



Support to Armenia Turkey Rapprochement Project

Armenian-Turkish Business Relations through the Eyes of Business Opinion Leaders

Study Report

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Armenian-Turkish Business Relations: A Study across Closed Borders

What does a closed border mean in the 21st century? Does it prevent people from communicating? Does it block information flow? Does it rule out trade? Optimists and enthusiasts of globalization, new information technologies and laissez faire economics would probably say “No!” and locate plenty of evidence to support their claim on the internet. Pessimists would probably take you to the border and show the barbed wire and watchtowers. After that, they would quote a few blood-chilling ‘proverbs’ and folk ‘wisdoms’ regarding the other side. Or, better still, a few quotes from politicians; more civilized on the surface but no less blood-chilling if you think about them. What would a realist do?

This study is an attempt to clarify the situation for the realist; someone who does not easily dismiss barbed wire, but hopes to effectively reach across the closed border. To the best of our knowledge, it is the first work of this type in the sphere of Armenian-Turkish business relations; a coordinated research effort carried out systematically and simultaneously in Armenia and Turkey, aimed at bringing together perspectives from both sides. As such, it has encountered more difficulties than initially anticipated. That in itself is the first illustration of the point optimists should be alerted to: a closed border is an obstacle, even in the 21st century, even for a scholarly community cooperating for a joint research interest.

The two most daunting problems the study faced were a lack of reliable information about the ‘other side’ and reluctance amongst participants. Lack of information pertains both to secondary data analysis and to primary data collection from key informants, who often appeared fairly ignorant or misled by common ‘knowledge.’ Few reliable and systematic statistical records on economic relationships between the two countries exist, especially on the Turkish side. The few studies of the subject matter that can be found present a one-sided perspective. It is often difficult to distill reality from rumors, unfounded assumptions and stereotypes. Not only did the reluctance of Armenian and Turkish businesspersons to participate in the study result in high refusal rates, but those who did participate in surveys, focus groups and in-depth interviews often remained at a shallow conversational level, unwilling to go beyond truisms and politically correct statements.

In a way, both of these problems are mirrored in the findings. Two recurring themes that can be traced throughout the study are; a lack of information and a sense of insecurity. The first is readily acknowledged and highlighted by participants as one of the most urgent problems needing solution in order to facilitate business relations between the two parties. The second surfaces on many occasions - it is less deliberated on, but no less present.

Overall, when analyzing the variety of statements, thoughts and ideas collected in the course of this study, several patterns emerge that can be visualized using the scheme presented below. Armenian-Turkish business-related perceptions can be structured along two axes, each representing two polar opinions. One axis maps opinions regarding the influence of politics upon business. Some think that ‘business is business’, regardless of politics: that business logic and profit-making orientation dictate the course of action. Others are of the opinion that business is inevitably linked with politics: that any developments or setbacks in Armenian-Turkish politics directly influence business. The second axis of the spread of opinions represents the hopes and fears surrounding opening the borders. For some, open borders mean new opportunities, while others are cautions of risks and disadvantages.

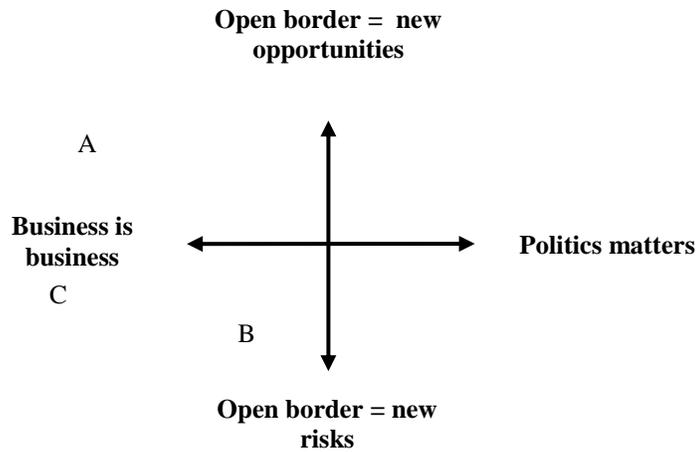


Figure 1: A theoretical scheme for structuring of Armenian-Turkish business related opinions

This scheme is a conceptual outcome of the study that can be fine-tuned and used for further research. The three hypothetical examples (A, B and C) plotted on the scheme are used to illustrate the point. “A” is a businessman who is excited about the opportunities an open border presents. He tends to believe that Armenian-Turkish business relations are dictated by profit-seeking behavior and are not influenced by politics. “B” is a businesswoman who is extremely cautious about the prospect of opening the border, which she sees as a risk rather than an opportunity. She also believes that politics inevitably influences business relations. “C” is an expert who thinks that politics plays little role in business relations, but perceives an open border as a risk rather than an opportunity - although he is not as concerned by the prospect as “B.” The scheme can also be used to inform policy-making. The clustering of opinion leaders and larger groups of the population in the upper left quarter would signal a more favorable setting for rapprochement, as compared to a society where most are clustered in the lower right quarter, fearing open borders and dependent on signals from the political sphere.

Some of the most interesting findings of the study are:

- The issue is much more intense on the Armenian side. There is more interest in the matter, more diversity of opinions, more provocative statements, more hopes and more fears. It seems that more is at stake.
- There is a serious lack of information and a great deal of misinformation on both sides.
- There is a strong sense of uncertainty, even insecurity, on both sides.
- Trust and business ethics are considered as tools to bridge the gap created by uncertainty; they serve as guarantors when no other guarantors exist. Trust is often developed as a result of personal contacts.
- International professional associations help to find partners and resolve disputes.
- Tourism and textiles are the two sectors where participants’ perceptions match, in that they see the most room for cooperation. Energy, the gold industry, medicine and cattle breeding are among the sectors where there is a mismatch of perceptions. The first three were named by Armenians as mutually beneficial, while they did not even occur to Turkish businessmen. The last one was mentioned by the Turks, but was not present in the Armenian business discourse.

Regarding the rapprochement process between the two countries, some of the participants made observations that cannot be generalized as study findings, but are interesting in the sense that they are thought-provoking.

- An optimistic assessment of the progress made in the past ten-fifteen years was expressed by a participant, who believes that psychological barriers have almost been overcome and that people are able to disentangle historical problems from personal relations and future perspectives.
- Yet another stalemate in the relationship between the two countries can be used as an opportunity to reflect on mistakes made on both sides, enabling the discussion of those mistakes and ensuring that they are not repeated. This was a suggestion from a participant who is perhaps less optimistic than his aforementioned counterpart, but far more optimistic than many others.
- Some participants are very skeptical of any structures that could assist cooperation; they look to the state as the only solution-provider. Governmental structures are the only structures that can serve as guarantors of business relations. The problem has to be dealt with at state level; no associations or non-state actors could bring about tangible change.
- An opinion that politics not only does, but *should* influence business was expressed by some participants, who think that a businessperson should first and foremost think about national interests, adjusting his/her personal interests accordingly.

Returning to the questions posed at the beginning of this short research overview, the study results show that:

- a. Trade does happen across the closed border - going through a curious metamorphosis of becoming invisible on one side of the border, not to mention additional costs.
- b. The closed border does not prevent people from communicating, nor does it block information flow. It does, however, pose serious obstacles to contacts, cooperation and trade; distorting and impoverishing the information that gets across, perpetuating stereotypes and discouraging many from taking the initiative.

Communication across closed borders, in order to be efficient, has to be a conscious, sustained, effort-driven activity. Businesspersons operating according to profit-making logic are able to overcome obstacles and maintain good working relations. Perhaps the most important question this study opens up (rather than answers) is whether continuous and developing business relations can build up enough momentum and capacity to begin influencing political processes rather than vice versa.

LIST OF ABBREVIATIONS

AEPLAC	Armenian-European Policy and Legal Advice Centre
ARF	Armenian Revolutionary Federation
BA	Businessin Antarag
CB	Caucasus Barometer
CRRC	Caucasus Research Resource Centers
EPF	Eurasia Partnership Foundation
EuFoA	European Friends of Armenia
FDI	Foreign Direct Investment
FG	Focus Group
GDP	Gross Domestic Product
ICHD	International Center for Human Development
ICT	Information and Communication Technologies
IDI	In-depth interview
NGO	Non-Governmental Organization
RA	Republic of Armenia
SME	Small and medium enterprises
TABDC	Turkish-Armenian Business Development Council
TESEV	Turkish Economic and Social Studies Foundation
TIR	Transport International Routier
TÜRSAB	Association of Turkish Travel Agencies
UMBA	Union of Manufacturers and Businesspeople of Armenia
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics
USD	US dollar
YPC	Yerevan Press Club

EXECUTIVE SUMMARY

The research on the Armenian-Turkish business relations consists of (1) a desk study of secondary data on economic relations between the two countries and a review of the research which has previously been conducted, and (2) primary data collection on business opinion leaders' attitudes and perceptions regarding actual and potential Armenian-Turkish economic cooperation. For the second part of the study, a combination of three methods of primary data collection was used in Armenia and Turkey in order to provide a multi-dimensional picture of a complex reality. A pilot survey with 265 of the most successful business from various sectors (165 in Armenia and 100 in Turkey) was conducted to gain a general understanding of existing and prospective cooperation patterns; 11 focus group discussions (6 in Armenia and 5 in Turkey) took place where the participants (businessmen of various sectors) were encouraged to discuss problems of trust, psychological insecurities, and emotional dispositions towards the 'other side'; 90 in-depth interviews (70 in Armenia and 20 in Turkey) were conducted with influential businessmen, as well as some public officials and experts to assess levels of knowledge and informed interest in cooperation, perceived influence of politics, real life experience, practical ideas and proposals for improved cooperation.

Secondary data on economic cooperation reveals that Armenian-Turkish relations are not as one-sided as many (especially in Turkey) think. There is a flow of goods from Armenia to Turkey; Turkish capital (investments, legal entities founded or co-founded by a Turkish side) is present in Armenia, although there was a noticeable withdrawal of Turkish capital and diminishing numbers of legal entities with a Turkish component in 2011.

Given the purposive¹ selection of survey respondents, focus group discussion participants and in-depth interviewees, the level of reported business cooperation between Armenia and Turkey is very low. Nonetheless, there is a willingness and potential to cooperate. There are enough organizations and individuals in both countries who could act as (and, in some cases, *are* acting as) agents of change, fostering cooperation despite closed borders.

The focus group discussions revealed major gaps in knowledge and a sense of uncertainty, often leading to a sense of insecurity when imagining oneself traveling to the 'other side' and doing business there. Interpersonal communication leading to trust was often named as the way to overcome the uncertainties in business relations, which remain unprotected due to the absence of diplomatic relations between the two countries.

In-depth interviews provide deeper reflections on the current problems with cooperation and areas where cooperation could be fostered. While acknowledging the positive role of interpersonal contacts and trust-based relationships between businesspersons from the two countries, in-depth interview respondents are more inclined to emphasize problems caused by political stalemate.

Overall, the study shows that, despite closed borders and the politically unfavorable situation, some cooperation does occur in the field of business, gradually leading to increased levels of trust and the spread of information. This cooperation, however, is of a very small scale; the information deficit is

¹ Businesspersons that either had experience with or were interested in cooperating with 'the other side' were selected to participate whenever possible. The study was initially designed as an opinion leaders' research, assuming that, given low levels of cooperation, those who are willing to cooperate are a particularly important target group; understanding their motivation and discovering their problems could help in promoting and enlarging that group as agents of change.

obvious and often leads to unrealistic ideas about what could and could not be achieved in terms of Armenian-Turkish business relations. A psychological sense of insecurity is also distinctly felt on both sides of the closed border, even among those interested in cooperation.

