This activity takes place within the framework of the programme
Support to the Armenia-Turkey Normalisation Process funded by the European Union

tepav

The Economic Policy Research Foundation of Turkey

Some research findings on economic cooperation opportunities between Turkey & Armenia

ATNP CONSORTIUM MEETING
Istanbul, July 25, 2014

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Support to the Armenia-Turkey Normalisation Process funded by the European Union.

Outline

- TEPAV research summarized in this presentation:
  - → Final report **of "Strengthening Connectivity and Business Synergies in the Southern Caucasus" project (*supported by the Foreign Ministy of Switzerland*)** – March 2014
  - → Initial findings from "**Support to Armenia – Turkey Normalization Process" (*support by the EU*)** -- ongoing
- Diagnostics
  - → Regional development perspective
  - → Potential trade complementarities,
  - → Armenian economic priorities
  - → Regional and sectoral dimensions -> high synergy areas
- Emerging opportunities and project ideas
  - → Tourism and ICT sectors

Turkey's rank in the neighborhood country's major trade partners list (2007-2011 Average)

	IMPORTS
Georgia	1
Bulgaria	4
Romania	5
Greece	12
Syria	3
Iran	7
Russia	14
Azerbaijan	2
Iraq	1
Armenia	**4**

Source: BACI database (2007-2011 Average) ,Tepav Calculation

Turkey's rank in the neighborhood country's major trade partners list (2007-2011 Average)

	EXPORTS
Georgia	1
Bulgaria	2
Romania	4
Greece	5
Syria	6
Iran	8
Russia	9
Azerbaijan	9
Iraq	10
Armenia	**?**

Source: BACI database (2007-2011 Average) ,Tepav Calculation

Turkey's rank in the neighborhood country's major trade partners list (2007-2011 Average)

	EXPORTS	IMPORTS
Georgia	1	1
Bulgaria	2	4
Romania	4	5
Greece	5	12
Syria	6	3
Iran	8	7
Russia	9	14
Azerbaijan	9	2
Iraq	10	1
Armenia	**39**	**4**

Source: BACI database (2007-2011 Average) ,Tepav Calculation

So, what if ???

Rank	Armenia's Top Export Partners (2007-2011)	Share	Export Volume (million USD)
1	Russia	16 %	184
2	**Germany**	**14 %**	**161**
3	**Netherlands**	**9 %**	**100**
4	Bulgaria	8 %	91
5	Yemen	6 %	72
6	Belgium-Luxembourg	6 %	69
7	USA	6 %	67
8	Georgia	5 %	62
9	Canada	4 %	47
10	Spain	3 %	36
	Other	21 %	238
39	**Turkey**	**1 %**	**14**
	TOTAL		1.127

