in order to support the local producers. As from this date, the southern road communicating Trabzon, Erzurum and Tebriz begins to gain more importance.

70-80% of the products destined for Iran were coming from England: essentially textile products and sugar. In 1836, the value of the merchandises transported by the English vessels towards Iran doubles the value of the merchandises transported by Russian vessels. As of 1840, the domination of the Ottoman Empire on the navigation in the Black Sea comes to an end.

The commercial activity of Trabzon records a new boom in the second half of the 19th century. The Crimea War constitutes the principal factor in this regard. Trabzon and its environs are outside the conflict zone. Munitions supplies for the allied troops are provided through the port of Trabzon. On the other hand, despite effective embargo, the trade between England and South-Caucasian provinces did not cease: henceforth, the trade takes Trabzon-Tebriz itinerary and the merchandises are then delivered from Iran towards Caucasus. The commercial agreements between the Sublime Porte, the European states and the United States in 1861 and 1862 permit to liberalize more the exchanges. However, the volume of commercial activities will not reach anymore the level of the Crimea War period.

The opening of the Suez Channel in 1869 establishes a shorter connection with India and shortens the maritime communications between Europe and the

Persian Gulf. Trabzon road loses its attractiveness and France and England prefer the road which passes through the Persian Gulf, Baghdad and Kirmanshah.

Achievement of the construction of the railway network in 1872 between Poti and Tbilisi permits Russia to make the trade of European countries traversed through its territory. The advantageous tariffs offered to the Iranian merchants allow deviating over Poti the trade between Iran and Europe.

Source: Çağlar Keyder, Eyüp Özveren, Donald Quartaert, *Doğu Akdeniz'de Liman Kentleri*, Türkiye Araştırmaları Tarih Vakfı, İstanbul, 1994.

The works carried out under the Republic permit in 1954 the port of Trabzon to considerably expand its capacity. The augmentation of the activity volume necessitates new aggrandizement works at the end of 1970s. The port extends on 320 hectares and its quays are 1525 meters long. Trabzon is the most important port of the eastern Black Sea region in Turkey. 15 ships can there be loaded and discharge simultaneously, 500.000 tons of merchandises can be stocked and it is active 24 hours over 24.

The port of Trabzon does not have a hinterland sufficiently developed and it suffers from its being distant from the production centers and the underdevelopment of the infrastructures along the coastline and in the east of Anatolia.

The privatization of the port is on the agenda since 1993. The concession for 49 years will hand the exploitation of the port to the private sector. As the three tenders carried out at that time did not have a result, a new tender is envisaged.

At the beginning of the XXth century, Trabzon was an important commercial center and hosting 25 consular representations. In 1917, the Bolshevik revolution condemned the city to isolation. The commercial activities regained an activity towards the end of 1970s: Trabzon becomes a port for Iran and the merchandises destined for this country are unloaded at the port of Trabzon. The hostilities with Iraq do not permit Iran to use the ports of the Persian Gulf. The volume of the transit trade with Iran experiences a decline after the second half of 1980s. The opening of the border gate Sarp-Batoum in 1989 is a new important stage, since, at the end of 1980s, Trabzon had relations only with Turkish ports in the Black Sea region; it was situated on the axis of Giresun, Ordu, Gümüşhane, Rize and Artvin. Before the opening of the border gate, there were only three exportation enterprises. This number reached 400 towards 1995. Currently, more than 3000 Turkish businessmen are installed in Georgia, especially in Succhumi. Most of them work in collaboration with the Russian or Georgian entrepreneurs. The opening of the communication roads with the Commonwealth of Independent States transformed Trabzon into a commercial center. At the beginning of 1990s, a majority of the persons originally from the CIS countries arrive in Trabzon, traversing the border gate Sarp-Batoum. In 1995, the number is more than 500.000. Air and maritime communications permit, as from 1990, the transport of passengers between the CIS countries and Trabzon. The trade constitutes the principal reason for movements. In fact, dynamism of commercial activities is the origin of the leap of the tertiary sector. In 1990s, the volume of the shuttle trade realized in Turkey is estimated to be between 10-12 millions of dollars per year. The share of Trabzon in this cake is due to reach 3 or 4 millions of dollars. Currently, the volume of the shuttle trade realized in the Black Sea region represents one fifth of the total which is estimated to be 5 millions of dollars.

At the beginning of 1990s, the border and coastal trade also contribute to the commercial dynamism of the city. Opening of the industrial zone dates 1996; the port of Trabzon gains a free zone.

This dynamism experiences a net decline towards the end of 1990s. Russian crises in 1996 and in 1998 gravely affect Trabzon. The number of exporter enterprises, which was about 450, is only 136 in 2000. There is only one enterprise exporting for more than 50 millions of dollars. However, in Trabzon there exist 16 enterprises of which exportation amounts exceed one million dollars.

91% of the exportations are of agricultural products, 8.7% of industrial products and 0.3% of mining products. The exported products come from the Aegean, Marmora or Mediterranean regions. The EU and CIS countries are the principal commercial partners. In 2000, the volume of exportations towards Russia was about 36 millions of dollars, towards France 30 millions of dollars and towards Germany 19 millions of dollars⁴⁸.

However, the exportations towards Russia, Azerbaijan and Georgia from Trabzon only constitute respectively 4.8%, 0.6% and 3.3% of the total Turkish exportations towards these countries. Although it has a privileged status because of its geographical position, the port of Trabzon is not an obligatory passage point. The local political authorities and the entrepreneurs who developed a regional vision try to integrate the port of Trabzon into the commercial roads which communicate Europe and Central Asia, the CIS and the Middle East. The development of the communications with Iran and Armenia constitutes a pivotal element in the regional strategy of the city: this may allow Trabzon to become a transit port again and the Eastern-Anatolia to regain its position of crossroads where the commercial roads of the north-south and the east-west cross.

