

DOI: 10.19266/1829-4286-2017-02-95-114

Development in Troubled Neighborhoods: Qualified industrial Zones an Exit Strategy for Armenia and Turkey

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The purpose of the article is to study the legal, political and economic aspects of the establishment and development of qualified industrial zones (QIZ) with the participation of Armenia and Turkey. The existence of such special areas that host companies producing goods granted duty-free access to the US markets can promote the development of trade and economy as well as the solution of political problems between participating countries. The article focuses on the experience of US-Jordan-Israel and US-Egypt-Israel QIZs and analyzes whether the cases under study can serve as an effective model for Armenia and Turkey in terms of normalization of bilateral relations through regional economic cooperation.

Keywords

Armenian Turkish relations, negotiations, Qualified Industrial Zones

Introduction

Located at the crossroads of Europe and Asia, Caucasus is where East and West meet in a most diverse and contrasting fashion. For ages, Caucasian nations shared a long history and many common cultural practices. Problems facing the Black Sea South Caucasus region today are complicated and all-embracing, with their origin dating back to the change of the political system in the early 1990s, including problems of democratization and the establishment of market economy, historical disputes and territorial conflicts that have turned into stalemates.

Today, at times of global financial recession, the opportunity cost for maintaining a stalemate is, probably, as high as never. In this regard, alternative dispute resolution mechanisms are gaining momentum by offering economy - driven approach to managing and resolving conflicts. The idea of reconciliation and development through business and investment is not new in international practice. It is a well-known fact

that no language speaks to the heart of people as effectively as economic gain and shared benefit. In this regard, the legal aspect of such cooperation becomes crucial in ensuring effective enforcement of arrangements.

An important factor in fostering bilateral relations through economic cooperation between the states is the existence of free trade agreements, and over time, participation in free trade agreements has become much more widespread¹. A general assumption in economy is that free trade contributes to prosperity, so, in development theory, free trade is viewed as an essential element in efforts to spread the blessings of economic development to countries afflicted with serious poverty².

The last decade has witnessed increased attention, condemnations, and justifications to the rapid developments in the Armenian-Turkish relations. Whether ratified by the two states' Parliaments or not, the Armenian-Turkish protocols on normalization of bilateral relations signed in Zurich in October 2009 did play a role in changing the psychological realities in the region by initiating extensive discussion around the relations between the two states.

The purpose of the research is to study the legal aspects of establishing and developing qualified industrial zones - areas that host companies producing goods granted duty-free access to US markets, between states burdened with conflicts and unresolved recriminations about the past. The research will study the experience of the US-Jordan-Israel Qualified Industrial Zone (QIZ) in Jordan and US-Egypt-Israel QIZ in Egypt, whereby goods produced with a certain amount of local content and Israeli value are exported to the US quota-free and duty-free.

The research will analyze whether the cases under study can serve as an effective model for Armenia and Turkey in terms of reconciling hostile neighboring nations through regional economic cooperation. This,

¹ **Strauss A. L.**, From Gattzilla to the Green Giant: Winning the Environmental Battle for the Soul of the World Trade Organization, University of Pennsylvania, *Journal of International Economic Law*, 1998, 19, 769-821.

² **Spriggs, W. E., Stanford J.**, Economists' Assessments of the Likely Employment and Wage Effects of the North American Free Trade Agreement, *Hofstra Labor Law Journal*, 1993, 10, 495-536.

in light of the recent geopolitical changes in the region, could be viewed as an alternative dispute resolution (exit strategy) tool.

The Origin of Qualified Industrial Zones: International Practice

Qualified Industrial Zones are designated geographic areas within a certain state and the products of the companies located within these zones are granted duty-free access to US markets³. The concept of a Qualifying Industrial Zone was initiated by the Clinton administration in 1996 with the aim of reinforcing peace and stability in the Middle East through regional economic cooperation that would benefit hostile Arab countries and the State of Israel. For this purpose, the US administration authorized duty free entry into the US market for industrial products originating in QIZ of Jordan since 1999 and Egypt since 2004, manufactured jointly with the State of Israel.

