

Economic Impacts of Re-Opening the Armenian-Turkish Border

By Haroutiun Khachatrian¹

The economic consequences of the possible re-opening of the Armenian-Turkish border will appear quickly and will mean a rapid improvement for both countries, but especially for Armenia.

The current economic relationships between Armenia and Turkey can be characterized in short as follows: Turkey exports goods to Armenia worth some 260 million dollars a year, whereas imports of Armenian goods to Turkey are worth a mere 1.9 million dollars (data of 2008). In other words, the Armenian market is open for Turkish goods, while the opposite is not true, as Turkey applies a de-facto embargo (not declared officially) to imports from Armenia. All of this cargo transfer is channelled through third countries, mainly Georgia. This shows the first possible benefit for Armenia once the de-facto embargo is lifted. The huge Turkish market, a country of 70 million, would become available for Armenian exporters. Meanwhile, today the immediate markets available for Armenian goods are only the market of Armenia itself (3.2 million people) and Georgia (4.5 million), both being poor countries which restricts the volume of the market. Two other neighbors of Armenia, Azerbaijan and Iran are practically inaccessible for Armenian exports, the former for political reasons and the latter because of high trade barriers. Along these lines, opening the Turkish market to Armenia would greatly improve the investment rating of Armenia as the limited volumes of markets nearby make it a risky site for investments, today.

¹ The author is an analyst and editor with the Yerevan based news agency Noyan Tapan.

The second major benefit for Armenia would be the additional way of communication with the outer world. Firstly this would enhance possible railroad traffic, as currently Armenia has rail access through Georgia only. Moreover, once the Turkish railroads are open for Armenia, it can also access ferry transportation from Turkey, which is safer and cheaper than the ferries available at Georgian the ports of Poti and Batumi. Today, cargo shipment on ferry is the most important means of transport for Armenian exports to Europe and Russia, its major trade partners.

Opening the Turkish-Armenian border would bring economic benefits to Turkey as well. First of all, this would be a stimulus for the regions of Turkey bordering Armenia. These regions, the provinces of Erzerum and Agri, are the least developed among the provinces of Turkey, with a GDP per capita rating lower than half of the average in Turkey (and also, lower than in Armenia). This is why the population of these depressive regions has repeatedly expressed its support to the idea of opening the Turkish-Armenian border. However, the fact that these regions are underdeveloped might also pose a serious challenge to Armenia in the case of reopening the border. In particular, an open border can result in opening the Armenian market for unemployed people from the neighboring country, a perspective which is especially alarming during the current economy crisis. The other potential challenge which is often mentioned is the dominance of Turkish imports in Armenia which could occur after opening the border. Since however, today the Armenian market is already open for Turkish goods, it is unlikely that this might entail serious risks for the Armenian economy.

The second obvious benefit for Turkey would be consist of using the Armenian railroads for easier access to Georgia, Azerbaijan and Central Asia.

It is evident from the above-mentioned that the Armenian-Turkey economic relations do not necessarily require full normalization of bilateral political relations. Armenian-Turkish normalization that can be implemented in at least three different ways

First: Turkey can lift the ban on imports of Armenian goods and services without opening the land border. A sign of this type was the information that an agreement was achieved about exports of Armenian electricity to Turkey. It was reported shortly after president Gul's visit to Armenia last September that such exports might start in spring of 2009.

Second: Turkey can open the common border between the two countries without the full normalization of the Armenian-Turkish relations. To fully benefit both countries, this should include free access to communication networks

Third: Turkey can decide to normalize its relations with Armenia including economy and political ones.

Of course, for Armenia in the third option is the most preferable one, but the economies of both countries will benefit if Turkey chooses the first of the second options as well.