To become the exit of Iran

The transit trade between Trabzon and Iran reaches a volume of 2 billions of dollars in 1980s. The merchandises destined for Iran are unloaded in Trabzon and delivered by road to Iran. This transit trade constitutes the essence of the port's activities. However, Iran wishes that the trucks registered in Iran be granted a quota and that they could also transport the merchandises unloaded in Trabzon. The refusal of Turkey to favorably respond to this demand pushes Iran to prefer other delivery ways. Currently, the volume of transit trade between Iran and Trabzon reaches only one billion dollars, out of which 650 millions are oil products coming from Iran, 300 millions are products imported by Iran and 40 millions are products exported from Iran to Turkey.

The political authorities and the local businessmen attach a strategic importance to Iran: Trabzon Chamber of Commerce coordinates the initiatives aiming to increase the volume of transit trade towards Iran. The proximity level between Trabzon and the Russian Federation or Georgia is the logical consequence of the opening of the Sarp-Batoum border gate in 1989. Iran maintains its presence in the regional strategy defined by Trabzon. Many businessmen from Trabzon know the Iranian market. The contacts established in the past are not broken down: businessmen and local authorities try to consolidate them. Frequently are held the meetings at municipalities, prefectures or Chambers of commerce level. There is an Iranian consulate in Trabzon. In May 2001, the governor of Trabzon paid a visit to Tebriz, accompanied by a delegation of businessmen. And in July 2001, Trabzon received more than 300 businessmen on account of the exposition of Iranian

⁴⁸ The data are obtained from the studies of the Trabzon Union of Exporters for the Foreign Trade Secretariat.

products which was held in Trabzon. The objective of Trabzon is to develop the contacts particularly with the north-eastern region of Azerbaijan. The consolidation of the Trabzon-Tebriz axis has the priority, and also there are cooperation agreements with the province of Gilan. On the other hand, the communication between the port of Trabzon and the port of Enzeri situated on the Caspian Sea is considered crucial for the functioning of a European-Asian and North-South corridor. However, the functioning of such a corridor cannot be projected without the opening of the Turkish-Armenian border.

Communication with Armenia

The regional strategy developed in Trabzon includes Armenia. The future of the port of Trabzon depends as much on the development of transit trade with Iran as on the opening of Turkish-Armenian border. Trabzon Chamber of Commerce founded in 1874⁴⁹, clearly contributes to the development of a complete regional vision: the calculations and the reasoning include the Russian Federation as well as Georgia, Iran or Armenia.

The contacts between Armenia and Trabzon were established in the first half of 1990s. Most of the businessmen in the city know Armenia very well. The majority of the entrepreneurs working in Armenia are originally from the Black Sea region, and particularly from Trabzon. Transport and logistics sector is dominated by the entrepreneurs of Trabzon. It is the Black Sea region which communicates Turkey and Caucasus after the closure of Turkish-Armenian border: the road extending to Caucasus, which necessarily traverses the Georgian territory, accentuates the importance of the Black Sea. This fact pushes even the other regions, which suffer from the closure of Doğu Kapı and Alican Kapı, to denounce the lobby activities of the Black Sea. They believe that the local authorities and the entrepreneurs are in favor of the closure of the border: the embargo against Armenia is perceived as serving the interests of the Black Sea region to the detriment of the eastern Anatolian region. The observations and the interviews realized in Trabzon do not permit to corroborate this point of view. Certain transporters and merchants in Trabzon voluntarily admit that they are oriented towards the Armenian market because the obligation of traversing Georgia was placing them in a good position and limiting the competition. However, the questions of opening the border and suppressing the embargo which affects Armenia are considered as a real stake for Trabzon. The businessmen of Trabzon, who are in as close relations as possible with Georgia, denounce the effective practices in this country. The exporters in Trabzon suffer from the exorbitant passage fees and from the absence of regulations. There exist close relations between Trabzon and Georgia. Numerous businessmen from Trabzon are settled in the Georgian cities: a cultural proximity is added on the geographical proximity, especially with the "laz" population whose language presents grand similarities with the Georgian. Yet, Georgia is considered as a rival: the development of the Georgian ports worries the entrepreneurs and the political authorities in Trabzon. That Georgia becomes a transit country, a passage point of the east-west corridor, and that Poti becomes a regional port are considered as a menace. The entrepreneurs in Trabzon are convinced that the port of Trabzon can no more compete with Poti. Just the change of the regional context, particularly the opening of the Turkish-Armenian border may pass the trump cards to the port and the city of Trabzon. The development of Trabzon depends on the utilization of the Anatolian territory as the transit territory as much for the north-

⁴⁹ Trabzon Chamber of Commerce was founded soon after Istanbul Chamber of Commerce.

south connections as for the east-west connections. Armenia is Turkey's entrance to Caucasus and to the Central Asia.

To become a transit port for Armenia

Poti is currently the unique exit for Armenia. The transport of the merchandises between Armenia and Poti represents, as we have mentioned before, a considerable cost for the Armenian economy. In case the border opens, a grand part of transit trade can be oriented to the port of Trabzon. The professionals of the transport and the logistics sector note that this reorientation may realize in a month. The gains of Trabzon are expected to reach 300 millions of dollars per year⁵⁰. With a railway line, Trabzon will not surely attract the entire transit trade. The transporters of Trabzon are not in a position to deliver the merchandises in transit towards Armenia: parking area for trucks and heavy-vehicles is underused since the decline of the transit trade with Iran. Trabzon-Erzurum-Iğdır-Yerevan road will be the itinerary privileged by the transporters. The port of Trabzon is situated at 450 km far away from Iğdır and Gumru. The city center of the Armenian capital is situated at a distance of half an hour from Alican/Magara border. Thus, the opening of the Turkish-Armenian border can render the Anatolian territory the crossroads of the commercial roads: it can render possible entering Armenia, Caucasus and the Central Asia. Turkish ports, and particularly the port of Trabzon, may sufficiently benefit from the trump cards to compete with the Georgian ports, which begin to become an obligatory passage point, and with the Georgian territory - the crossroads of the commercial roads and the transit country.