In 1996, a historical agreement between Israel and Jordan was signed, with the first paragraph of the agreement declaring:

“In recognition of the requirements in section 9 of the United States-Israel Free Trade Area implementation Act of 1985, as amended (the "Legislation"), and Proclamation No. 6955 of the President of the United States of America (the "Proclamation"), the Governments of the Hashemite Kingdom of Jordan and the State of Israel hereby agree to the creation of the "Qualifying Industrial Zone", and request that the Government of the United States designate it as a "Qualifying Industrial Zone" under the legislation and Proclamation”.⁴

The Agreement was to come into force upon the completion of the necessary legal procedures by the Parties completed on March 13, 1998⁵. By this agreement, the State of Israel and Kingdom of Jordan agreed to the creation of the Qualifying Industrial Zone to be located in the duty-free zone in Jordan in conjunction with the Israeli side of the border-crossing at the Sheikh Hussein - Nahar Hayarden Bridge. After the approval of the project by the United States, this zone would provide

³Ministry of Trade and Industry of Egypt Official Website, http://www.qizegypt.gov.eg/About_QIZ.aspx.

⁴Agreement between the Hashemite Kingdom of Jordan and Israel on Qualifying Industrial Zone, <http://www.agreements.jedco.gov.jo/qiz.html>.

⁵ Ibid.

duty-free treatment to products jointly produced by Israelis and Jordanians that meet the requirements of US legislation. The US interest was to support the peace process in the Middle East, and the development of the region could help to establish peace through fostering domestic exports of the concerned parties. According to Ibrahim Saif, the QIZ arrangement was created to promote peace through economic integration within the region⁶.

The agreements provided that both Jordanian and Israeli manufacturers each contribute and maintain at least one third of the minimum 35% content required under the legislation and Proclamation for duty-free treatment in the United States; or, each contribute and maintain at least 20% of the total cost of production of goods eligible for duty-free treatment, excluding profits, even if the costs cannot be considered as part of the 35% minimum content requirement for this purpose. Costs may include originating materials, wages and salaries, design R&D, depreciation of capital investment, overhead including marketing expenses, etc.

Later, as a result of Jordanian efforts the percentages making up the minimum 35% requirement were modified as follows:

1. From a manufacturer located within the QIZ, a minimum of 11.7%
2. From Israel, a minimum of 8% for all products (7% for high tech products), the remainder of the 35% content requirement, namely 15.3% should be obtained through any combination of input from a Jordanian QIZ, Israel, USA and the West Bank/Gaza Strip.

In less than ten years, qualified industrial zones resulted in a number of benefits, such as:

- Exports from Jordan to the United States grew from \$15 million in 1997 to more than 1 billion dollars in 2004.
- Jordan's QIZ's are the country's strongest engine of job growth. Jordan estimates that more than 40,000 jobs have been created

⁶ Ibrahim S., *The Socio-Economic Implications of the Qualified Industrial Zones in Jordan 2006*, <http://www.jcss.org/Uploadpublications/62.pdf>.

within its QIZs. Investment in Jordan's QIZs is currently at between \$85-100 million and is expected to grow to \$180 to \$200 million.

- Following the QIZ, The United States and Jordan negotiated a full FTA that the U.S. Congress approved in 2001.

Having observed the positive economic results of the QIZ agreement between Israel and Jordan and bracing for the phasing out of the quantitative quotas on textile (The WTO Agreement on Textile and Clothing, ATC) that posed a great threat to the international competitiveness of the Egyptian textile and ready-made garment industry, the Egyptian Government decided to accommodate the concerns of the Egyptian producers and employees of the industry through negotiating a QIZ protocol. The agreement was signed in Cairo on December 24, 2004, and entered into force in February 2005.