INTRODUCTION

The purpose of this study is to conduct a multi-dimensional piece of research on Armenian-Turkish cooperation in the business sphere. More specifically, the study aims to:

- Conduct an overview of the current economic situation in Armenia and Turkey;
- Clarify possibilities of business cooperation between Armenia and Turkey;
- Assess willingness to cooperate, obstacles to cooperation, perceptions and knowledge about the ‘other side’;
- Identify the most promising spheres and forms of cooperation;
- Explore ideas related to existing and possible mechanisms of cooperation across the closed border;

The study has focused on the following sectors: agriculture; construction and building materials; construction engineering; information and communication technologies (ICT); manufacturing; tourism; and transport. The purposive selection of survey respondents, focus group and in-depth interview participants within the key sectors was informed by the following considerations: those who cooperate with businessmen from the other country (currently or have done so in the past), those who are interested in cooperation, and those for whom such cooperation is potentially profitable (based on general market assessments of both countries) were selected as participants whenever possible. If the required numbers of participants were not obtained by selecting such ‘prone to cooperation’ businesses, additional prominent and successful enterprises from respective sectors were selected. The rationale behind such sampling was to survey opinion-leaders in the sphere of Armenian-Turkish cooperation who, being pre-disposed towards cooperation, have the potential to act as agents of change.

The study project consisted of the following steps:

1. Analysis of statistical data for both countries;
2. Overview of previous studies and reports related to the topic;
3. Development of questionnaires, focus group and in-depth interview guides, primary data collection methodology design;
4. Pilot survey, focus group discussions and in-depth interviews in Armenia and Turkey;
5. Quantitative data entry and analysis, qualitative data analysis;
6. Overall analysis of the collected secondary and primary data, reflections on difficulties and unexpected developments in the course of the project;
7. Production of final results in several stages (detailed reports on Armenia and Turkey, a short summary report combining results of both countries, presentation materials).

Due to the low number of respondents and the experimental nature of the research, the pilot survey component of the study should not be considered to be a representative survey of Armenian and Turkish businesses. It is triangulated with other methods of data collection and analysis to meet the overall goal of the research; to provide systematic information and new insights into the current state of, possible ways of developing, perspectives, and potential possibilities for as well as obstacles to Armenian-Turkish business relations.

METHODOLOGY

The study was conducted simultaneously in Armenia by “Businessin Antarag” LTD, and in Turkey by Turkish-Armenian Business Development Council (TABDC). The Armenian party was largely responsible for the methodology design and overall project coordination.

A multi-dimensional approach is used in this research. The study includes secondary data analysis and primary data collection via a pilot survey, focus group discussions and in-depth interviews.

Secondary Data Analysis/Desk Study

The desk study compiled information from various sources related to different aspects of business relations. It consists of the following sections:

- Analysis of some macro-economic parameters of Armenia and Turkey;
- Analysis of economic relations between the two countries;
- Overview of previously conducted studies.

Pilot Survey

Total sample size: 265 SMEs, of which 165 were in Armenia and 100 in Turkey.
Fieldwork timeframe: December 2010

The sampling design of the pilot survey was based on background data on Armenian and Turkish, currently functional, small and medium businesses enterprises (SMEs). Seven focal sectors were included in the study: agriculture; construction and building materials; construction engineering; information and communication technologies (ICT); manufacturing; tourism; and transport. A purposive sampling method was used: SMEs with a good rating in the market, those most active, those with experience of previous cooperation or with a potential for cooperation were selected. In Turkey, most of the 100 questionnaires, initially planned to be conducted with the members of target sectors, were conducted within the industry and tourism sectors as the levels of interest and positive response from these sectors were significantly higher.

Focus Group Discussions

Fieldwork timeframe: December 2010 – January 2011

Focus groups (FGs) were organized by sectors identified as focal for this study (see above). The total number of FGs conducted was 11, of which 6 were conducted in Armenia and 5 in Turkey. In Armenia the FGs took place in Yerevan. In Turkey four cities were selected: Istanbul - which is the capital of the shuttle trade, Kars - which is the closest city to Armenia, Malatya - due to its former ethnic structure, and Denizli - which is one of the most important cities in the textile industry. Each focus group had between 8 and 12 participants.

In-Depth Interviews

Sample size: 70 in Armenia and 20 in Turkey.

Fieldwork timeframe: January – February 2011

Enterprise leaders who have achieved noticeable success in the business environment, have distinguished themselves in terms of effective business performance, and/or have experience in Armenian-Turkish cooperation, as well as state officials, prominent political scientists, and representatives of Non-Governmental Organizations (NGOs) related to the topic of the study were selected for in-depth interviews in Armenia and Turkey².

The main purpose of in-depth interviews with businesspersons and state officials was to collect opinions and suggestions on Armenian-Turkish cooperation, business environment, existing policies and perspectives, as well as possible mechanisms of cooperation.

² The general impressions and ideas derived from in-depth interviews in Turkey are considered when making comparisons between Armenia and Turkey and in the overall discussion of the results. However, the analysis is not presented in a separate subchapter of this report, as the ideas and information derived from these interviews do not add substantially new insights. The interviews reflect the genuinely low interest of Turkish businessmen towards Armenia, combined with low levels of information. This is also true for some interviews from the Armenian side; however that was not the dominant thread.

PART I: DESK STUDY

1.1. The Armenian Economy

Social-economic developments in the post-Soviet transition period have resulted in the following factors describing current Armenian economy: small value market; quarterly arrhythmia; distinct seasonality; high import propensity; exceeding consumption of newly produced values; great polarization of population by income and expenditure; regional polarization of markets; high level of control of banking market entities; volatility of levels and structures of financial markets liquidity; underdevelopment of unified payment calculation system; changing pattern of tax component of GDP; questionable development of law-abiding culture; existence of shadow economy; emigration; instability of jobs in the employment sector.

The global economic crisis had a serious impact on the Armenian economy, which started to decline in the last quarter of 2008; in 2009 it contracted by 15.4%, which is a dramatic change compared to previously recorded growth rates.

Table 1: Armenian GDP indicators

	2007	2008	2009	2010
GDP in market price, million US dollars	9,206.3	11,662.0	8,541.1	9,391.5
Deflator, compared to last year, %	104.2	105.9	101.3	110.2
GDP per capita, US dollars	2,853.3	3,606.1	2,633.1	2,885
GDP real volume index, compared to last year, %	113.7	106.9	85.8	102.6
GDP real volume index per capita, compared to last year, %	113.6	106.7	85.6	-

Source: National Statistical Service of the Republic of Armenia (in Armenian)

1.2. The Turkish Economy

There have been remarkable changes in the living standards of Turkish people in the last ten years. The economy leapt forward in many fields, from automobile manufacturing and sales to air transport, from mobile phones to house construction. The average growth rate of the Turkish economy was 2.6% between 1993 and 2002 and 7.8% between 2002 and 2011.

The Turkish economy is a dynamic and complex mix of modern industry and trade with traditional agriculture, fisheries and farming. It has a strong and fast-expanding private sector which plays a visible role in manufacturing, banking, financial structures, services, transportation, and information spheres. Textiles and clothing are the largest manufacturing sectors, responsible for approximately one-third of employment within industry; they are able to withstand tough competition from international markets. Other sectors, particularly electronics, have steadily increased their volumes in Turkish exports.

Table 2: Main parameters of Turkish economy

Indexes	2007	2008	2009	2010
GDP (billion dollars/current prices)	656.6	741.8	616.7	735,8
GDP grow rate (%)	4.7	0.7	-4.7	19.3
GDP per capita, nominal/dollar	9,234	10,440	8,590	10,079
FDI inflow (billion dollar)	18.4	14.7	6.2	6.2
FDI outflow (billion dollar)	-743.0	-35.0	-12.1	...
Unemployment (%)	10.0	10.7	13.9	11.4
Inflation (%)	8.8	10.4	6.3	...
Export (billion dollar)	107.2	132.0	109.7	...
Import (billion dollar)	170.0	201.8	134.4	...
External debt (billion dollar)	247.1	277.7	271.1	...

*Source: Turkish Statistical Institute, Central Bank of the Republic of Turkey
...no official records exist*

Turkey has made noticeable progress in foreign trade since the early days of the Republic. The biggest export leap in the history of the Turkish Republic took place through the ‘1980 Decisions’; removing control on foreign currency and exchange, offering incentives for export, and enacting regulations for free flow of foreign capital provided Turkey with an opportunity to compete in international trade. Foreign trade figures reached higher levels after Turkey and the European Union signed the Customs Union. According to the data of February 2011, the largest consumer of Turkish exports is Germany, followed respectively by, Italy, the UK, France, Iraq, Russia, the United Arab Emirates, the USA, Spain and Iran. In the last twelve months exports amounted to 117.5 billion USD.

Consider the following example, which illustrates Turkey’s prospects for future growth and its place in the world economy: the so-called ‘E7’ leading developing economies, (China, India, Brazil, Russia, Indonesia, Mexico and Turkey) are projected to be approximately 25% larger than the current ‘G7’ (USA, Japan, Germany, United Kingdom, France, Italy, Canada) by 2050. According to the *World in 2050* report (Hawksworth and Cookson 2006) the Turkish Economy will grow at a rate of 5.6% between 2005 and 2050, and its GDP will reach 4.1 trillion US dollars by 2050; per capita income will be 40,000 US dollars.

1.3. Armenian-Turkish Economic Relations

Following the breakup of the Union of Soviet Socialist Republics (USSR) in 1991, the current independent Republic of Armenia was established bordering on the Eastern Anatolia Region of Turkey. Turkey recognized Armenia’s independence, but closed its border (the Alican Border Gate, which was open during the USSR time) with Armenia in 1993 and imposed an economic embargo

on Armenia due to its policy on the conflict between Armenia and Azerbaijan. The border has remained closed since that time.

The **trade** between the two countries happens through a roundabout way via Georgia and Iran. The invoice is issued in Georgia, as the companies in Turkey are not authorized to make an invoice with an Armenian address. In addition to large-scale merchandise and products, shuttle trade is quite a visible activity between Turkey and Armenia.

There are no records in the official Turkish statistical publications regarding trade with Armenia. According to unofficial estimates of the Turkish side, the trade volume between the two countries is 150-200 million USD.

According to the Armenian data (National Statistical Service of the Republic of Armenia 2011, 109, in Armenian), as of January 2011 imports from Turkey to Armenia amounted to 98 million USD; export from Armenia to Turkey amounted to 551 thousand USD.

The following were the most profitable import items from Turkey to Armenia in 2009:

1. Black metal and items made of black metals (14 million and 18 million USD respectively);
2. Various types of textile (17 million USD);
3. Wood and wooden items (12 million USD);
4. Soap, cleaning and hygiene items, lotions and other cosmetic items (11 million USD);
5. Aluminum and aluminum items (7 million USD);
6. Electric machinery and appliances, recording devices and their parts (7 million USD);
7. Glass and glassware (4 million USD);
8. Furniture, bedding items and related parts (3 million USD);
9. Ceramics (3 million USD).

The following were the most profitable import items from Armenia to Turkey:

1. Aluminum and aluminum items (721 thousand USD);
2. Raw hide and processed leather (308 thousand USD);
3. Surface transportation means, except railroad and tram fleet, their parts and equipment (54 thousand USD)
4. Textile clothing and clothing items, except machine or hand embroidery (52 thousand USD);
5. Special cloth, embroidery, tapestry, design items, etc. (20 thousand USD).