Alican/Magara border gate is crucial for Trabzon. Doğu Kapı offers a very little interest for the development of the port of Trabzon. As there is not any railway line between Trabzon and Kars, the railway line linking Akyaka and Gumru can by no means be used for delivering merchandises from Trabzon to Armenia.

The importance of the Alican/Magara border gate explains the interest of Trabzon in Iğdır. Trabzon Chamber of Commerce pays frequent visits to Iğdır. These relations may only get closer with the opening of a border gate with Iran.

Contacts between Turkey and Armenia

The project of a Turkish-Armenian common management of the port of Trabzon dates back to the beginning of 1990s. The implementation of a Turkish-Armenian consortium was aiming to make Trabzon the most important port of the Black Sea. The businessmen Ishak Alaton and Hair Hovhannian worked on this project for a longtime but their initiative come up against the political obstacles. The propositions of common management of the port are still alive: even, certain propositions aim to give the management to a Turkish-Irano-Armenian consortium.

The contacts between Trabzon and Armenia experience a breakthrough between 1996 and 1998, years which seem promising for the future of the economic relations between Turkey and Armenia. The port of Trabzon strives for that the scope of the decree ratified by the Erbakan government, authorizing the border trade between Iğdır and Armenia, be extended and include the port of Trabzon.

The Armenian delegation which attends the BSEC meeting in Istanbul in May 1997, also visits Trabzon. Telman Ter Petrossian, brother of the Armenian president, representing the businessmen and the industrialists and charges with the foreign economic relations of Armenia, and the minister of foreign affairs Alexander

⁵⁰ According to the estimations of the logistics firm Lyonel A. Makzume.

Arzumanian meet the chairman of Trabzon Chamber of Commerce, Mazhar Afacan. The contacts continue; another Armenian delegation arrives in Trabzon in July 1997 on account of a meeting concerning the municipalities organized under the auspices of the European Council. In May 1998, a delegation of businessmen from Trabzon visits Yerevan. The new Kocharian government, although aware of the importance of the port of Trabzon for Armenia, declares that they can no more wait for an amelioration of the bilateral relations and announces that Armenia prepares to invest 30 millions of dollars in the modernization of the ports of Batoum and Poti. The creation of a direct air communication between Trabzon and Yerevan in 1996 bears witness to this wish to consolidate the relations.

The port of Trabzon today: what kind of a regional influence?

Despite their geographical advantages, the port of Trabzon and the other ports and the transport networks of Turkey are totally excluded from the existing commercial roads and the corridors of transport being created. Turkish ports suffer especially from the insufficiency of the infrastructures which connect them with the interior of the country.

The ports of Batoum and Poti are integrated into the Georgian railway system. The agreement signed between Iran and Georgia aims at communicating Batoum and the Persian Gulf. In parallel to this, Iran and Turkmenistan joined their railway networks in order to provide communication between the Central Asia and the Indian Ocean. The connection between the Romanian port Constantza and the port of Poti provides the junction between Europe and the Caucasus. The merchandises coming from the Mediterranean countries are delivered to the Central Asia via Syria, Jordan and Iran.

The amelioration of the infrastructures in Anatolia and the integration of the ports into these transport networks constitute a crucial stake.

On the other hand, Trabzon continues its lobbying activities in favor of the projects of constructing a superhighway along the Black Sea connecting Samsun and Batoum, a railway connecting Trabzon and Batoum and a railway connecting Trabzon-Erzincan-Diyarbakır, which will permit the port and Anatolia to benefit from the transit trade between the CIS and the Middle East.

B. The opening of the Turkish-Armenian border and the stakes for the city of Kars

Kars is considered as one of the most underdeveloped and enclosed provinces. Situated at about 2000 km from Istanbul, the city of Kars has a population of 125.000 inhabitants and the province, of which it constitutes the capital, about 320.000 inhabitants.

The village of Akyaka, at the Armenian border, is the last station of the Orient-Express communicating Kars one hand with Erzurum, Ankara and Istanbul and on the other hand with its neighborhoods. A railway connection, currently closed, is provided between Akyaka and the Armenian city of Gumru. The European Union, through the TRACECA program, strongly supports the reopening of this line by financing the Gumru railway station with European credits (in 2002).

This railway network permitted the breeders of Kars to export towards the Soviet Union for a longtime. At the beginning of 1990s, a flow of exchanges across borders began between the province of Kars and the young Independent Republic

of Armenia. This daily railway connection permitted the Armenian businessmen to arrive easily in Kars.

The closure of the border gate Doğu Kapı condemned Kars to real isolation. Afterwards came the opening of the two other border gates; that of Türközü permitted Ardahan to open towards Georgia, while that of Dilucu was opening Iğdır towards the Azeri enclave of Nakhitchevan. This evolution injured the city of Kars so much that Iğdır and Ardahan, which were within the boundaries of the province of Kars until then, gained the status of independent provinces.

Currently, there are not any exporter enterprises in Kars anymore, and the Customs is transferred to Erzurum.

The question of the opening of the Turkish-Armenian border is one of the principal objectives of the political authorities and the entrepreneurs in Kars. Armenia is considered as the natural market of Kars. The belief that the breeders of Kars can easily feed the whole Armenia is very widespread among the population. The conviction that the opening of the border will have direct impacts on Kars explains the mobilization of the city.

The actions taken by the municipality of Kars

The municipality of Kars tries to work for the development of relations with Armenia and to multiply the contacts across the border. Mostly emphasized is the multicultural character of Kars which is presented as a real mosaic.

The municipality essays to implement the cooperation projects between the local communities of the region. The city Congress of Kars in June 2000⁵¹ is a good example of these projects. The first objective of this initiative was to promote a new image for the city. The initiatives of the municipality usually face with the political obstacles at central level. During the congress, the participants from Armenia were expelled on the decision of the Interior Minister, under the pretext that the Armenians did not have official invitations. The city of Kars, which had attracted the suspicion of the central authorities by signing a twinning agreement with the city of Gumru, had to sign a similar agreement with the Azeri city of Gence following this incident. The majority of these initiatives with regional effects aim to establish relations with Armenia, despite the suspicions the local authorities come up against. According to the mayor, "those who want to defend the interests of Kars are accused of being traitors and are stigmatized as being pro-Armenians"⁵². He accuses the "falcons' class" who pursues their own interests by exploiting the nationalist themes. The municipality is usually the victim of the press campaigns and the inhabitants seem to struggle against the powerful lobby of the Black Sea⁵³. The city of Trabzon is frequently accused of strictly supporting the imposition of the embargo against Armenia, although it is the first one not to abide by this embargo. The closure of the border gate Doğu Kapı, hiding the exchanges between Kars and Armenia, contributes to justify the idea that it is the Black Sea which constitutes the entrance to Caucasus.