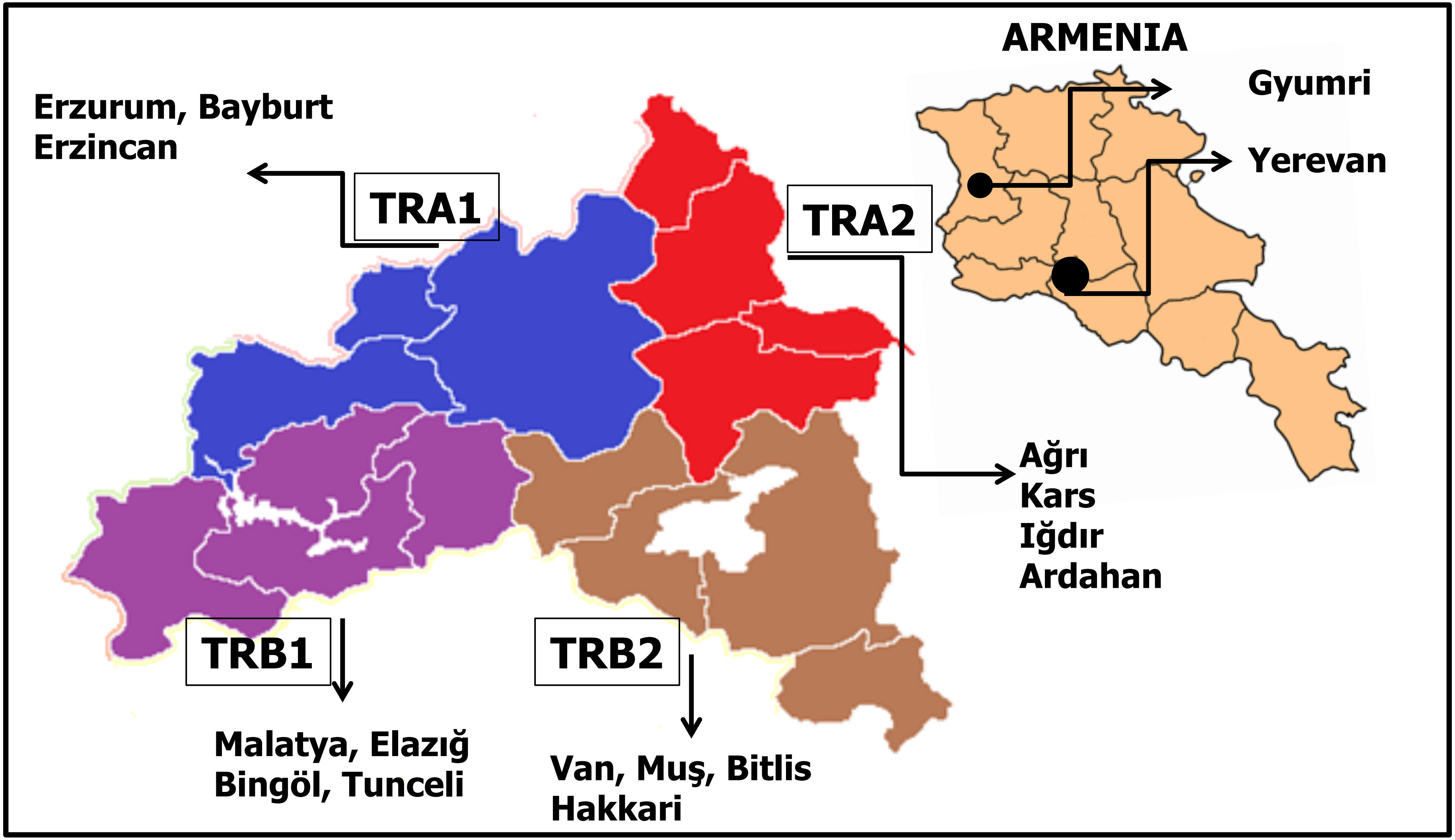
?

Full normalization could imply a direct increase of 10 % for Armenia's exports, and around 1 % of its GDP