In 2010 the number of **tourists** traveling from Turkey to Armenia, according to data from Armenian hotels, was 1200 people (1400 people in 2009), not counting those who found accommodation in private apartments. No official information exists on the number of Armenian tourists visiting Turkey. The amount of Turkish **investment** in the real sector of the Armenian economy was 270 thousand USD by the end of December 2009³; all of which was direct investment. In the sphere of **joint ventures**, as of January 01, 2010 there were 56 judicial bodies and 4 sub-divisions of judicial bodies where 86 Turkish founders participated in entrepreneurial activities with approximately 663 thousand USD; 80 were individual founders (approximately 662 thousand USD) and 6 were judicial persons (less than 1000 USD). By January 01, 2011 the mentioned parameter had declined by 13%

³ National Statistical Service of the Republic of Armenia (in Armenian), based on reports received from organizations.

and comprised 49 judicial persons and 4 sub-divisions of judicial bodies. These were comprised of 69 Turkish founders with 2 judicial persons and 67 physical persons. The total investment amounted to 216 thousand USD. See Figure 2 for a snapshot of the Turkish capital on the Armenian market for the years 2009-2011.

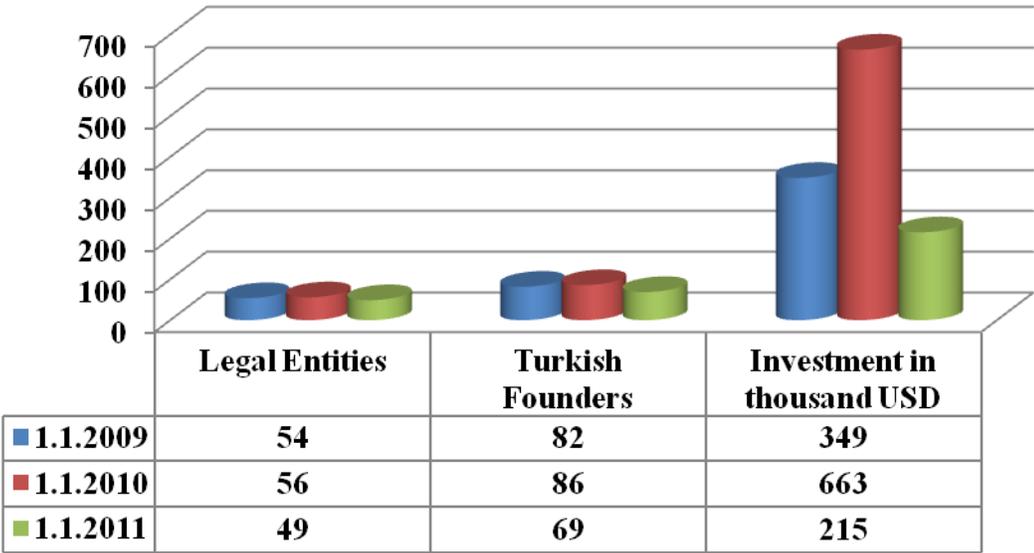


Figure 2: Turkish capital's presence on Armenian market

The two countries are very different in terms of scope and patterns of economic development. Armenia’s economy is very small, fairly underdeveloped and vulnerable to external impact - although it had a steady record of growth prior to the economic crisis. The Turkish economy is growing fast and has performed reasonably well in recovering after crisis. There is some trade between the two countries, though this is not officially recognized by the Turkish side. The Turkish presence in the Armenian market is volatile, with a tendency for withdrawal, judging by 2011 data.

1.4. Review of Previous Studies of Armenian-Turkish Relations

In recent years there have been numerous discussions and arguments around the normalization of Armenian-Turkish relations, especially in Armenia. On various levels, a variety of opinions are being expressed regarding the opening of borders, diplomatic relations, establishment of business links, and other perspectives. A number of organizations have conducted studies on these issues. Some of these studies are briefly presented here, and are grouped into three categories: economic analyses, qualitative assessments of public attitudes, and quantitative surveys of public opinion.

1.4.1. Macroeconomic Analysis of Possible Outcomes of Border Re-Opening

A Study of the Economic Impact on the Armenian Economy from Re-Opening of the Turkish-Armenian Borders: Armenian-European Policy and Legal Advice Centre (AEPLAC)

The Armenian-European Policy and Legal Advice Centre's study regarding the economic impact of border opening was carried out in 2004-2005. Its goal was to assess the impact of the re-opening of borders on Armenian foreign trade and on main economic indicators such as employment, incomes, trade, and other economic processes. The outcomes of open borders were analyzed from the short term (up to 1 year), and medium term (up to 5 years) perspectives. The study constructs an econometric model; the Computable General Equilibrium Model is used to quantify the overall economic effects of re-opening the Turkish-Armenian border on the Armenian economy on the basis of estimated changes in exports and imports. According to some of the results, if the border were re-opened Armenian GDP would grow by 2.7% (approximately 100 million US dollars); exports would grow by 17.7%, and imports by 13% over the medium-term horizon.

Trade and Economic Problems of Reopening of Transportation Routes between Armenia and Turkey: the Armenian Revolutionary Federation (Dashnaktsutyun) Initiative

Under the initiative of the Armenian Revolutionary Federation (ARF) Bureau, a study of Armenian-Turkish economic relations was conducted in 2008-2009 (Tsaturyan et al, in Armenian). The study is an analysis of the real sectors of economy, components of foreign trade, and the state policies of regulation of the manufacturing sectors of the two countries.

The first result of reopening of the borders would be the trade exchange; hence legal regulations surrounding imports would become crucially important. Their analysis demonstrates that the Turkish side has very diversified customs policies, which ensure maximum protection and opportunities for internal markets and producers. In the case of Armenia the picture is reversed: a generalized, non-flexible customs policy is in place (free import regime), which makes both the internal market and the producer fairly vulnerable.

Turkish laws regulating export are very clear; aside from asserting some limitations they envision broad assistance to exporters, ensuring the protection of interests of compatriot exporters and high competitiveness of products at international markets. In Armenia, assistance to exporters is implemented by a number of state agencies whose activities are not transparent, and who do not allow for assessment of work effectiveness; they are limited to the development of assistance programs for (potentially) exporting organizations. The scope of state assistance is negligible.

A comparative analysis of the main types of economic activities (agriculture, manufacturing and services) leads to the following assessments:

- **Turkish agriculture** is under fairly loose supervision, is not taxed, and has distinct state support in the form of financial assistance and a system of purchases. It is also characterized by low productivity, which they try to boost through the policies they apply.
- **Armenian agriculture**, which is characterized by high level of natural economy, has numerous problems: it is vulnerable to climate, does not have a modern irrigation systems and mechanisms, has low productivity, and so on. There is no adequate strategy or policy to support agricultural development.
- **Turkish industry** is characterized by relatively low technological production, but receives noticeable state assistance, has a favorable investment environment, large potential for export of non-high-tech products, and a high level of diversification. Substantial investment programs are being designed for the development of the energy sector.

- **Armenian industry** has many development problems, non-competitive production, and a low level of marketization; the process of rebuilding the sector after the collapse of the Soviet Union is slow, and the level of diversification is extremely low.
- **In the services sector** the Armenian banking system, internet connection and tourism industry are incomparable to those in Turkey from the point of view of productivity and competitiveness. The Armenian banking system is characterized by low availability of financial means; internet connection is underdeveloped and has very high prices compared to Turkey⁴; and the Armenian tourism sector is substantially behind the Turkish sector in terms of price, quality, and speed of development. Armenian railroad transport could have some advantages, if it was involved in a regional network.

The study comes to the following conclusions: 1) Turkey has an advantage in terms of the current economic situation and trends, prospects for the development of separate sectors, foreign trade and government regulation of economic processes; 2) in the case of opening borders, the Armenian economy is on one hand subject to Turkish import expansion, and on the other hand has relatively little potential to export to Turkey.

The two assessments of possible economic developments in the case of border re-opening produce somewhat contradicting forecasts. The AEPLAC study emphasizes the economic growth that would result from free trade, while the analysis by Tsaturyan et al (2009) highlights vulnerability of the Armenian economy and its meager export potential.

1.4.2. Qualitative Studies of Public Attitudes in Armenia

“Armenia-Turkey Rapprochement Related Concerns” Discussions in Armenian Regions: A Study by International Center for Human Development (ICHD) Think Tank

International Center for Human Development conducted a series of discussions in urban communities of all marzes (administrative regions) of Armenia and in Yerevan in 2009. The discussions on “Armenia-Turkey Rapprochement Related Concerns” were held with representatives of various sectors of society.

According to the discussion results, there is no unified attitude towards the Armenian-Turkish relationship normalization process, or the economic and political opportunities and challenges arising from it. There are both positive and negative stands related to these issues.

Those with positive orientation point out that an open border creates an entirely new possibility for the development of Armenian economy, convenient roads towards international markets, simplification of trade with a neighboring country, activation of economic life in the Armenian border regions, competitiveness for the Armenian market and so on. A sizable number of discussion participants expect that border re-opening and the normalization of relationships would provide an opportunity for poverty reduction in the country, revival of market economy, development of small and medium entrepreneurship, and, most importantly, for the stimulation of economic competition.

Negative orientations towards border re-opening are often caused by concerns about being unable to withstand competition from the Turkish economy. According to a widespread opinion, in the case of border re-opening Turkish goods of superior competitiveness will flood Armenian markets, while

⁴ It's worth mentioning that things have changed in Armenia since the study was conducted.

Armenian producers will not survive economic competition in the long run. As a result, Armenian production will yield its place to import, and Armenian manufacturing to trade. This will deepen the competitiveness gap between Armenia and Turkey, placing Armenia in a dependent position, and creating a challenge for national security. There were also opinions that the lifting of the border blockade will not remove the dependence of Armenian infrastructures on foreign capital, therefore no real conditions for economic or political independence will be created.

Touching upon the role of the businesspeople in the normalization of the relationship between the two countries, some of the participants consider that political interests are more important than economic interests in this process; economic business interests should be subjected to the logic of political interests. They support this point of view by arguing that business interests can become an uncalled-for lever for political influence in Turkey’s or a third country’s hands, in the process of Armenian-Turkish rapprochement. Another group of participants is sure that business interests do not jeopardize the priorities of national politics; moreover, it is precisely the business interests that should lead the Armenian-Turkish rapprochement processes. Economic cooperation and shared business interests will also contribute to strengthening political dialog.

1.4.3. Public Opinion Surveys

Caucasus Barometer (CB) 2007- 2010⁵

Eurasia Partnership Foundation Caucasus Research Resource Centers (CRRC) includes in its annual nationwide representative (around 2000 respondents in Armenia) survey several questions about relationships between Armenians and other nations, including Turks. One of the questions in this set was formulated: “Can you please tell me whether you approve or disapprove of people of your ethnicity doing business with Turks?” The responses among the Armenian population in the years 2007-2010 are presented in Figure 3:

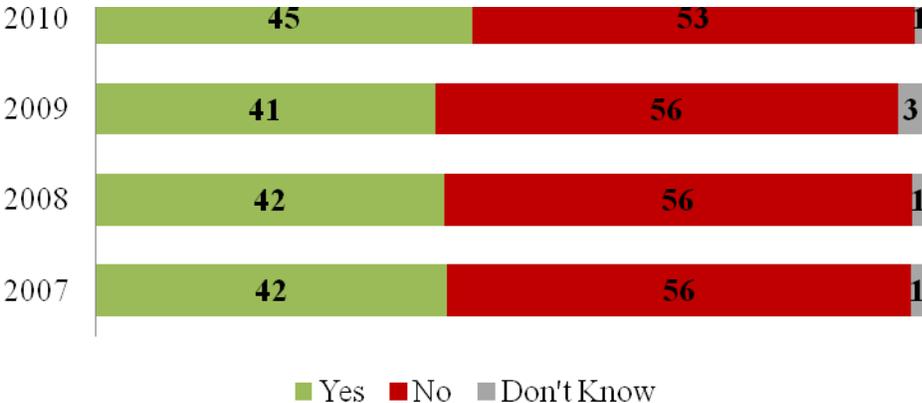


Figure 3: Approval of doing business with Turks (CB 2007-2010, %)

⁵ Databases, support documentation and online analysis tools for 2009 and 2010 are available online on www.crrccenters.org, databases for 2007 and 2008 area available from CRRC-Armenia www.crrc.am upon request

While the group of supporters of doing business with Turks is outweighed by non-supporters, the former nonetheless comprise a sizable part of the population. There seems to be a slight growth in the amount of supporters from 2009 to 2010.