The projects on developing the ports of the Black Sea and constructing a coastal superhighway seem to contradict the interests of the eastern Anatolia.

The city of Kars feels so alone that it is deprived of a representation in Ankara. The associations of the inhabitants of Kars have very little influence at the

⁵¹ *Kars Kent Kurultayı* – Haziran 2000.

⁵² Interview with the mayor of Kars, Naif Alibeyoğlu, January 2001.

⁵³ *Karadenizliler Lobisi*.

parliamentary and governmental level. On the other hand, as the deputies do not live in Kars anymore, they are alienated from their constituency.

The closure of the border does not mean the rupture of the communications: the visits of the municipal authorities and the businessmen follow one another, especially in Gumru. The meetings organized permit the mayors, the governors and even the military authorities to negotiate.

The actions undertaken by the businessmen for the opening of the border

The Association of the Industrialists and the Businessmen in Kars (KARSİAD), the Chamber of Commerce and Industry and the Union of the Tradesmen and the Artisans try to convince the central authorities about the importance of the gains resulting from the opening of the Turkish-Armenian border.

In 1996, the authorities of Kars submitted a petition for the opening of the Doğu Kapı border gate. They submitted more than 100.000 signatures to the government; the local representatives went to Ankara to submit to the Prime Minister Necmettin Erbakan a demand for the reopening of the border. In parallel to this, an accord was concluded for the creation of a mixed commission of the Chambers of Commerce and Industry of Kars and Gumru.

KARSİAD organized a visit to Armenia in 1998 with the Turkish-Armenian Economic Relations Development Council. The members went to Yerevan by road and were in Armenia at the time of the change of the political direction. The delegation negotiated with Mr. Petrossian as well as Mr. Kocharian.

The president of KARSİAD is one of the most important breeders of Kars. The agricultural exploitations of the region have a volume of affairs between 500.000 – 800.000 dollars, and about 30-50 agricultural workers are employed in one of these exploitations. Most of these exploitations are family exploitations.

The local market is currently the most important market for the enterprise of the president of KARSİAD, Ali. The enterprise tries to market its production in Erzurum and in Ankara. It sometimes manages to compete with the producers of the Marmora region. The enterprise does not make any exportation. However, founded by the father of Ali, the enterprise exported towards Georgia, Azerbaijan, Nakhitchevan and Armenia for a longtime. The exportations destined for Armenia continued until the middle of 1980s.

The evolution registered by the enterprise reflects the general situation of the most of the SMEs in Kars. There exists no more an exporter enterprise in Kars, although the regional market has a crucial importance for the development of the potential of the region.

According to the calculations done by the president of KARSİAD, the profitability can only be reached if the transport costs do not exceed 20% of the product's value. However, the transport costs exceed 50% when delivery is made through the Georgian road. For the small producers, distant markets are difficult to enter. Ali estimates that the volume of affairs of his exploitation can be multiplied by 3 in less than 6 months in case the border opens. The closure of the border harms essentially the small and medium sized enterprises. The enterprises based in Istanbul and the grand firms which can either reach the remote exportation markets or face with the higher transport costs are advantaged.

Industrialization and networks of commercialization

The factories of cement, flour and sugar production constitute the essence of the industrial tissue of the region. 90% of the revenues of the region are obtained from the agricultural sector. The realization of the industrial zone has to support the industrialization effort. On the other hand, the government has recently taken a lot of measures encouraging and supporting investments. The industrial zone, which turned into a ruin, experiences a restriction as of the second half of 1990s. It includes today 75 parcels. 8 factories are active. 80 factories are projected to begin producing as soon as possible. Various activity sectors are represented in the zone: dairy products, metallurgy, forestry and agricultural products (factory of sunflower oil: with an exportation towards the whole Central Asia, 50.000 agriculturists will be able to sell their products to the enterprise), agricultural tools, pneumatics, animal products and textile.

The entrepreneurs who made investment in the industrial zone of Kars have to face with the important financial problems. The production cannot be realized without a commercialization strategy: one must be able to sell, to market his products in order to produce. The potential creditors want to know some markets of the producers of Kars.

The case of Doğu Metal

The factory of Doğu Metal, specialized in metallurgy, is the most important employer of the industrial zone of Kars. The factory employs 100 workers. It offered training to the majority of these workers. Doğu Metal possesses production unities situated in Istanbul and in Izmir. 80% of exportations are destined for Russia and the Central Asia. The transport is realized by sea and by air.

In 1998, the decision to invest in Kars was made: the objective was to export directly by railway network. Doğu Metal cannot afford the important transport costs; exportation of the production is done through the mediation of the grand firms, in particular the firm Pilsa of Sabancı group. The exporter firm adds a small value on the products of Doğu Metal before selling them on the foreign markets. The possibility of opening soon the Turkish-Armenian border motivated the investment decision of Doğu Metal. The enterprise planned to send its production from Kars to Russia and the Central Asia without the mediation of an exporter firm situated in the Marmora or the Aegean regions. However, currently the production for exportation is delivered by road towards Istanbul or Adana. The investment in Kars is not mentioned anymore. Yet, the enterprise increases its productivity: in 1998, the production was reaching 7 millions pieces per year; in 2001 it became 2 millions pieces per month.

With the opening of the border gate Doğu Kapı, the transport costs are expected to be divided by 5. Doğu Metal would like to import copper from Armenia and searches a supplier in Armenia.