The positive immediate results were dramatic: if the total Israeli export to Egypt in 2004 were 29\$ million, in 2005 it climbed to 93.2\$ million, some 300% jump-off. During 2006 the total Israeli exports to Egypt continued to climb and exceeded 125\$ million. The total Egyptian exports to the U.S. that was 1,283\$ million in 2004 acceded 2\$ billion in 2005 and continued to climb during 2006.

Normalization of the Armenian-Turkish Relations: A Need for an Exit Strategy

The Armenian-Turkish relations have long been characterized by bitter mistrust and tension due to a number of unresolved issues that include the mass killings of Armenians in 1915 which most scholars have qualified as genocide although the government of Turkey has denied that judgment and has supported prosecution of Turks who have spoken out about the issue⁷. Relations came to their worst peak in 1993 when Turkey sealed off its border with Armenia in solidarity with its close ally Azerbaijan

⁷ Turkey: Article 301 is a Threat to Freedom of Expression, Public Statement, Amnesty International, December 1, 2005, <http://www.amnestyusa.org/document.php?lang=e&id=ENGEUR440352005>.

after a conflict over a breakaway Nagorno-Karabakh⁸. Tensions between Armenia and Turkey furthermore aggravated by subsequent infrastructure projects bypassing Armenia, such as Baku-Tbilisi-Ceyhan pipeline and Baku-Tbilisi-Kars railroad⁹, as well as Armenia's decision to re-commission its nuclear plant located 16 km away from Turkey's border¹⁰.

In 2008, during a meeting with members of the Armenian Diaspora in Russia, President of Armenia Sargsyan made a groundbreaking statement inviting the Turkish president to visit Armenia to watch the World Cup qualifying match between Armenia and Turkey. Through what later came to be referred to as "football diplomacy," Armenia and Turkey embarked on a road to formal negotiations to settle their bilateral relations¹¹.

With talks between Armenian and Turkish diplomats already underway for months, the Armenian-Turkish rapprochement became a subject of heated discussion in local and international media, as Armenian and Turkish officials confessed that the two countries had never come this close to a plan regarding a final normalization¹². According to the Turkish Foreign Minister, the move was in line with the government's "Zero Problems with Neighbors" policy¹³. Yet, there has been much controversy domestically, as well as internationally, over the cost of the rapprochement, as officials released contradictory statements about the reconciliation process. While Armenian side spoke about

⁸ Turkey, Armenia to Sign Peace Agreement, *CNN*, October 10, 2009, <http://www.cnn.com/2009/WORLD/europe/10/09/turkey.armenia.peace/index.html>.

⁹ The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West, Central Asia-Caucasus Institute & Silk Road Studies Program – A Joint Transatlantic Research and Policy Center, Johns Hopkins University, 2005, <http://www.silkroadstudies.org/BTC.htm>.

¹⁰ Nuclear power in Armenia, *World Nuclear Association*, October 2009, <http://www.world-nuclear.org/info/infl13.html>.

¹¹ Armenia-Turkey: The Great Debate, *European Stability Initiative*, 2009, http://www.esiweb.org/index.php?lang=en&id=322&debate_ID=2&slide_ID=1.

¹² Turkey, Armenia One Step Closer to Open the Border, *Hurriyett Daily News*, September 1, 2009, <http://www.hurriyetdailynews.com/n.php?n=turkey-armenia-one-step-closer-to-the-border-2009-09-01>.

¹³ Armenia-Turkey: The Great Debate, *European Stability Initiative*, 2009, http://www.esiweb.org/index.php?lang=en&id=322&debate_ID=2&slide_ID=2.

establishing relations *without preconditions*¹⁴, Turkish officials insisted that the Turkish-Armenian border could be opened only after Armenia “restores Azerbaijan's territorial integrity” and gives up “*distorting history*”.¹⁵

On October 10, 2009, the protocols on normalization of the Armenian Turkish relations were signed in Zurich. Although, as noted, the texts of the protocols contain no provision regarding the Nagorno-Karabakh conflict, or Genocide recognition, the signing of the protocols was about to be postponed due to a last-minute dispute over wording in the statement to be made by the Foreign Ministers. The U.S. State Secretary, Hillary Clinton, and other diplomats present at the ceremony acted immediately to mitigate the wording crisis, and, with a three-hour delay, the protocols were finally signed with no oral statements following the signing ceremony¹⁶.