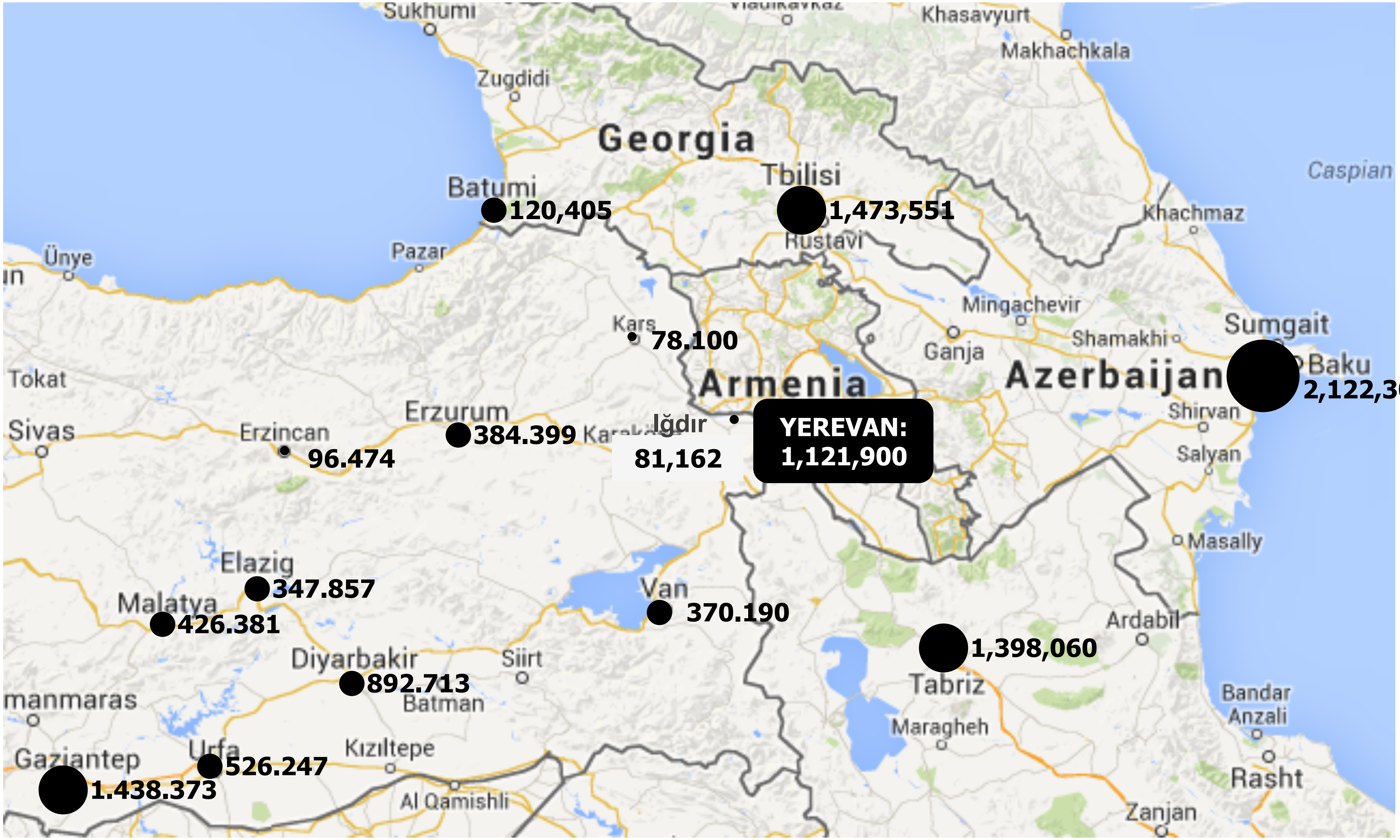
(neglecting transport costs!)

Source: BACI database (2007-2011 Average) ,Tepav Calculation

Regional perspective: Jointly looking at the Eastern Turkish Economy and Armenia

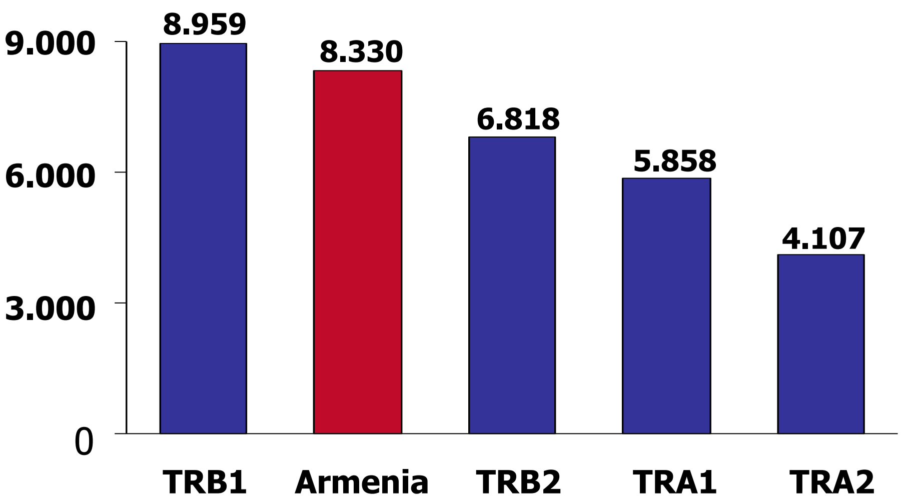


(1) Yerevan is larger than all the Turkish cities east of Gaziantep: A center of attraction?