Source: interview with the director of the enterprise, Kars, January 2001

C. The opening of the Turkish-Armenian border and the stakes for the city of Iğdır

Iğdır benefits from an exceptional geographical position. The city borders on 3 countries⁵⁴, Nakhitchevan, Iran and Armenia. However, only the border with Nakhitchevan is open. The opening of the border with Iran is expected to take place very soon while the opening of Alican Kapı, situated at a half an hour distance from Yerevan, is rarely alive since 1998.

The commercial development after the opening of the border gate with Nakhitchevan in 1993 transformed the village of Iğdır into a small city. Despite the restrictions imposed on the border trade, Iğdır is a city of effervescence. The ceaseless comings and goings of the voyagers, the number of exchange offices and hotels verify the contacts with abroad. Contrary to Kars which has closed its door to the exterior since the closure of the border, Iğdır has largely turned towards the exterior.

This crossroads is one of the eastern-Anatolian cities which suffered the most from terrorism and insecurity. The living conditions were normalized in Iğdır in 1996. The inhabitants declare that the road communicating Doğu Beyazıt and Iğdır was impracticable after 16.00 hours before this date.

Iğdır is an ethnic mosaic. The inhabitants can be divided into 4 categories: Azeris, Kurds⁵⁵, autochthonous people and Terekeme⁵⁶. The municipality is administered by the Nationalist Movement party⁵⁷. Neither the importance of the Azeri factor nor the obsession of an insecure past can be neglected. The city does not benefit from the traditional fief of the MHP because it was before voting for the left wing. According to the inhabitants⁵⁸, the MHP made use of the ethnic feelings during the last municipal elections. The conflict between Azerbaijan and Armenia, and the fear from HADEP⁵⁹ are the origins of the victory of the nationalist party.

However, although it is characterized by the MHP and the Azeri factors and the narrowness of the economic relations with Nakhitchevan, Iğdır resolutely orients itself towards Yerevan.

The proximity to Nakhitchevan

The economy Iğdır traditionally relies on the animal husbandry and the agriculture. The region benefits from a micro-climate and the clement temperatures permit to cultivate a variety of fruits and vegetables. The opening of the border gate between Iğdır and Nakhitchevan in May 1992 gave way to remarkable leap in the commercial activities with, for the pillars of the sector, the shuttle trade⁶⁰ and the petrol trade⁶¹. In 2000, 616 international trade companies, 37 joint-stock companies, 575 limited companies and 11 banks were registered in the region. The exportations contribute to the growth. Between 1996 and 1999, Iğdır is the principal exporter province of the eastern Anatolia. And even, the exporters of the city are rewarded for their performance. In 1996, the amount of the exportations reaches 32 millions of dollars, in 1997 67 millions of dollars, in 1998 130 millions of dollars and in 1999 51 millions of dollars.

⁵⁴ There is even a point where the four people can come together, Cufa.

⁵⁵ In the region, Kurds are frequently mentioned as *aşiret*, which means a tribe.

⁵⁶ This term refers to a population originally from the Central Asia.

⁵⁷ *Milliyetçi Hareket Partisi - MHP* is one of the coalition parties in the government which has been heading the country since 1998.

⁵⁸ The sympathizers of MHP corroborate these affirmations.

⁵⁹ *Halkın Demokrasisi Partisi*, People's Democracy Party, is known as "the party of Kurds" in Turkey.

⁶⁰ *Bavul ticareti*

⁶¹ *Mazot ticareti*

This rapid growth did not suffice yet to lay the bases of a durable development. The enrichment of the city relies essentially on the commercial development and the acceleration of the money flows. However, this growth of capitals does not mean new investments. The appearance of the city has changed: the newly constructed buildings bring an image of modernity.

The textile factory Aras is the sole industrial complex in Iğdır. It is activated in 1986 and has to stop its production due to financial problems in 1989. After staying closed about ten years, it is sold to an international firm. The industrial zone of the city is totally deserted. The growth which depends on the development of commercial activities seems deceptive. The border trade with Nakhitchevan, which was established following the opening of the border gate Dilucu, becomes a financial manna for the city of Iğdır. The petrol trade has in a few years become the principal economic activity of the city and the principal source of income for the inhabitants.

The border trade between Iğdır and Nakhitchevan

Since Iğdır is mostly Azeri populated, the opening of a border gate with Nakhitchevan and the establishment of commercial flows reinforced the proximity between the Turkish city and the Azeri enclave.

In the first half of 1990s, the number of Azeri citizens going to Iğdır was estimated as 30.000 daily. In parallel to the petrol transport from Nakhitchevan, which has rapidly become the principal source of income for the inhabitants of Iğdır, various other merchandises began to be exchanged. The Azeri coming from Nakhitchevan stay generally for a month in Iğdır and do shopping from the market of the city.

The political will reinforces this dynamic of commercial rapprochement. The political contacts and the implementation of cooperation and mutual aid protocols between the province of Iğdır and Nakhitchevan are multiplied under the presidency of Mr. Demirel. As a result of an agreement signed between the governors of Iğdır and Nakhitchevan, Turkey began to give electricity to Nakhitchevan. Currently, Turkey gives 52 megawatts of energy per year to Nakhitchevan, while the province suffers from frequent electricity cuts. The electricity poles along the road which leads the city center of Iğdır to the border gate of Dilucu testify the aid granted by Turkey to the autonomous enclave of Nakhitchevan.

The inhabitants of Iğdır frequently compare Nakhitchevan to Northern Cyprus, and even some of them present the Azeri enclave as a province of Turkey. The prefecture's intention to restrict the volume of the border trade between Iğdır and Nakhitchevan is as a result completely senseless according to the population.

The regulation of the petrol trade became stricter; the quotas allowed to the transporters are revised for reduction. Henceforth, very few products can be imported from Nakhitchevan. The regulation authorizes essentially the importation of salt; however the salt factory of Tuzluca, situated nearby Iğdır, cannot sell off its production.

As a unilateral commercial flow cannot be durable, the restriction of the importations coming from Nakhitchevan has an impact on the global volume of exchanges across the borders.