Yet, years into post-Zurich relations, the protocols still remain unratified due to political reasons that are linked to historic disputes and geopolitical alliances in the region. Should Turkey and Armenia ratify and then implement the protocols, the geopolitical picture of the South Caucasus would change dramatically. However, most analysts today question the possibility of such developments unless the West puts pressure on Ankara to ratify the documents. However, by that time, Turkish prime-minister remained adamant: “if you want to resolve Nagorno-Karabakh conflict, you should also resolve the Turkish-Armenian issue. Otherwise, you will fail to resolve it”.¹⁷

¹⁴ Interview of the President of Armenia Serzh Sargsyan to BBC correspondent Gabriel Gatehouse, *The President of the Republic of Armenia (Official Website)*, August 31, 2009, <http://www.president.am/events/press/eng/?id=33>.

¹⁵ Turkey not to Open Armenia Border until Azerbaijan's Integrity Restored, *The Hurriyett Daily NewsOnline Edition*, December 4, 2008, <http://www.hurriyet.com.tr/english/world/10506578.asp>

¹⁶ After Hitch, Turkey and Armenia Normalize Ties, *The New York Times*, October 11, 2009, <http://www.nytimes.com/2009/10/11/world/europe/11armenia.html>.

¹⁷ Turkish PM Erdogan makes a condition to White House in terms of resolution of Turkish-Armenian issue, ANS TV, *Today.az*, 04.12.2009, <http://www.today.az/news/politics/57954.html>

In a televised address broadcast on Armenian public Television on April 22, 2010, on the eve of the 95th anniversary of the commemoration of the Armenian Genocide, President Sargsyan declared that, since Turkey is not ready to move forward without preconditions and within a reasonable frame, it is in the best interests in the Armenian nation to suspend the ratification of the protocols: “From this moment on, we consider the current phase of normalization exhausted”.¹⁸ According to Sargsyan, Armenia’s political objective of normalizing relations with Turkey remained valid.

In other words, so far, the *status quo* remains the most probable outcome of the Zurich protocols. *Status quo* implies a situation, when the protocols remain unratified, the diplomatic relations remain unestablished, international legal documents and agreements remained under reservations and the common border is still kept closed.

In this regard, both Armenia and Turkey, as well as the powers mediating the peace deal would need to start rethinking the normalization process through an effective exit strategy to save face. In this regard, business could provide an additional impetus for the much needed reset button in the Armenian-Turkish normalization.

Back in 1991, a group of Armenian Diaspora figures and Jewish-Turkish businessman İshak Alaton made the first attempt to break the ice with a project to rehabilitate the Turkish Black Sea port of Trabzon and open a new supply route to Yerevan¹⁹. Although this project was never completed, Turkish and Armenian businessmen still found a way to operate, trading indirectly through Georgia and Iran. The value of Turkey-Armenia trade has risen to at least \$120 million in 2007 from

¹⁸ **Serzh Sargsyan**, Televised Address of April 22, Yerevan, Armenia (in Armenian).

¹⁹ Although they thought they had official political support, defensive nationalism in the Ankara establishment and media quickly sank the project. “The leaders met all of us, approved the project, then got frightened by the press and lied about it....on just one day, 29 February 1992, there were thirteen newspapers and 27 articles attacking me. It wouldn’t happen today”. Crisis Group interview, İshak Alaton, Istanbul, 25 February 2009.

about \$30 million in 1997²⁰. According to a study, opening the border could more than double this to \$300 million²¹.