While not directly related to the business sphere, additional important information can be solicited by looking at the levels of approval of friendship with Turks and the levels of approval of Armenian women marrying Turks. The questions were phrased in the following way: *“Can you please tell me whether you approve or disapprove of people of your ethnicity being friends with Turks?”*⁶ and *“Would you approve or disapprove of women of your ethnicity marrying Turks?”* The responses are presented in the following two figures:

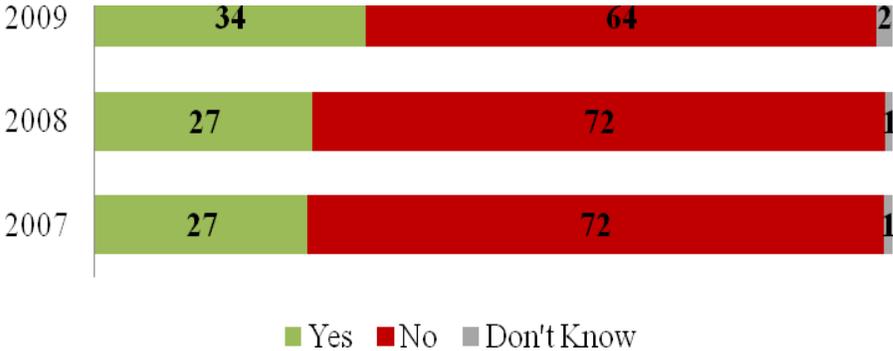


Figure 4: Approval of friendship with Turks (CB 2007-2009, %)

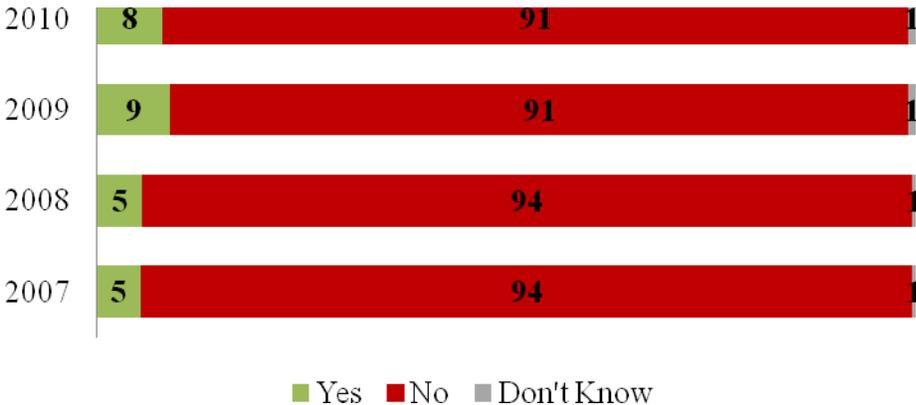


Figure 5: Approval of Armenian women marrying Turks (CB 2007-2010, %)

As one can see, there is less approval of friendship compared to approval of doing business with Turks; there is almost no approval for cross-ethnic marriages. However, in both cases there is an increase in the percentage of people approving friendship/marriage with Turks. It is plausible to assume that the change is related to the activation of Armenian-Turkish official contacts in

⁶ This question was not asked in 2010

September 2008 (when the Turkish President visited Yerevan to watch a football match) to October 2009 (which saw the signing of protocols on establishing diplomatic relations).

A set of questions related to Armenian-Turkish issues was included in the Armenian version of the CB 2010 questionnaire. The answers, presented in Figures 5 and 6, depict fairly low levels of support for border re-opening, though most people think it would benefit Armenia in economic terms.

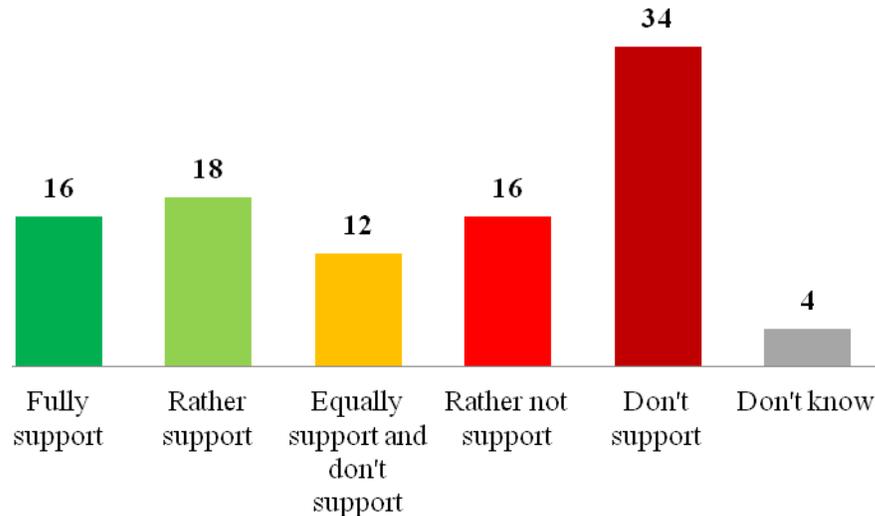


Figure 6: Support for the Armenian government opening the border with Turkey with no preconditions (CB 2010, %)

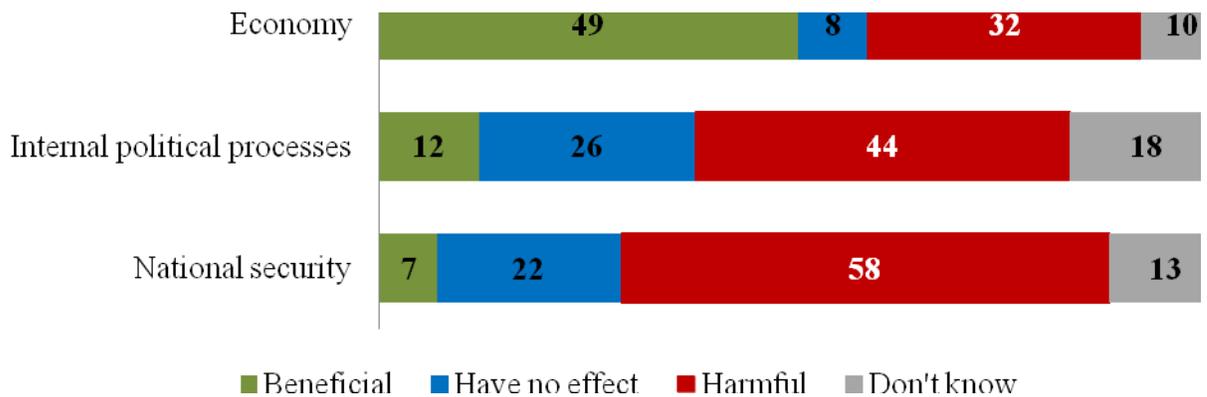


Figure 7: In your opinion, will the opening of borders with Turkey have no effect, will be beneficial, or will be harmful for...? (CB 2010, %)

The general pattern of public attitudes as measured by CB can be described as follows: most Armenians are cautious about friendship and/or marriage ties to Turks, but a greater proportion are willing to engage in business relations. The Armenian population is not supportive of opening the border. Opening the border is seen as beneficial for the Armenian economy, but harmful for national security and internal political processes. Judging by Armenian public attitudes, business is the sphere where cooperation between the two nations can be most fruitful.

The Turkish Economic and Social Studies Foundation (TESEV)

The Turkish Economic and Social Studies Foundation (TESEV) conducted a survey with a sample size of 1000 respondents with the aim of understanding foreign-policy-related perceptions in Turkey (Akgün et al. 2010). A few questions related to Armenia were asked. Overall, the opinions of the Turkish population are more or less evenly divided between supporting and opposing establishing diplomatic relations and opening borders with Armenia, although some difference between regions is visible. There are no visible differences between levels of support for various types of rapprochement with Armenia (political, economic and cultural).

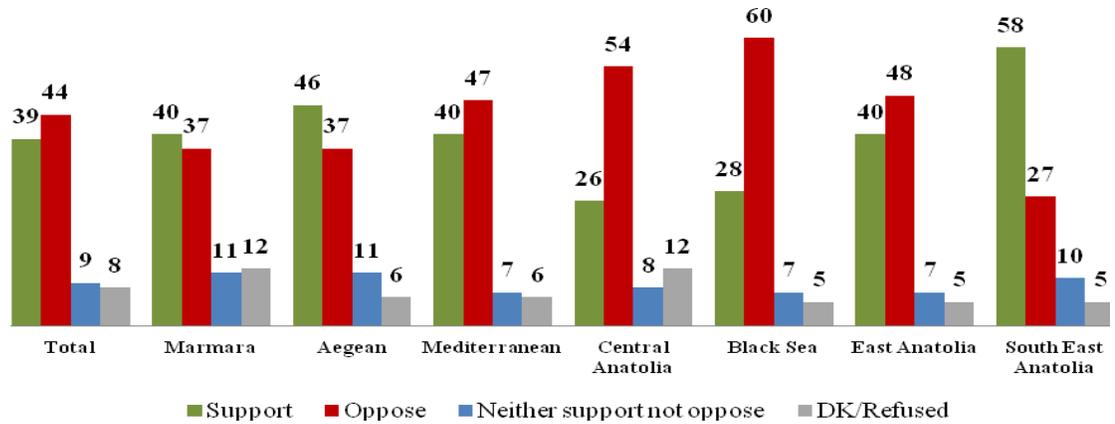


Figure 8: Support for establishing diplomatic relations and opening the border with Armenia (Akgün et al. 2010, %).

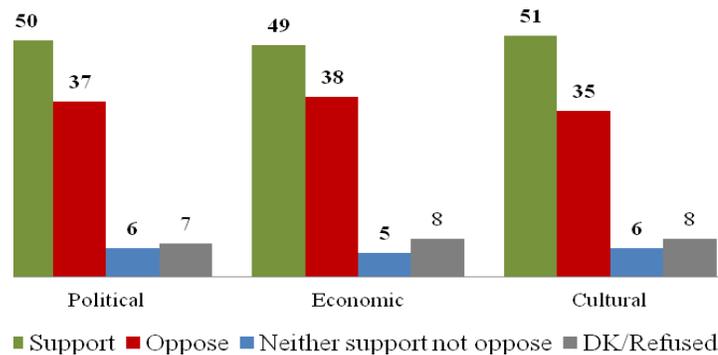


Figure 9: Support for rapprochement between Armenia and Turkey (Akgün et al. 2010, %).

The previous studies of perspectives on the normalization of Armenian-Turkish relations, which have been briefly reviewed in this section, demonstrate that on the Armenian side the main expected benefits are that the opening of borders will boost trade. The main risk perceived by the Armenian side is that Armenian businesses are not competitive enough and might suffer from entering into direct competition with Turkish businesses, should the border be opened. Public opinion on both sides of the border is neither overly enthusiastic, nor soundly opposed to establishing diplomatic relations and opening the border. Both societies are somewhat divided on the topic, with roughly half of the population supporting while the other half are opposed to rapprochement between the two states.