The initiatives to place the commercial exchanges between Iğdır and Nakhitchevan on a solid economic base face with many problems. The status of the

banking infrastructures in Nakhitchevan constitutes a major obstacle for the development and the diversification of commercial exchanges. On the other hand, the margin of manouevre of the Turkish entrepreneurs is limited: the political equilibrium determines the success of the economic projects. The interaction between politics and economy and the instable structure of the economy are the obstacles before the implementation of long term economic strategies.

A joint initiative of the prefecture of Iğdır and of Nakhitchevan resulted in the formation of a structure to resolve the economic problems. This structure, called ETİK⁶², has not had any efficiency yet.

"Mazot Ticareti" between Iğdır and Nakhitchevan⁶³

The regulation of the border trade authorizes the delivery and the commercialization of petrol coming from Nakhitchevan. This trade which benefits from a fiscal exemption is a financial manna for the border regions suffering from underdevelopment. The license which permits the enterprises to make petrol trade is granted by the prefecture. The service stations and tank trucks visible along the road which extends from the center of Iğdır to Dilucu, testify the importance of these flows.

The profile of the petrol merchants

The population of the petrol merchants is young: 32% are between 18 and 24 years old, 24% between 25-34 years old. 92% were born in Iğdır. This strong proportion makes us to suppose that the prefecture takes the place of birth into consideration while granting licenses. 28% of the merchants were working in the agriculture sector and 20% were workers or government employees. It can be noticed that very few artisans or small merchants are interested in the petrol trade.

72% of the companies working in this field are the family enterprises which employ less than 5 workers. The majority function essentially on their own funds.

The figures in "Mazot Ticareti"

5842 vehicles, of which 300 are heavy vehicles, are registered in Iğdır. The purchase of vehicles constituted the principal investments type in 1990s. The licenses granted by the prefecture determine the quantity of the petrol which every vehicle is authorized to transport. Cars are authorized to transport 5000 liters (5 tons) of petrol, while heavy vehicles can transport 10.000 liters (10 tons).

Until 1998, 1500 vehicles were daily going to Nakhitchevan to get petrol, while currently 900 vehicles per week are authorized to pass to Nakhitchevan. The measures of restriction gravely affected this trade: the prefecture created a rotation system: waiting period between the two tours between Iğdır and Nakhitchevan is 4 months. The length of waiting at the border may reach 30 hours. The cost of a tour may reach 800 dollars, on which the taxes that were deducted in advance should be added. These taxes were about 245 millions Turkish liras in January 2001.

⁶² *Nağçıvan-Türk Ekonomik Ticari İşbirliği Kurulu*, Turkey-Nakhitchevan Commercial Cooperation Council.

⁶³ The border trade between Iğdır and Nakhitchevan in oil products was interrupted on September, 1st 2002 by the Turkish government. This decision might have a tremendous impact on the political economy of the region.

The petrol delivered via Nakhitchevan is originally from Turkmenistan. Turkmen petrol of L62 norms corresponds to Turkish norms, contrary to the Iranian petrol of which the commercialization is not authorized.

Source: Interviews with the professionals of the sectors, Iğdır, January 2001.
Kerem Karabulut, "Iğdır Ekonomisinin Gelişmesinde Ticaretin ve Özellikle Sınır Ticaretinin Yeri ve Önemi"
(The place of the border trade in the economic development of Iğdır) in *Ekonomik Gelişmesi*, Seminer, Mayıs 2000.

The Armenian border

Surprisingly the question of the opening of the Turkish-Armenian border is a real stake for Iğdır.

This city which is mostly Azeri populated and which is in very close economic relations with Nakhitchevan, looks towards Yerevan. Iğdır Chamber of Commerce clearly struggles for the opening of Alican Kapı border gate. The representatives have recently visited Yerevan and tented many times to organize a visit to Yerevan. Exacerbation of the tensions between Turkey and Armenia as from 1998 convinced this organization of the necessity to adopt a low profile.

The opening of the border gate Alican will permit Iğdır to be less dependent on the trade with Nakhitchevan. The intention to restrict the border trade with Nakhitchevan can be explained with the negative effects of this trade. This financial manna contributed to the creation of a rent economy. The rapid money flow, the absence of regulations and the proximity to a zone characterized by the absence of law are the elements which explain the implementation of an informal economy. This lack of economic transparency contributes to the fragility of the social and political tissue which was marked by terrorism in the recent past. The bases of a durable development could not be laid because the money flow was not directed towards productive investments.

The conviction that the interruption of the petrol trade with Nakhitchevan would result in the economic death of the city of Iğdır is largely widespread among the population. The opening of the Turkish-Armenian border is considered as an alternative way of development.

The attractiveness of the market of Yerevan

For the city of Iğdır, the Armenian capital is an important market. Yerevan is half an hour far away from the border gate Alican Kapı. The merchants of Iğdır think to directly supply the market of the Armenian capital in consumer goods. Provided that the investments made within the framework of petrol trade permitted the merchants of the city to possess trucks and heavy vehicles, delivery of merchandises would not pose any problems. Even if the geographical proximity to Yerevan constitutes a trump card, which cannot be neglected, for the merchants of Iğdır, entering the market of Yerevan has become more difficult. The competition to enter the Armenian market increased in 10 years. On the other hand, the professionalization of the distribution networks has limited the margin of manoeuvre of the exporters. The merchants of Iğdır can feed the market of Malatya and compete with the merchants of the Black Sea who export via Georgia. But the entrepreneurs of the Black Sea, especially those from Trabzon, are also very active and pursue the lobbying activities for the opening of the border gate Alican Kapı.

The destinies of Trabzon and Iğdır seem to be tightly bound to each other. The opening of the border gate Alican Kapı is expected to permit Trabzon to become the port of Armenia, while Iğdır is expected to become Turkey's door to Caucasus and to the Central Asia. Trabzon Chamber of Commerce is deeply interested in the city of Iğdır and frequently visits to Iğdır are organized.

