NEWSLETTER

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ARMENIA

Opening of Armenia-Turkey border: trade impact

Armenia does not directly trade with Turkey as the common border remains closed for decades. However, there is indirect trade, predominantly imports, flowing through Georgia. In 2021, trade with Turkey amounted to less than 1% of total, partly due to a temporary import ban imposed by Armenia in that year.

We used two reinforcing models to estimate the effect of opening the common border on Armenia's bilateral trade with Turkey. Firstly, a gravity model assesses the long-term potential trade structure. Secondly, a trade complementarity model estimates the short- to medium-term trade potential based on the existing product composition of the countries' trade.

The gravity model predicts the share of Turkey in Armenia's trade to be 12%, much higher than in reality. The trade complementarity model shows that Armenia's exports to Turkey can reach 6.7% of the total, while imports from Turkey are estimated at 12.8%.

Thus, as a result of an opening of the border, Armenia's trade with Turkey would increase from less than 1% (2021) to more than 10% of total trade.

Introduction

The Armenia-Turkey border remains closed for years, and there is no direct trade between the countries. Still, indirect trade has been maintained, mostly through Georgia. Although in 2021, Armenia imposed a ban on imports of Turkish-origin goods, except for raw materials; this ban has been lifted in 2022.

We studied the implications of a scenario, in which Armenia and Turkey open their common border and allow direct trade, on Armenia's trade with Turkey.
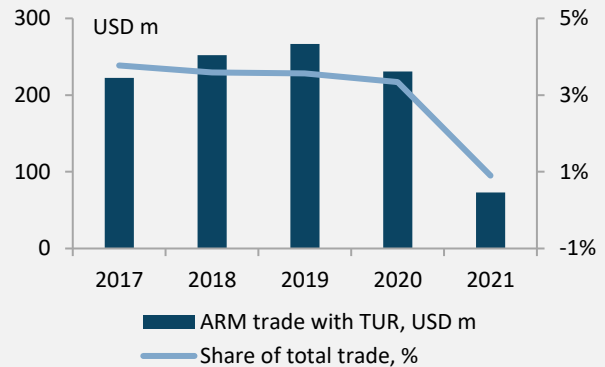
Armenian trade

Currently, Armenia's main trade partners are Russia, the EU and China.

Trade with Turkey accounted for 0.9% in 2021, dragged down by a ban on imports of Turkish-origin goods, except for raw materials. In 2017-2019, before the COVID-19 crisis and the ban, trade was about 4%.

Armenia mostly imports goods from Turkey, while exports stay close to non-existing. Before the 2021 ban, main import goods were textile and clothing, machines and equipment, and fuels. In 2021, imports from Turkey dropped by 68% affecting all categories, fuel imports stopped almost completely.

Armenian trade with Turkey

Sources: WITS, own estimates

Methodology

The assessment of the potential trade structure between Armenia and Turkey is based on two models. The gravity model is a standard trade policy analysis tool. Its key notion is that trade is directly proportional to the size of the partner economies and inversely proportional to the 'economic distance' between them. The model does not take into account the product composition of trade, and thus is appropriate for assessing the long-run trade pattern.

Trade complementarity is a custom-made tool assessing a potential structure of bilateral trade based on whether the export basket of one country fits the import basket of the other country, controlling for the price difference. It takes into account the present product structure of the trade. Therefore, it is suitable for assessing the short to medium trade structure.

Gravity model

The gravity model predicts that the share of Turkish products in the Armenian trade should be 12%, while in reality, it is only 1% in 2021 (partly due to the ban), but also only 3.6% in 2019.

Gravity model, predicted and actual trade in goods structure

	Predicted	Actual (2021)
EU	20%	18%
Russia	14%	32%
Turkey	12%	1%
Iran	9%	6%
China	7%	15%
USA	6%	2%
Other countries	32%	26%

Sources: own estimates; see PB/07/2022 for details

Thus, there is a strong potential for the expansion of Armenian trade with Turkey.

Trade complementarity

According to the trade complementarity model, Armenia's potential exports to Turkey amount to USD 185 m; this is equivalent to 6.7% of Armenian exports in 2021.

The main items of Armenian potential exports to Turkey are agro-food products, incl. tobacco products (cigarettes), glass & jewellery, and minerals, in particular copper ores. The structure of potential exports to Turkey resembles Armenia's total export structure, but with a lesser role for metals and spirits.

Armenia's potential imports from Turkey amount to USD 678 m; that is 12.8% of Armenia's imports in 2021.

Main import products would be machines & equipment, textile & clothing, and chemicals, primarily medicaments. The opening of the border would alter the current import structure, increasing the role of capital goods (machines and equipment). Potential imports of agro-food products would remain moderate.

Trade complementarity model, predicted trade structure

Description	ARM potential exports to TUR, % of total	ARM potential imports from TUR, % of total
Total, USD m	**185**	**678**
including		
Animal-origin products	5%	0%
Plant-origin products	4%	6%
Food, beverages, tobacco	26%	5%
Minerals, incl. ores	10%	1%
Fuels	0%	7%
Chemicals, incl. medicine	2%	10%
Plastic or rubber	2%	6%
Hides and skins	0%	1%
Wood	0%	3%
Textiles & clothing	5%	20%
Footwear	1%	3%
Stone, glass, jewellery	27%	2%
Metals	5%	7%
Machines & equipment	6%	21%
Transport equipment	3%	3%
Miscellaneous	3%	5%

Sources: own estimates; see PB/07/2022 for details

Conclusion

Having a common border with Turkey closed, Armenia does not trade with the neighbour directly. However, indirect trade exists channelled through Georgia. The trade is mostly one-sided with Armenia importing products from Turkey, while its exports to Turkey are close to non-existing.

As a result of an opening of the border with Turkey, Armenia's trade with Turkey would increase from less than 1% (2021) to more than 10% of total trade. The results of both models are similar, i.e. we are dealing with robust results.

The opening of the border would promote Armenia's exports and imports of capital goods, and thus is very much in the economic interest of Armenia.

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