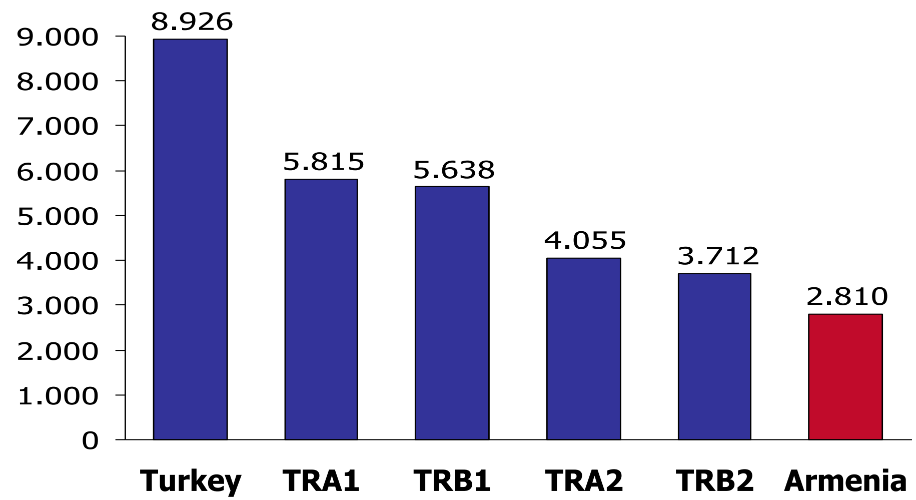


(2) Armenia appears to be poorer but interestingly, more developed than Turkey's eastern regions

Gross Value Added in bn.$, 2010



GVA per Capita in $, 2010



	TRA1	TRA2	TRB1	TRB2	Armenia	Turkey
Total population, millions, 2012	1.07	1.15	1.67	2.08	**3.10**	74
Share of industry in GDP	16.9	19.5	12.6	15.8	**37.1**	28
Exports per capita, $, 2012	26	154	197	181	**429**	2061
Gross secondary enrollment, 2010-11	89%	64%	108%	65%	**92%**	82%
Hospital beds per 1000 people, 2010	3.7	1.4	3.6	1.9	**4.0**	2.5
Motor vehicles per 1000 people, 2010	66	23	69	20	**103***	155

Sources: World Bank, TUİK, TEPAV calculations

Any product complementarities at the regional level? (1)

For Turkish products in Armenian market

Armenia's imports vs TR A – TRB – Turkey exports, million USD, top 10 products

HS2	HS2_Name	Armenia's imports	2002-2012 Change	Turkey's exports
27	MINERAL FUELS MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION	902,9	434.99%	7,708
84	MACHINERY, BOILERS,	385,5	636.40%	11,999
85	ELECTRICAL TELEVISION IMAGE AND SOUND	212,8	337.86%	9,373
99	COMPLETE INDUSTRIAL PLANT	186,5	941.58%	148,2
71	NATURAL OR CULTURED PEARLS	178,7	-15.27%	16,325
87	VEHICLES OTHER THAN RAILWAY OR TRAMWAY	169,4	617.09%	15,148
10	CEREALS	152,5	211.75%	170,3
39	PLASTICS AND ARTICLES THEREOF	119,9	650.26%	5,012
30	PHARMACEUTICAL PRODUCTS	110,9	361.11%	661,7
72	IRON AND STEEL	102,4	593.62%	11,332

TRA TRB TR

BACI ,Comtrade, Tepav Calculations, 2012

Any product complementarities at the regional level? (2)