Conclusion

By deciding to close its first border gate between the USSR in 1993, Turkey chose, within the post-Cold War context, not to have direct contacts with its neighbor, Armenia. Although it recognized the Republic of Armenia as from its independence, Turkey did not know to establish diplomatic relations with Armenia.

The decision to close the border hindered a direct commercial flow between the two countries and is interpreted as an embargo. The exchanges between the Armenian and Turkish populations, which are indispensable for the establishment of a confidence climate, did not have the possibility to develop.

The trade between these two countries owes its existence to the strategies of circumventing the embargo. The merchants and the private entrepreneurs have become the sole mediators between Turkey and Armenia, in the absence of diplomatic relations. However, the obligatory passage over the Georgian territory represents a considerable cost both for the Turkish merchant and his Armenian partner.

Georgia benefited considerably from its geographical position and become a transit country. It profited from the situation to get the role of bridge between Caucasus/the Central Asia and Europe. Poti is henceforth the port of Armenia, while the road which communicates Yerevan and Tbilisi is its principal road of communication.

The opening of the border is a vital question for Armenia. The importance of transport costs and the fees of transit which are added on them and the narrowness of the internal market increased by the difficulty of entering the regional and global markets seriously harm the Armenian economy and prevent the development of the private sector. The narrowness of the internal market does not allow the investments which are necessary for the modernization of production materials.

Ankara notes that the economic cost of the status quo can be neglected considering the political gains. The organizations of the private sector and certain economic ministries are opposed to the official line, but this is not the same in following a joint action.

The port cities and the border provinces desire the opening of the border and wait for it impatiently. The studies carried out in Kars, Iğdır and Trabzon, integrating the regional data, permit to precisely define the economic gains which Turkey would obtain in case the border opens.

Armenia is Turkey's door to Caucasus and the Central Asia; Turkey, on the other hand, is Armenia's door to Europe and the United States. The opening of the border is crucial for the opening-up and the economic development of the Republic of Armenia; and the road communication with Caucasus and the Central Asia can permit Anatolia to become a crossroads between the north-south and east-west commercial roads.

My Journey to Armenia

13 April 2001. I'm preparing to go to Armenia. My objective is to collect data for the study I'm carrying out. It is difficult to guess in advance to which point I'll be impressed by this trip. I'm far from thinking that the smallest step I will make or the smallest word I will say can have such an impact. I ignore the fact that traveling from Istanbul to Armenia for a few weeks and not being originally Armenian is an exceptional case. I insist yet on believing that the bravest action that I took was to take the small helicopter connecting Istanbul and Yerevan.

The Istanbul-Yerevan flight. Not more than 10 passengers. The meteorological conditions permit us to arrive in Armenia without any problems. The passenger sitting in front of me turns back and speaks to me in a language which I am sure of hearing for the first time. I guess that it is Armenian. "Ah! You don't speak Armenian!" he says. Since he learns that I am not Armenian, I am not criticized and I get eulogies. I think that being a Turk and going to Armenia must be an unusual case.

I profit from the weekend to visit the historical sites situated nearby Yerevan, I go to the lake Sevan. As of Monday morning, another program waits for me. I prefer to begin my research with a field study and I set out for the quarter of "Bangladesh" which hosts the market of "Malatya". For one who speaks neither Armenian nor Russian, Turkish is one of the principal communication languages in the market. I approach the merchants who sell Turkish products and ask them: "Does it come from Turkey?" The first responses which I get encourage me to continue. We start to speak in Turkish. They are agreeably surprised to learn that I come from Istanbul. Most of the products are delivered from Turkey to Armenia, via Georgia. We discussed the quality of the products and the prices. The merchants learned Turkish during their stay in Turkey; some of them were speaking Turkish in family. I meet with many merchants from Van, Muş or Diyarbakır. The conversations on the products "made in Turkey" prove that the trade brings closer the populations.

I begin my interviews the following day. My program is so busy that I will not have time to visit any museums; however the dormitory of the Yerevan State University where I stay is situated near the museum of manuscripts, Matenadaran. The names of the businessmen, the authorities from the ministry of Commerce and Industry, from the ministry of Foreign Affairs and from World Bank appear on my interview list.

I rapidly realize that my interviews systematically take place in a special ambience. Nobody remains indifferent when I say "I'm coming from Istanbul". Even the most official interviews develop in a warm and friendly ambience.

I attach a particular importance to the visits I pay to the University and to the academic research centers. I interview for a longtime with the lecturers and the assistants of the Yerevan State University and at the Oriental Studies Institute. I visit the library. The newest books date 1980s. The University Library of the Turkish Studies cannot be compared with the Library of the Persian Language, Literature and History department. I learn that Iranian Embassy provides a financial aid for the latter department. The lecturers mention their desire to receive the works of *Türk Tarih Vakfı*, which were reaching them by traversing Moscow at the Soviet age.

I have the opportunity to get acquainted with the most of the lecturers and the assistants of the Turkish department of the Yerevan State University. They speak fluently Turkish. However, they have never been to Turkey. They declare that they want to go to Turkey but are afraid. I tell them that there are also many

university members in Turkey who want to come to Armenia, but who are not courageous enough. They smile. A small group of students went to Ankara for a few weeks in accordance with the protocol signed between the Yerevan University and the Middle East Technical University. They were very satisfied with their stay.

The chief of the department offers me to enter the course of the first year students. I accept his offer with pleasure. About 40 students wait for me with a curiosity. The most audacious ones among them talk to me in Turkish. I ask them why they learn Turkish. Some of them say they are interested in Turkey, they want to make something to ameliorate the relations between Armenia and Turkey; the others think that it is important to learn the language of the neighbor. They want to learn whether there are a lot of persons who speak Armenian in Turkey. "Where are your grandparents born?" They enumerate one by one the names of the south eastern and eastern Anatolian provinces.

I get used to my life in Yerevan. I manage easily to make myself understood. Accompanied by a friend from Istanbul, I go to a café on the Avenue of Mashots, frequented by students. My friend proudly introduces his Turkish friend coming from Istanbul to his friends...