PART II QUANTITATIVE AND QUALITATIVE STUDY RESULTS

This part of the report presents the results of the three components of the primary data collection and analysis: the pilot surveys, focus group discussions and in-depth interviews with key persons and opinion leaders on the issue of Armenian-Turkish relations development.

2.1. Pilot Surveys

2.1.1. Armenia

Some 45% of pilot survey respondents (74 out of 165) said that they never cooperated with Turkish colleagues. The sector of construction engineering is particularly interesting in that respect, where only 1 out of a total of 18 respondents had cooperation experience. Tourism is the sector where most respondents (26 out of 28) have cooperation experience. Among those who did not cooperate, 85% (62 respondents) said they were willing to cooperate.

Table 3: Cooperation with Turkish businessmen

	Yes		No		Total N
	%	N	%	N	
Agriculture	32	8	68	17	25
Construction and Building Materials	60	18	40	12	30
Construction Engineering	6	1	94	17	18
Information and Communication Technologies	30	6	70	14	20
Manufacturing	83	20	17	4	24
Tourism	93	26	7	2	28
Transport	60	12	40	8	20
Total	55	91	45	74	165

Cooperation between Armenian and Turkish enterprises began in the mid-1990s; the earliest cooperation date reported was 1994 in the tourism sector. The ITC sector was the last to start cooperating in 2009. The years 2000, 2005 and 2008 seemed particularly active in terms of establishing cooperation (see Figure 10).

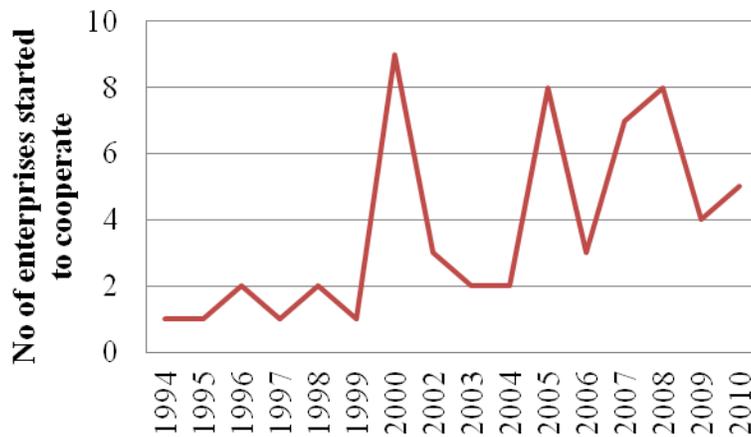


Figure 10: Armenian enterprises starting to cooperate with Turkish colleagues

Although, as evident from Table 3 above, 91 enterprises reported having cooperated with Turkish colleagues in the past, cooperation is only ongoing for 44 respondents (27% of the total number of Armenian respondents).

Survey participants were asked what obstacles they think there are to starting cooperation with a Turkish partner. Not surprisingly, more than half of the respondents mentioned the existence of political obstacles. Psychological obstacles were the least prominent of the four types offered to the respondents; nonetheless 37 respondents (22%) mentioned them, which represents a fairly high number, given the purposive selection of respondents. See Figure 11 for the distribution of answers.

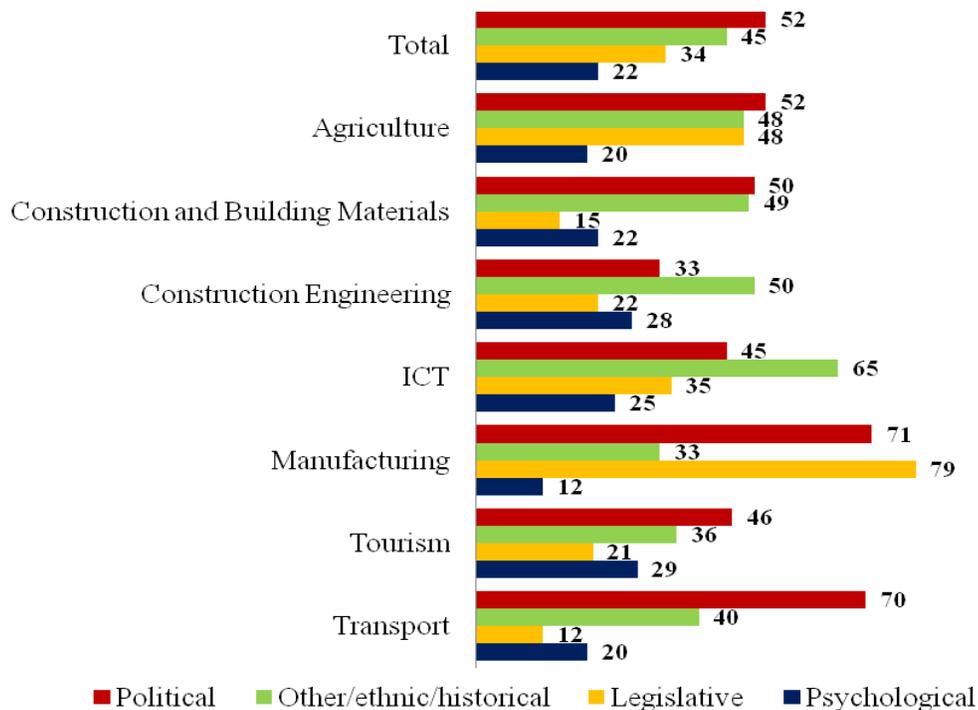


Figure 11: Obstacles for cooperation with Turkish side, %

Respondents were asked what kind of assistance they would expect in order to begin cooperation with a Turkish partner. As evident from Table 4 below, financial assistance is the most popular type expected, followed by juridical assistance. The tourism sector seems most interested in consulting.

Table 4: Types of assistance expected by Armenian enterprises, %

	Financial	Juridical	Consulting	Qualified specialists	Transportation
Agriculture	52	24	16	20	24
Construction and building materials	39	42	12	15	15
Construction engineering	28	22	17	22	6
ICT	40	30	35	20	10
Manufacturing	67	46	29	33	4
Tourism	18	21	50	29	11
Transport	35	25	20	10	
Total	40	30	26	22	11

2.1.2. Turkey

Some 58%⁷ of the respondents have never traded with Armenia, while 42% have experience of doing business with Armenians. Most of those who did not cooperate in the past stated that they were willing to do so; 16% do not lean towards trading with Armenia.

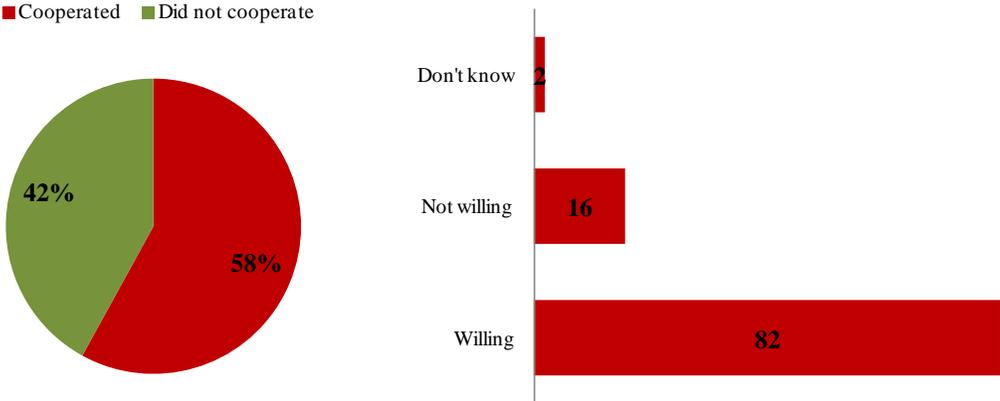


Figure 12: Cooperation with Armenia, actual and willing

⁷ A total of 100 respondents participated in the pilot survey in Turkey; % = N for the Turkish case

The main reasons for unwillingness to cooperate are political, legislative, ethnic-historical and psychological; sometimes these reasons are intertwined.

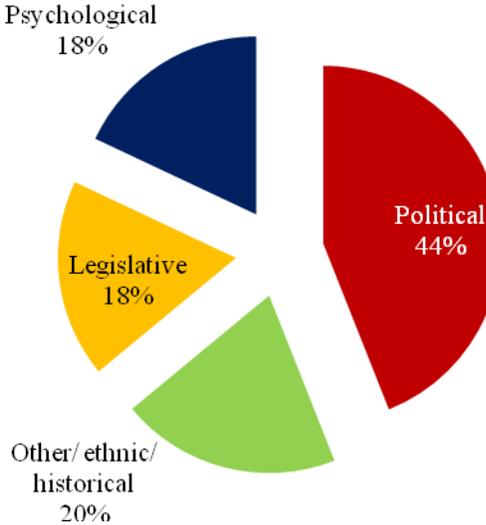


Figure 13: Barriers to cooperation

Political prejudices and reservations are formed by the relations and discourse between the two governments. Harsh political discourse may affect those who have, and those who are willing to have, trade relations with Armenia. The ethnic-historical prejudices mainly result from the psychological reasons rather than the political ones. There are some stating that Armenia and the Diaspora should forget what happened in 1915 if they are to begin to trade, while some think that this cooperation would be dangerous if a plan which does not satisfy Azerbaijan is implemented. The legislative barriers to cooperation result from misgivings surrounding whether the company may achieve success in future and whether its security may be affected. They are also unsure how to recover financial losses, should those occur due to trade relations. The psychological barrier reflects uncertainty regarding how Armenians would treat them and whether they may be harmed.

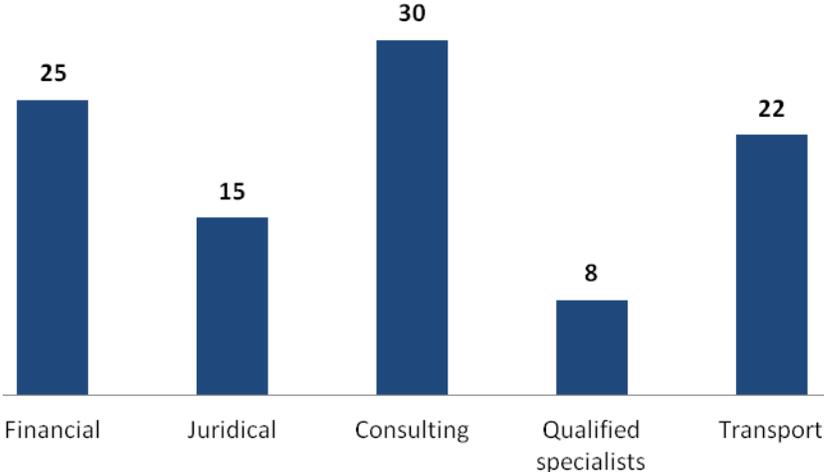


Figure 14: Fields of desired assistance for cooperation, %

The request for assistance for consultancy, which constitutes the largest area in which assistance is desired, has arisen because diplomatic relations between the two countries cannot be established. Countries that have normal diplomatic relations commission mutual diplomatic missions such as embassies, consulate generals, consulates and other missions. Almost all of these missions supply the necessary information to those involved in trade through their trade and economy departments as well as their commercial attaches. In the case of Armenia and Turkey, the gap for consultancy cannot be filled.

Where financial assistance is concerned, both state and private banks refuse to grant commercial loans to those who intend to trade with a company in Armenia.