For Armenian products in the Turkish market

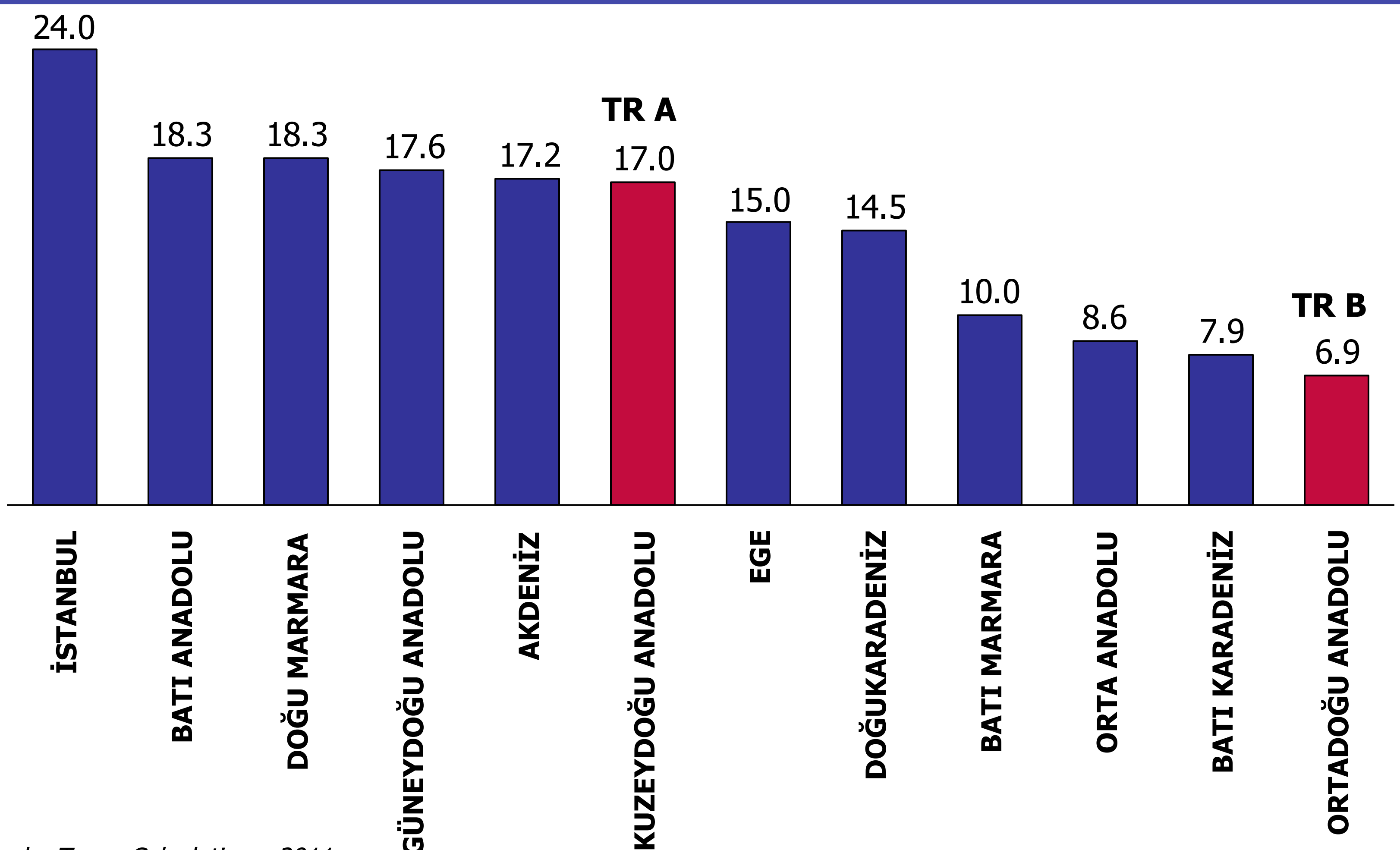
Armenia's exports vs TR A – TRB – Turkey imports, million USD, top 10 products