The owner of the internet café speaks a little Turkish. For more than 6 years, he was not speaking Turkish. He asks me if I have a Turkish-Russian dictionary. I promise him to bring one on my next visit. "When will that be? In a year?" he asks me with irony.

On learning that I will be in Yerevan on April 24, my friends convey me their worry. They advise me to stay away from the manifestation which the dashnak students traditionally organize on 23 April night. They get more worried when I tell them about my intention to go to the memorial of Tsitsernakaberd on 24 April. "I just would like to try to understand how the people feel...", I say them. "I understand you, you are courageous, I hope everything will be good for you", they respond me.

The ceremony took place with calmness and dignity. Thousands of people come to fulfill a task with wreaths, bouquets and even simply with white daisies. I'm introduced to Meline and Lusine, young historians from the research institute of the museum. They fluently speak Turkish. We spend the day together before returning to the city center.

I separate from Meline and Lusine and set out towards the Opera square. What a lovely spring day! I have not realized up to now that the population of Yerevan was so young. I watch the children who make skateboarding and the couples who promenade hand in hand; I smile.

I'm in front of the university. An old man about 60 years old sells some books at the corner of the street. I glance at the books: a Turkish-Russian dictionary! The man writes the price of the dictionary on a piece of paper; I do not want to bargain; and I decide to buy the dictionary immediately. The old man looks at me and asks me, in perfect Turkish, if I speak Turkish. His family was originally from Bursa. He was grown up in Aleppo. He has never been to Turkey. I give him my coordinates in Istanbul, embrace him saying goodbye and proceed without looking back. I will never forget those blue eyes and that profound look.

I go to the internet café to give the Turkish-Russian dictionary to my friend. The clients observe us. He proudly introduces me to the clients. "Can we correspond?" he asks me. "Of course we can!"

The smallest word, the smallest gesture has importance. I promise myself to bring my Turkish friends to Yerevan next time and begin to think about my friend who is from Iğdır. He learned Russian by himself as a result of his admiration for Russians; in his youth passed in the local region of the nationalist party, he had learned to fear Russian; we had promised each other to traverse the border on foot one day and to arrive in Yerevan.

ARMENIA**Economic Indicators**

	1994	1995	1996	1997	1998 estimations	1999 estimations	2000
Annual growth rate	5.4	6.9	5.8	3.1	7.2	3.3	5.0
Annual inflation rate	4962	176.7	18.7	14.0	8.7	0.6	3.4
Budget deficit (% of the GDP)	6.0	6.0	4.4	2.6	4.2	5.2	4.8
Commercial balance deficit (in million dollars)	-178.3	-403	-565.5	-659.8	-672.3	-473	-502
Total of the direct foreign investments	9.2	24.4	17.6	51.9	230	104	
Unemployment rates	6.6	6.7	9.3	10.8	9.3	11.1	
Exchange rates (annual average per US\$)	405.9	413.4	490.7	504.9	535.1	547	

Source: EBRD 1999 and 2000 Country Profile (Armenian Ministry of Statistics).

Regional Trade
(in million dollars)

	1996	1997	1998	1999
Armenia				
Exportations	290,3	232,5	220,5	231,7
Importations	855,8	892,3	902,5	811,7
Commercial balance	-565,5	-659,8	-681,9	-579,6
Its % in the exp.	-162	-240	-252	-227
Azerbaijan				
Exportations	643,7	808,3	677,8	1025,2
Importations	1337,6	1375,2	1723,9	1433,4
Commercial balance	-693,9	-566,9	-1046,2	-408,2
Its % in the exp.	-108	-70	-154	-40
Georgia				
Exportations	310,0	376,5	300,0	329,6
Importations	897,5	1162,8	994,5	863,4
Commercial balance	-587,5	-786,3	-694,6	-533,9
Its % in the exp.	-190	-209	-232	-162

Source: National Offices of Statistics of Armenia, Georgia and Azerbaijan

The regional consequences of the normalization of the commercial relations

Effects on the commercial balances

(in millions of dollars)	Armenia	Azerbaijan	Georgia
Savings from the transport costs	6,4-8,4	0,7-1,8	
Savings from the energy expenses	45		
Non-existent exportations	268,9- 342,4	103,2- 104,6	
Total amount	320,3- 395,8	103,9- 106,4	
Supplementary importations	80-100		
Total amount - supplementary importations	220,3- 315,8	103,9- 106,4	
Its % in the commercial deficit of 1999	38-54	25-26	
Losses on the revenues from transit			7,4
Its % in the commercial deficit of 1999			1,4

Source: Evgeny Polyakov, *Changing Trade Patterns after Conflict Resolution in South Caucasus*, Poverty Reduction and Economic Management Sector Unit – Europe and Central Asia Region, World Bank, Washington DC, 2000

Impact of the normalization of the regional commercial relations on the exportations of Armenia

Calculation of the annual average of 1995-1998 and estimation on the development potential of the exportations

A. Exportations (in millions of dollars)

	Current (c)	Potential (p)	Proportion (p/c)
Azerbaijan	-----	3276	-----
Georgia	7478	22214	3,0
Turkey	4692	35641	7,6
EU	63223	230768	3,7
Russia	72457	79530	1,1
United States	5916	101948	17,2
Iran	38233	44313	1,2
Other CIS countries	37304	37396	2,4
Total	229303	555087	2,4

B. Share of the partner in the total of exportations in %

	Current	Potential	Potential - Current
Azerbaijan	-----	0,6	0,6
Georgia	3,3	4,0	0,7
Turkey	2,0	6,4	4,4
EU	27,6	41,6	14,0
Russia	31,6	14,3	-17,3
United States	2,6	18,4	15,8
Iran	16,7	8,0	-8,7
Other CIS countries	16,3	6,7	-9,5
Total	100	100,0	

Source: Evgeny Polyakov, *Changing Trade Patterns after Conflict Resolution in South Caucasus*, Poverty Reduction and Economic Management Sector Unit – Europe and Central Asia Region, World Bank, Washington DC, 2000