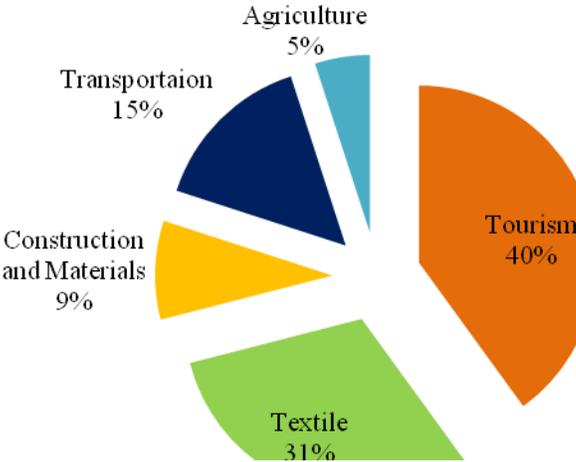


Figure 15: Sectors of possible cooperation, %

The main sectors where cooperation already exists and is recommended are tourism and textiles. The textile sector, which makes up a large proportion of Turkey’s exports, is one of the leading export sectors to Armenia as well as the former Soviet Republics and Russia. Taking into consideration the Armenian cultural heritage and the sacred trinity⁸ of Kars-Van-Echmiadzin, it is expected that many tourists from Armenia and the Diaspora will flock to the Eastern Anatolia Region of Turkey, provided that the required service is supplied (satisfactory comfort, bed capacity, guiding and qualified staff).

2.1.3. Comparison of the Two Countries’ Survey Results

A few interesting parallels can be drawn, based on the pilot surveys in the two countries, although due to the low number of survey participants, any data interpretations should be treated with caution.

Firstly, it can be noted that cooperation patterns are fairly similar: roughly half of the enterprises that took part in the survey have experience with cooperation across closed borders. The number is somewhat lower in Turkey: 42% compared to 55% in Armenia.

Secondly, the ranking of the obstacles for cooperation is almost identical: in both countries political obstacles are followed by other ethnic and historical issues (Figure 16).

⁸ The three sacred sites of the Armenians, which must be seen, are: 1. Echmiadzin Cathedral- Echmiadzin Catholicos, Armenia. 2. Kars-Ani Ruins, Turkey. 3. Van-Surp Hach (Saint Cross) Church, Ahktamar Island, Turkey.

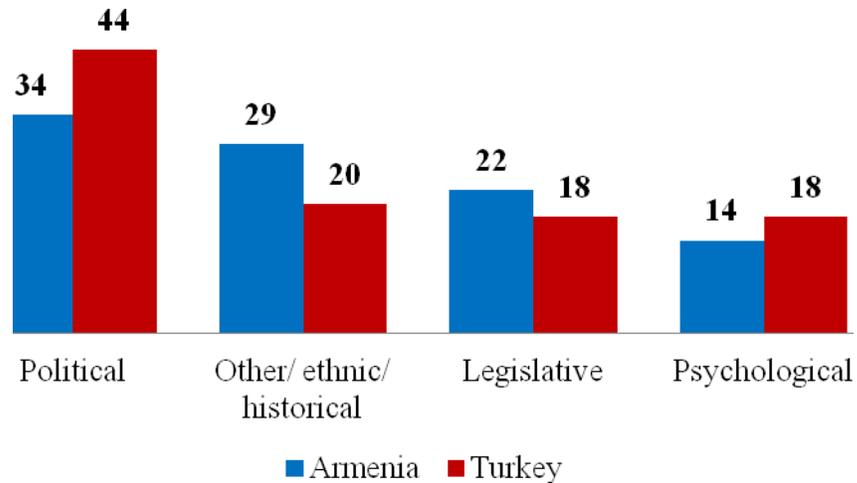


Figure 16: Obstacles for cooperation, %

There is a difference in the types of assistance preferred by businessmen of the two countries. While Armenian businessmen favor financial assistance above other types, consulting is the type of assistance ranked highest by Turkish businessmen. Judicial assistance is second most important in Armenia, while assistance with transportation is placed second in Turkey (Figure 17).

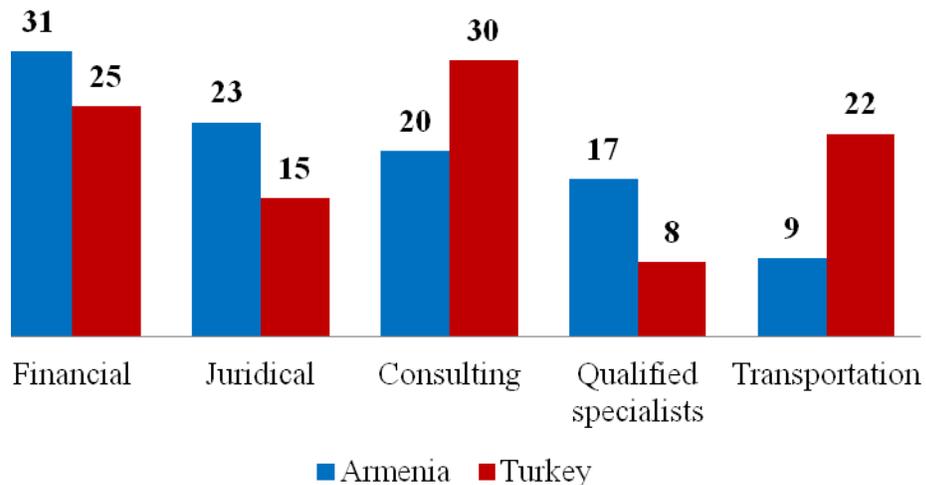


Figure 17: Types of assistance preferred by businessmen in two countries, %

The pilot surveys of enterprises in the two countries show relatively low levels of cooperation, given the purposive selection aimed at targeting businesses most active in this sphere. Similarly, high awareness of politics and past events as obstacles to current cooperation is present on both sides of the border. While the Turkish side is more interested in practical assistance to the startup of cooperation, such as consulting and assistance with transportation, the Armenian side is looking for financial and judicial assistance: two aspects that are of a more structural character with the potential need of state involvement.

2.2. Focus Group Discussions

2.2.1. Armenia

Overall, focus group participants expressed both positive and negative attitudes regarding the possible economic impact of the **opening of borders**. Similarly to the discussions conducted in 2009 by ICHD and reviewed in the previous section of this report, positive implications of border re-opening are linked to images of a healthy market economy, while negative stands are explained by concerns about the competitiveness of Armenian producers and vulnerability of Armenian markets. What follows is a selection of the most typical or most telling/interesting quotes, reflecting both positive and negative attitudes:

“Turkey today is one of the World’s most powerful economies, to have such a powerful neighbor and not to use its potential is simply not right.” NGO representative.

“Opening borders will lead to the infiltration of a cheap Kurdish workforce into Armenia, the prices for goods will not decrease by much... Turkey can easily occupy the Armenian market, do credit investments, which is not desirable, it is better if that is done by our Diaspora investors.” Construction sector businessman.

Information deficit or imperfect information is often mentioned among factors which hinder cooperation with Turkish enterprises. Many participants were of the opinion that talk of cooperation is only possible after a thorough study of the Turkish market;

“For us the Turkish market is very dark, and ours is dark for them. First of all we have to uncover the Turkish market for our enterprises and vice versa: for their enterprises.” ICT sector businessman.

“There is no advertisement material about our sector, no publications, no information about legislation and so on in Turkish language; accordingly we do not have adequate information about them.” Education expert.

A typical concern of an entrepreneur is that if s/he wishes to work in a Turkish market, s/he has no idea where to go and who to approach;

“It is very difficult to form an opinion about the Turkish side because interactions have been too few.” Construction engineering sector businessman.

In the absence of diplomatic relations and with crippled information **mutual trust** becomes an important tool to overcome uncertainty. Many participants are of the opinion that trust is pivotal for cooperation. Trust, in its turn, is often formed over time via personal contacts;

“There is a task of establishing trust and interrelations. If there is trust, all problems will be solved.” ICT sector businessman.

“Mechanisms for cooperation are being obtained gradually: by means of personal contacts, mutual visits, meetings, hospitality, receptions, dinners... Some of the best possibilities to start cooperation are ... international exhibitions. Acquaintances, connections made during such exhibitions become a start for later mutually beneficial and promising cooperation.” Tourism sector entrepreneur.

Mediated cooperation through a third party or a third country becomes a means to overcome the isolation between the two countries;

“Direct links were difficult. But there are non-Turkish intermediary organizations, which find a buyer, find a consumer, give us the communication means and we get into direct contact.” ICT sector businessman.

“We had to take tourist groups to Turkey with busses with Georgian car plates.” Tourism sector businessman.

Although the closed border is a tangible obstacle for trade relations, there are also some specific spheres where the absence of diplomatic relations plays no role;

“For example there are B2B market places where not only ‘soft-s’ are sold, but everything. And all that is done very easily. An organization gets registered, members register; there are no borders whatsoever.” ICT sector businessman.

Some of the participants think that **politics** has no or limited effect on business. When working with the Turkish side they had no problems and did not notice any reservations from them;

“... Everything went and is going according to the business law... Turks are trustworthy partners, since they have the right attitude: considering Armenia as a market.” Manufacturing sector businessman.

The perception of business being free from political influences is one of the attitudes describing Armenian-Turkish relations, but not the only one. During the discussions other opinions were voiced as well: according to some participants politics influences business relations in one way or another, but always in a negative way;

“... Any incident between the two countries immediately influences and will influence economic relations.” Agriculture sector businessman.

“It happens very often that a planned trip is canceled, because for whatever national security reasons a person is forbidden to have a vocation in Turkey... There are cases when a Turkish tourist refuses, or s/he is, to put it mildly, being advised not to go to Armenia and s/he is simply afraid to contravene.” Tourism sector businessman.

Sometimes mass media interpretations and general mood of the public make businessperson’s lives harder;

“Several years ago an attempt was made to create cooperation between orientalist departments at the state universities level; it collapsed under a nationalist wave.” Education expert.

“Any, even slightest incident related to Armenian tourists in Turkey gets such a reaction and resonance that any Armenian wishing to go to that country first of all expresses a concern whether by going to Turkey s/he is not jeopardizing her/himself. Time is needed to disperse that atmosphere of mistrust and fear.” Tourism sector businessman.

In the situation of absent diplomatic relations, **possible mechanisms of protection of rights and interests** of Armenian and Turkish businesspersons were discussed and a number of suggestions were made. Among often named mechanisms were corresponding international organizations, for example Transport International Routier (TIR) or respective associations with branches, which can be used in terms of membership, corresponding substructures and levers;

“As of today in the sphere of cargo transportation TIR international system is the only structure that smoothens obstacles.” Transportation sector businessman.

“Since it has to be stated in the documents who will regulate arbitrage questions, since Turks don’t want it neither in their courts nor in ours, international arbitrage is stated.” ICT sector businessman.

Many of the participants stated that in Turkey (in Anatolia, in Istanbul) Armenia is mostly represented by the Russian authorities. When problems arise, they are able to help;

“[Russian] representation, due to being very busy, would be able to give solutions to these problems not in one-two, but in ten days. That is the only way out today.” Tourism sector businessman.

As a continuation of this thought, there was a suggestion of coming to an agreement with embassies of other countries via the Ministry of Foreign Affairs so that, when problems arise, they would provide assistance or advice.

A question of possible cooperation in the area of the restoration and preservation of Armenian historical monuments on Turkish territory was also discussed;

“Participation of Armenian architects and constructors in restoration of historical monuments is definitely obligatory... It would be appropriate to hold competitions on international level, to have projects prepared, and so on. Today Turkey does it in a closed, secret manner, but it has to be transparent and honest.” Construction engineering sector expert.