HS2	HS2_Name	Armenia's Export	2002-2012 Change	Turkey's Import	TRA	TRB	TR
26	ORESSLAG AND ASH	279	316,2%	1.260	○	○	○
22	BEVERAGES SPIRITS AND VINEGAR	187	1343,9%	213	○	○	○
71	NATURAL OR CULTURED PEARLS	173	889,1%	8.529	○	○	○
72	IRON AND STEEL	119	702,7%	19.642	○	○	●
74	COPPER AND ARTICLES THEREOF	111	-33,2%	3.878	○	○	○
27	MINERAL FUELS MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION	108	930,1%	20.646	●	○	●
76	ALUMINIUM AND ARTICLES THEREOF	88	849,1%	2.984	○	○	○
88	AIRCRAFT SPACECRAFT AND PARTS THEREOF	48.8	397,3%	3.153	○	○	○
24	TOBACCOAND MANUFACTURED TOBACCO SUBSTITUTES	41.9	162,8%	487	○	○	○
84	NUCLEAR REACTORS BOILERS	24.3	19783,6%	26.213	○	●	○

BACI ,Comtrade, Tepav Calculations, 2012

(3) Indeed, most of the economic opportunities for Armenia are «currently» in the Istanbul market

Complementarity Index value between Armenian imports and Turkish Exports (2011)



BACI ,Comtrade, Tepav Calculations, 2011

(4) Overview of the Armenian policy framework – recent issues

- Search for a new growth model
  - → Accumulation, competition, connectivity
  - → High value products, air freight: a new Israel emerging?
  - → National Competitiveness Foundation of Armenia
  - → Benefiting from Diaspora networks in ICT, Tourism, Life Sciences (nuclear medicine)
- EurAsEc Customs Union
  - → Upside: easier access to CIS markets
  - → Downside: rates for Turkish goods may go up
- Open skies
  - → Air transport opening up to full competition
  - → Lower transport costs, expected increase in passengers (tourism) and freight (exports)

Where and how can we find the business synergies?

- At the product level, complementarities are not directly visible at the industrial product level
  - ➔ Manufacturing structure of Armenia – landlocked country with problematic borders
- Taking a look at the broader, sectoral areas, with a dynamic perspective?
  - ➔ Including the services and agricultural sectors.
- Four main categories of assessment:
  (1) How closed border affect business interaction?
  (2) Does the sector carry political priority in Armenia?
  (3) Is the sector open to SMEs?
  (4) How relevant for Turkish economic policy?

Results from our sectoral assessment

● : High level

◐ : Medium level

○ : Low level

	Border problem?	Armenia Policy Priority?	SME Orientation?	Policy relevance for Turkey?
GOODS				
Primary Goods (mining)	○	●	○	○
Food and Agricultural	○	◐	●	◐
Construction Materials	○	●	◐	◐
Pharmaceuticals	◐	●	○	●
Textiles and Apparel	○	◐	●	○
Machinery and Electronics	◐	◐	◐	●
Other Man. (Jewelery etc.)	◐	◐	◐	◐
SERVICES				
ICT	●	●	●	●
Energy	●	◐	○	●
Construction and Engineering	●	◐	◐	◐
Retail	●	○	●	○
Education	●	●	◐	◐
Finance	●	○	○	◐
Health	◐	●	◐	●
Tourism and Hospitality	◐	●	●	●
Transport and Logistics	○	◐	◐	●

(5) Two sectors stand out: ICT and tourism

● : High level

◐ : Medium level

○ : Low level

	Border problem?	Armenia Policy Priority?	SME Orientation?	Policy relevance for Turkey?
GOODS				
Primary Goods (mining)	○	●	○	○
Food and Agricultural	○	◐	●	◐
Construction Materials	○	●	◐	◐
Pharmaceuticals	◐	●	○	●
Textiles and Apparel	○	◐	●	○
Machinery and Electronics	◐	◐	◐	●
Other Man. (Jewelery etc.)	◐	◐	◐	◐
SERVICES				
ICT	●	●	●	●
Energy	●	◐	○	●
Construction and Engineering	●	◐	◐	◐
Retail	●	○	●	○
Education	●	●	◐	◐
Finance	●	○	○	◐
Health	◐	●	◐	●
Tourism and Hospitality	◐	●	●	●
Transport and Logistics	○	◐	◐	●

Shortlisted sector (2): ICT

Current State

- One of the leading sectors in Armenia
  - ➔ Total share of IT, Telecom, Systems development and Engineering Sectors in GDP > 6% (higher than of US & India)
  - ➔ 22% CAGR (2008-11)
- Export-oriented sector
  - ➔ Not negatively affected by connectivity problem
  - ➔ Share of ICT exports in total =8.5%
  - ➔ 8.9% CAGR (2008-2011)

Relevance for Turkey

- Centers of excellence in Armenia, human capital
  - ➔ Key constraint in Turkish ICT
- Tapping entrepreneurial potential in Armenia
  - ➔ Demand of prosperous and commercializable business plans
  - ➔ Raising capacity of technoparks & innovation centers & incubators

Enablers

- Public incentives for ICT sector
  - ➔ Spur of investment, Support to start-ups, Copyright protection, Streamlining business registration
- Diaspora links with US & Russia
- Soviet manufacturing inheritance
- Better connectivity with Turkey

Shortlisted sector (1): Tourism

Current State

- Fast growing sector in Armenia
  - → 24% CAGR in revenues (2002-10)
  - → 15% CAGR in visitors (2007-11)
- 400,000 visitors per year from Diaspora
- 70.000 Armenian tourists to Turkey in 2012
  - → Connectivity problem: flights are rare and expensive

Relevance for Turkey

- Turning Eastern Anatolia into a tourism destination
  - → South Caucasus Tours
- Potential areas of cooperation
  - → Marketing Yerevan as a destination for Turkish upper middle class, similar to Greek Islands
  - → VIP and health tourism with helicopters across the border

Enablers

- Open skies agreement
  - → chance for new/increased flights
  - → 10% reduction in prices, 20-25% increase in tourists
- Van-Yerevan flights, raised high interest but got cancelled

Open Skies: A shift in air transport?

- Era of monopoly recently ended
  - → Armenia had a monopolistic airlines market, presence of one national airline (Armavia), (Until April 2013)
  - → Passengers used to prefer other routes to travel to Armenia
- Very recent Open Skies impact on flights
  - → Air France: 3 to 7 ; Emirates: 7 to 11
- Very high prices on TR-ARM Flights:

	Istanbul - Yerevan	Istanbul - Tbilisi
Round-trip	Armavia: 403 €	THY: 166 € Pegasus: 152 €

Source: THY & Pegasus

Opening of the Çıldır-Aktaş border gate:
Distance between Yerevan-Kars soon to be halved