2.2.2. Turkey

Most of the participants who have done business with Armenia or met Armenian businessmen or tourists, were businessmen from Istanbul and Kars. Businessmen from Kars stated that their relations with Armenians usually improved thanks to the tourists coming to the city. One of the tour operators in Kars said that he knew the tour companies in Armenia. The tour operator wanted the border to be opened. Referring to the religious ceremony in Van,⁹ he hoped for similar activities in

⁹ An Armenian religious service was conducted on September 19, 2010, for the first time in nearly a century, at the Cathedral of Holy Cross on Akhtamar Island, renovated by the Turkish government in 2007 and reopened as a museum

his region. But he added that the bureaucracy usually hindered them. Outlining the language problem in communication, he stated that they were ready to cooperate.

“There are travel agencies, journalists and lecturers with whom we have contact sending the tourists to our hotel in Kars. The costs increase as the borders are closed...” A Hotelier in Kars.

“I haven’t been to Armenia, but I realize the cultural ties dating back the olden days with those coming to the city. I haven’t established much dialogue but we can understand each other using Turkish and Kurdish. As a Kurdish from Kars I can contact with the Yezidi Kurds of Armenia well...” A Businessman from Kars.

The factor of **trust** plays a role in business relations. Many of the participants see Armenians as trustworthy. They stress that the confidence between the parties steps in when problems arise as a result of problematic diplomatic relations. The hotelier in Kars said that he had customers from Armenia and got his money by installments. He had never suffered from this trade. He stressed that Kars could not benefit from the advantages of being a neighbor to three countries. Both Armenians and Turks, who suffer from the same problem, could reach prosperity if the borders opened.

“Once I worked with the Armenian tour operators, but I suppose that the cooperation may be interrupted due to high costs. But we don’t have any trust problem. It is proven by my own experience that the Armenian people and businessman are trustworthy...” A tour operator from Istanbul.

Similarly to the Armenian case, there are stories of ties established through trade and transformed into friendship. This friendship is often named as the key factor for the trade relations, which can only flourish based on personal confidence, as no other guarantees exist;

“I have been doing business for about 15 years. I travel there constantly. This relationship is now more than business. Friendship has been established between us. I stay at their homes just as it is our tradition in Anatolia...” A businessman from Istanbul.

A businessman operating in the stone industry explained that he had bought a stone crusher made in Armenia about 12 years ago, then invited an Armenian master over Georgia as a problem occurred with the operation of the machine. They could understand each other as the master had a good command of Azerbaijani language. This business relationship then lead to a good friendship and the Armenian master invited the businessman to his country, but he was unable to visit him as he could not find an opportunity to do so.

Businesspersons of Armenian origin were also invited to the FG discussions in Istanbul. During one of the discussions, the Armenians from Istanbul stated that they had difficulty doing business with Armenia: the Armenians were not ‘businessmen’ in the manner that they expected a businessman should be. The Turkish businessmen did not agree with them;

“... (Addressing the Armenian-origin businessman) What you said is not true. They are quite good businessmen. They are quite good masters. I have been dealing more than 15 years. I haven’t even lost a lira...” An Exporter from Istanbul.

Despite positive examples of cooperation, trust and friendships, similarly to the Armenian case, a lack of knowledge resulting in uncertainty and uneasy feelings is also a recurring theme of the discussions in Turkish FGs;

“... I want to go there. I built a construction in Turkmenistan. I can do the same in Armenia. I wouldn't mind going there. But how can I go there? Can they issue a visa? I don't know how they can meet? What business do they think that Turks do there...” A Contractor from Malatya.

The impact of the **politics** creates tensions and insecurities among some participants, while others do not care greatly about politics, prioritizing business and mentioning that good relationships existed in the past. The majority of businessmen in Istanbul say they have no reservations concerning Turkish-Armenian trade, while those living in the other cities have some reservations;

“I aspire to visiting Armenia and seeing what I may sell. But who will guarantee my security? What if I get in trouble?” Owner of a Construction Material Company from Denizli.

“The textile sector is well developed in our city. We export it to Europe. Why not to Armenia? But I don't know how to go and whom to find there. I don't care about the politics. Once upon a time we lived together here. Why don't we do business?” A Textile Supplier from Denizli.

A reporter from the local newspaper in Kars stated that the main problem was the lack of dialogue. He voiced that the main obstacle for the two countries is overcoming the creation of the enemy image through state ideologies; the two countries should be acquainted with each other and should not linger on obsessions.

The participants stated that the reservations and disturbances, as well as the bad image created through the press by the two countries, may be overcome through communication. They said that their worry usually results from the political situation;

I would say ‘no’ if you asked me whether I was afraid or had a problem as I did trade with Armenia when the Turkish President Gül went to Yerevan. Why would I fear? Even if Gül went there it meant that there was no problem between us. But now I may not say the same things. I may not dare to say even that I do business following the elections as I cannot know how the policy will be formed...” A businessman from Istanbul.

There seems to be little awareness of the fact that trucks loaded with goods for sale travel to Armenia via Georgia, and that shuttle traders travel the same way by bus. There seems to be a persistent image of trade carried out over Istanbul-Yerevan by flight as the land border is closed. Hence, the argument made by some participants that Kars, Denizli, Malatya as well as some other provinces which may trade with Armenia are unable to take advantage of this proximity.

Most of the shuttle trade is concentrated in Istanbul, adding to density of interaction with Armenian businessmen. Thanks to their experience and confidence gained throughout the years, the suppliers in Istanbul are of the opinion of that only selling and buying is not enough, the raw material should be taken to Armenia to sell the goods to the CIS as the labor and costs are low in Armenia. But they complain that the state support and business partners necessary to do so do not exist.

During discussions in both countries the participants expressed interest in cooperation and shared stories of positive experience, explaining that trust and personal connections helped in business relations. Uncertainties related to a lack of information about ‘the other side’ were also voiced from both sides. The destabilizing role of politics and stereotypes (often reinforced through the mass media) were reflected upon by Armenian and Turkish participants. Concerns surrounding the potential negative implications of border re-opening are specific to the Armenian context.

2.3. In-Depth Interviews with Armenian Businessmen and Experts

Armenian businessmen and experts have various approaches to issues related to cooperation with Turkey. There are businessmen (mostly working in the trade sector) who see no problem and are ready for cooperation. There are also some who abjectly refuse to cooperate with Turks. Numerous positive and negative examples related to cooperation are being highlighted, various assessments of the competitiveness of the Armenian side are being made, and diverse ideas are expressed related to possible mechanisms of cooperation in the absence of diplomatic relations. Some themes and patterns, such as - hopes and fears related to border re-opening; information deficit and impact of politics on business - resemble those from FGs conducted both within the scope of this study and in previous studies reviewed in this report. IDIs add opinion leaders’ assessments of possible directions and the likelihood of cooperation and elaborations on mechanisms of cooperation.

2.3.1. Overall Attitude towards Facilitation of Cooperation and Opening of Borders

Many interviewees stress the necessity of developing relationships between the two countries, which they believe is in the interests of both Armenia and Turkey. They feel that to have no economic relations with an economically well-developed neighboring country is unnatural;

*“Armenia, being a neighboring country, has no right not to use that opportunity, since we can obtain a part of an unimaginable Turkish market. For a country like Armenia, with a population of 3 million, the prospects for entering the Turkish market are very large... There are unlimited possibilities for Armenian-Turkish business development.”
Manufacturing sector businessman.*

As was the case in the FG discussions, it is not all enthusiasm and calls for border re-opening; there are concerns, reservations and negative stands as well. They often originate from fears of not being able to withstand competition, and from psychological orientations rooted in interpretations of Armenian-Turkish history;

“Turkey is strong, with the existence of free economic zones, which is, in turn, dangerous because investments could flow from Armenia to Turkey, thus Turkey will occupy the Armenian market.” ICT sector businessman.

“It is necessary to keep in mind that, in the case of border opening, we will have a big threat of influx from Kurdish and Turkish work migrants who live and work in much worse conditions in the regions directly bordering us... We should also not forget that Turkey is Azerbaijan’s ally.” NGO representative and expert.

“Aragatsotn Marz¹⁰ borders Turkey, and naturally we have to take into account the mentality of the people of that region. It is populated mostly by people who migrated from Western Armenia. Therefore they have their issues genetically.” Agriculture sector businessmen.

“It is not impossible that people simply would not want to work with each other.” ICT sector businessman.

2.3.2. Politics and Business Relations

The absence of diplomatic relations between the two countries creates a non-standard situation. Similarly to the FG discussion outcomes, opinions expressed in the IDIs can be seen as tending towards one of two polar opinions: ‘business is businesses’ vs. ‘politics matters.’

According to some participants, politics has no or little impact on business relations, since the logic of entrepreneurship is based on the idea of maximizing profit. There *is* cooperation in the economic sphere, despite political stalemate. In that sense, one could say that economic relations are there, irrespective of diplomatic relations.

“Experience shows that regardless of anything business finds its way to develop.” Transport sector businessman.

“...Mostly it’s the economic interest that prevails, if it is profitable to have relations, if there is a product in a country which is profitable to import to Armenia or vice versa export from Armenia to there, then it is done.” NGO representative.

In other words, a group of participants think that business is business, regardless of politics. Understandably a closed border is an obstacle, but it is a predicted, constant obstacle viewed in a rather mechanical way (similarly to how having to travel on a longer road means higher transportation costs).

This type of opinion is in contrast with expressed perceptions and examples of the negative impact of politics on business relations; an influence that is unexpected, unanticipated and has an unpredictable element to it;

“Even after signing that [multilateral] agreement they [Turkey] treat Armenia with reservations. They point out that, yes, we agree with this or that program, but that is not relevant for Armenia, because there are no diplomatic relations with Armenia... Even if we manage to enter with a permission, other problems start, say, problems with a driver getting a visa, migration service can declare without any explanations that this person cannot enter its country’s territory.” Transport sector businessman.

Unlike in the FG discussions where impact of politics on business relations was assessed as undesirable, during the IDIs thoughts were occasionally expressed that politics **should** play a role in Armenian-Turkish business relations. This is also something that previous studies (ICHD 2009) have tapped into, as mentioned in the respective section.

“Regardless of the sector, each entrepreneur should first and foremost be guided by an understanding of the national interest, adding personal interest to that.” Manufacturing sector businessman.

¹⁰ Marzes are Armenian territorial-administrative units, which are equivalent to regions

2.3.3. Existing and Possible Mechanisms of Cooperation

Interview participants offered several ideas concerning existing or developing mechanisms that could assume the function of protecting the rights and interests of Armenian and Turkish businessmen in the two countries with absent diplomatic relations. These mechanisms mostly function according to a higher authority or a third party logic. Examples include professional associations with Armenian and Turkish enterprises as members, and international organizations with Armenia and Turkey as member states.

“In Turkey... any organization that works in tourism sphere has to be a TÜRSAB¹¹ member; naturally in case of serious violations in business TÜRSAB is being informed about it and the organization in question has problems, not only in terms of image but also in legal terms. TÜRSAB is some kind of a guarantor for its members.” Tourism sector businessman.

“Formation of alliances between the three countries: Armenia, Turkey and some other third country. Such alliances or associations will protect interests of entrepreneurs of that sphere. The more such structures, the better is business protected. Through associations the problem of protection of business will be solved, which is urgent today.” ICT sector businessman.

Business ethics was also mentioned as the cooperation guarantor. Given a situation of high uncertainty, where there are no formal guarantees for relationship regulation, business ethics can play a regulating role and serve as an informal warranty;

“In case of cooperation, mutual trust based on business ethics is needed, which in the situation of no diplomatic relations, is the only way to protect rights and interests of businessmen, and in many cases it is a more efficient and strong medium.” Tourism sector businessman.