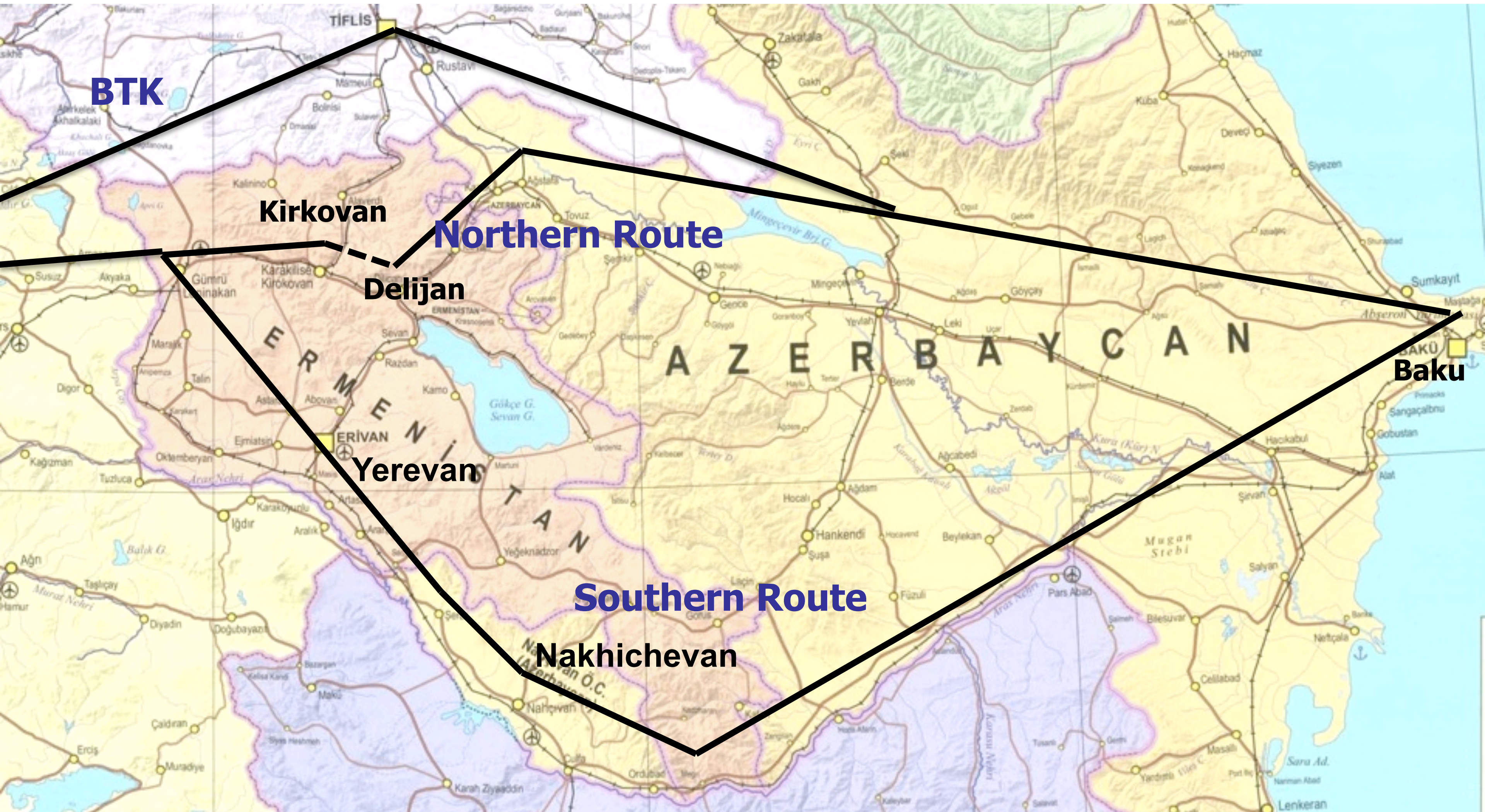
- Sarpy
  - ➔ Main transportation gate
- Posof – Türkgözü:
  - ➔ It remains limited in the winter months.
- Çıldır – Aktaş: De jure open, de facto closed since 1995
  - ➔ Construction started (2013)
  - ➔ Convenient winter climate

Distances of selected routes through border gates (in km)

	Gyumri – Kars	Yerevan- Kars	Tblisi- Kars
Over Sarpy	462	507	527
Over Posof- Türkgözü	325	470	440
Over Aktaş	**235**	**375**	**390**
Assuming open borders with Armenia	**85**	**230**	**265**

Source: Calculations based on maps provided by General Commandership for Cartography

Modern Silk Road: Routes over Southern Caucasus in the Middle Corridor



Opportunities & challenges on using transport routes

- In 2010 BSEC entry permits were granted for transit of Armenian trucks via Turkey
- Development of Rize port can potentially create competition to Poti
- But challenges remain:
  - ➔ Another issue is the issuance of work visas for Armenian truck drivers entering Turkey.
  - ➔ The excise cargo deposit applied by Turkey.
- Other admin barriers:
  - ➔ “AM” code issue
  - ➔ Risk of “one-window” border crossing