2.3.4. Competitive Sectors and Products

According to interviewees, the following sectors of Armenian business are competitive in the Turkish market and can be of interest to Turkish businessmen: information technologies; tourism; pharmaceuticals and medicine; jewelry; and energy sectors. The cultural sphere was mentioned as one that also holds potential for cooperation, since there are numerous Armenian cultural heritage monuments in Turkey; it is possible to have joint projects for the restoration and maintenance of these monuments.

“Design of [micro]chips by Armenian specialists is very attractive. In Armenia technologies are more advanced, particularly in the sphere of telecommunications, for example VivaCell¹² provides 4G service, which Turkey does not, the same is true for GNC alfa connection. From this it follows that the Armenian side can be a serious partner for Turkey.” ICT sector businessman.

¹¹ Association of Turkish Travel Agencies

¹² Armenian mobile operator company

“The diamond industry has good perspectives; it has high quality in Armenia and the demand is fairly high. Armenia is in the top ten of World producers, where Turkey is not. It is possible to cooperate in this area and make the Turkish market interested and develop our diamond industry further to make it interesting and useful for the Turkish market; even such logic can work because they buy from India, Belgium even though a neighboring country has a developed industry.” NGO representative.

According to business opinion leaders, the **tourism sector** has good potential as a business and has a positive spillover effect in that tourists visiting the other country learn something about the culture, the people and perhaps, something about shared history. One of the interviewees called tourism a ‘popular diplomacy’ which helps the two societies bridge the gap and improves the chances of state diplomatic relations. In terms of business, Armenian tourism has the potential to develop and offer something to the international market, including Turkey.

“The perspective of tourism sector is proved by a document signed in 2010 in Lyon. According to that document, Armenia became one of the few countries where starting September classes corresponding to the Vatel international education system will be launched... A powerful association like Turkish TÜRSAB tourist union, learning about Vatel international educational program being implemented in Armenia, valuing its advantages, expressed a desire to send students [to Armenia] to receive education in this program... In the case of successful implementation of the program, cooperation with Turks will intensify and become continuous.” Tourism sector expert.

The energy sphere is also considered to have good potential for cooperation. Armenia produces electricity; Turkey has a big demand for it and has to buy electricity from European countries, which is fairly expensive. Turkey could successfully purchase cheaper electricity from Armenia, however political reasons are the main obstacles to establishing mutually beneficial cooperation in this field.

Some attention was also given to **educational and science spheres**, where cooperation could be very efficient due to area specificities;

“Intellectual, scientific potential is the main advantage and one should focus on this kind of cooperation as a priority. Everybody wants to receive knowledge, and you do not get poorer by exchanging knowledge.” Expert.

2.3.5. The Present and the Future of Armenian-Turkish Relations

Generally speaking, the participants point out that, in one way or another, there are contacts between the two sides. That, in itself, is a positive trend.

“It is no secret that there is trade and civil societies implement joined projects; this level works, namely attempts are made to create a field where societies or people learn to live with each other.” NGO representative.

“Of course it is the right way to develop relationships on all levels, develop the dialog. We are speaking about journalistic, political and business circles... Those physiological barriers that existed 10-15 years ago are almost conquered today, and people can distinguish historical problems from purely human relations, from political, economic, geopolitical perspectives.” Expert.

Similarly to the FG discussions, during the IDIs the issue of scarce information was often mentioned, highlighting that this scarcity hinders effective cooperation with the Turkish side. The interviewees also often mentioned that they were not familiar with Turkish legislation;

“There is a need to create favorable conditions so that entrepreneurs and NGOs know about each other, after which it is possible to do joint projects, create mutual trust. The most important thing here is human bonds. Without the formation of such an environment, progress will be difficult both in the political and in the practical field.”

Accordingly, interviewees often prioritized the creation of structures that would provide precise and accurate information and advice to Armenian and Turkish entrepreneurs wishing to do business with the ‘other side’, helping to deal with paperwork and assisting other business related activities of Armenian businesspersons in Turkey and Turkish businesspersons in Armenia.

Since personal contacts are important in facilitating cooperation and helping to address information gaps, according to many interviewees it is necessary to continue and broaden these contacts between Armenian and Turkish entrepreneurs and activists in general;

“The topic of cooperation, normalization of relations should be kept as lively as possible. If the implementation of practical business plans becomes difficult, at least gather and discuss future possibilities, see what can be preserved from what there is today, or build up. We have time today to study, analyze mistakes, find ways to overcome mistakes, initiate numerous discussions, and of course spread information. There were many mistakes on both sides and naturally there is no need to fear discovering these mistakes in the process of discussions and analyses, which will help us not to repeat these mistakes in the future.”
Expert.

The future of business relations is directly linked to political processes for many of the respondents;

“Until the problems are solved on the political plane, it is unlikely that noticeable progress will be registered on other planes. The solutions have to be political here, not economic.”
Transport sector businessman.

The opinions of Armenian businessmen gravitate towards an idea that it is possible to facilitate Armenian-Turkish cooperation with the availability of adequate state assistance and a legal framework. There are realistic mechanisms and perspectives to develop Armenian-Turkish business cooperation. In particular: state assistance and legislative changes, as well as finding local partners in Turkey and entering Turkish markets through them.

In general, IDI participants have a positive attitude towards Armenian-Turkish economic and business relations. Many state that Turks have positive business behavior, are trustworthy partners and are easy to work with; national identity is not important for them. However, almost everyone is of the opinion that, without the formation of the political field and regulation of corresponding legal foundations, it is not possible to develop economic relations.

CONCLUSIONS AND DISCUSSION

Based on this study's findings, the following conclusions can be drawn:

1. Despite absent diplomatic relations between the two countries, there is a noticeable amount of foreign trade; Turkey's exports to Armenia represent the dominant and fast growing component in the trade exchange.
2. Beginning in the 1990s there is an inflow of Turkish capital to Armenia, with physical persons and legal entities creating joint ventures and legal entities establishing subdivisions. It is however, small and volatile, with a setback (the withdrawal of capital, the diminishing number of entities with a Turkish component) noticed in the last period.
3. As of 2011 there are 49 joint Armenian-Turkish companies, the total amount of investment is around 200 thousand USD. This parameter is almost three times smaller than last year and almost two times lower than in 2009.
4. Review of previous studies reveals both optimistic and sobering assessments of potential impact of border re-opening on the Armenian economy. These are mirrored in hopes and fears present in the Armenian public mindset, although for the public the issue of Armenian-Turkish rapprochement goes far beyond economic questions; it is connected to problems of internal political stability and national security
5. Overall, the public opinion both in Armenia and Turkey is somewhat divided over the issue of Armenian-Turkish rapprochement, with roughly half of the population supporting the process.
6. Considering the specificities of the purposive sample of the pilot enterprise surveys, the level of Armenian-Turkish business cooperation is fairly low.
7. Nonetheless, starting from the 1990s, organizations from various sectors started to cooperate. In the sphere of tourism the cooperation went uninterrupted for all surveyed Armenian organizations.
8. Political factors are perceived as the most important obstacle for cooperation by both Armenian and Turkish businessmen.
9. From the point of view of cooperation, both sides mention tourism and textiles as potentially mutually beneficial spheres. Energy, jewelry, medicine and cattle breeding were also mentioned as possible spheres of cooperation, although there was less agreement as to their potential.
10. The qualitative components of the study (focus group discussions and in-depth interviews) show that there is a lack of information about the 'other side' on both sides.
11. Partially due to scarce information and partially due to other psychological reasons, businessmen of both countries often connote a sense of insecurity when discussing business opportunities related to the 'other side'.
12. Personal connections and mutual trust developed during cooperation often become guarantors of business relations in a situation where the absence of diplomatic relations between the two countries makes it impossible to have state legal guarantees. Business ethics also serves as an important tool in reassuring cooperation partners.
13. The following potential models and mechanisms were considered important for preservation of business and protection of interests:
 - Professional groups, unions, associations, business clubs;
 - Membership in international structures;
 - International court instances.
14. Cooperation often takes place via a third country mediator.

The overall impression is that the Armenian side is more interested in cooperation than the Turkish side, but it is also the side that has not been very successful in penetrating the Turkish market thus far. Reservations exist on both sides as to whether or not business cooperation can function normally despite non-existent diplomatic relations. Lack of information is evident from the participants' responses and is often named as one of the problems hindering cooperation. The absence of an official authority with a function of trade consultancy arose very clearly during this study. Hence, the set of recommendations proposed below includes some that address this issue. Since personal contacts lead to the development of trust and often ensure stable cooperation, another set of recommendations proposes to continue facilitating personal contacts through various formats, such as forums, mutual visits, EXPOs et cetera.

The following recommendations can be proposed based on the results of the study:

- Create a consulting agency to provide businesspersons of both countries with information and advice on legislative, administrative and other business-related issues.
- Conduct a detailed analysis of quality/price supply and demand of goods and services in the areas that were identified by businesspersons of the two countries as promising in terms of cooperation: tourism; textiles; energy; the gold industry; medicine and medical services; and cattle-breeding.
- Study the laws of the two countries regarding tax and customs, transportation, the energy sphere, education, tourism and other spheres of cooperation. Create informative overviews in the language of the other country and disseminate these among businessmen, thus enhancing their information on the respective sector legal regulations.
- Organize courses on Armenian business-related legislation in Turkey and on Turkish legislation in Armenia.
- Assist projects and activities aimed at studying the markets of the two countries and exchanging that information.
- Help businesses in both countries prepare advertisement materials in the language of the other country. Help to exchange those advertisement materials.
- Create useful communication assistance tools, such as easy-to-use basic Armenian-Turkish dictionaries (book or software based), educational manuals, and so on.
- Establish Armenian-Turkish interpreter schools in both countries.
- Create software platforms enabling online trade. Encourage businesses on both sides use existing platforms, such as B2B Marketing.
- Organize and assist activities that facilitate personal contacts: exchange visits, experience-sharing, workshops, seminars, conferences, EXPOs, exhibitions, et cetera.
- Sensitize international business associations to the Armenian-Turkish issue; encourage them to help Armenian-Turkish cooperation across borders.
- Assist the development of Armenian-Turkish business ties through a third party: an organization that would bring together two potentially interested parties and facilitate cooperation until the parties develop the necessary level of trust/social capital to work directly.
- Work with various embassies located in both countries. Establish agreements that their respective departments will provide information/consultancy to Armenian/Turkish businessmen in a similar manner to the way they would do so for their own citizens.
- Create stipends, fellowships and scholarships to facilitate student exchange. Encourage students and young researchers to cooperate on joint research projects.

- Engage Armenian experts (historians, architects, restorers, artists) in restoring and maintaining Armenian cultural heritage monuments in Turkey.

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Հակազնագցման (Հակադեմփինգային) և փոխհատուցման միջոցների մասին, ընդունվել է 19.06.2002

Համաձայնագիր ազատ առևտրի գոտու ստեղծման մասին համաձայնագրի մասնակից պետությունների միջև տեղաշարժվող ապրանքների մաքսային ձևակերպման և մաքսային հսկողության կարգի մասին: ՀՀ-ում ուժի մեջ է 2000թ դեկտեմբերի 27-ից

Համաձայնագիր ԱՊՀ Մասնակից Պետություններում փոքր ձեռնարկատիրության աջակցության և զարգացման մասին: ՀՀ-ում ուժի մեջ է 1998թ դեկտեմբերի 21-ից

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ՀՀ ԱԳՆ և Թուրքիայի ԱԳՆ և Շվեյցարիայի ԱԳԴ պրեսսե ռելիզ

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