For Armenia, having an open border with Turkey could boost foreign direct investment in Armenia by lowering perception of its risk and isolation²². Electricity from existing and planned new plants would find a ready market in eastern Turkey, and sales of Armenian electricity to Turkey were agreed in principle during Turkish President Gül's visit. It is estimated that Armenian exports could rise between 18 per cent and 50 per cent,²³ and heavier industries would become more viable²⁴. In the medium term, one calculation is that 4,800 new jobs would be created, while real GDP would rise 2.7 per cent and real disposable income 1.8 per cent²⁵.

According to the co-chairman of the Turkish-Armenian Business Development Council (TABDC) Kaan Soyak, there are many projects that could be launched jointly by Armenian and Turkish business community. One of these projects is the establishment of a qualified industrial zone between Turkey and Armenia for cooperation in the

²⁰ **Soyak K.**, Turkish Armenian Business Development Council (TABDC), interview with *Today's Zaman*, 16 February 2009.

²¹ The Brussels-based Turkish company Unit Group signed a memorandum of understanding for Turkey's purchase of electricity from Armenia during President Gül's Yerevan visit. It does not know, however, when this can start due to political problems and permit and other technical arrangements that need to be completed. Crisis Group telephone interview, Unit Group official, Istanbul, 20 March 2009. Armenia's energy minister, Armen Movsisian, said he hoped to start selling 1.5 billion kw/hours of electricity annually "as soon as possible". "Armenia Report", Radio Free Europe/Radio Liberty (REF/RL), 20 March 2009.

²² "Armenia has one of the highest external conflict risk ratings...in the top 10% most risky countries of the world during 1999- 2005". **Banaian K., Roberts B.**, *The Impacts of Conflict Risk Reduction on the Armenian Economy, The Economic and Social Consequences of Opening the Armenian-Turkey Border*, Yerevan, 13-14 January, 2007.

²³ **Jrbashyan T., et al**, *Study of the Economic Impact on the Armenian Economy from Re-Opening of the Turkish-Armenian Borders. Implications for External Trade, Armenian-European Policy and Legal Advice Centre (AEPLAC)*, Yerevan, Armenia, 2005.

²⁴ **Gültekin B.**, *The Stakes of Opening the Turkish Armenian Border*, French Institute of Anatolian Studies, Research Program on Turkey-Caucasus, October 2002.

²⁵ **Jrbashyan T., et al**, *Op. cit.*

textile sector²⁶. In the Former Soviet Union, Armenia used to be the center of textile industry, and it is still active in the textile business abroad. Also, according to Soyak, Armenia has a very effective marketing network in the United States, which can work to the advantage of both sides of a qualified industrial zone or free zone in both Turkey and Armenia. “In Turkey, we have machines and fabrics, and there is a labor force in Armenia. It is possible to produce cost-effective textiles and sell them to the United States without taxes or customs tariffs”.²⁷

To establish a qualified industrial zone through US legislation, TABDC has been working with US congressmen for years to map out the details of the project. Since 2001, meetings have been held with both US Rep. Robert Wexler, co-chairman of the US-Turkish Caucus in the US Congress and Frank Pallone, co-chairman of the US-Armenian Caucus in the US Congress.

Moreover, Soyak maintains that having a qualified industrial zone with Armenia is a good chance for Turkish businessmen to boost customs free export to Russia, and the biggest ambition of this trade would be reaching the 7 million Armenian Diaspora dispersed worldwide – particularly aiming at markets of Brazil, Argentina and Canada. According to the TABDC Chairman, there are 1.2 million Armenians in U.S. and 2 millions in Russia, and a very affluent diaspora in Canada, Argentina and Brazil. Reaching these new markets could mitigate recession.

As published in the International Crisis Group Report²⁸, a new border industrial zone has already been delineated near the railway inside Armenia that could offer Turkish manufacturers the possibilities of exploiting U.S. trade benefits, including textile quotas that are not close to being filled, and of bypassing high taxes on domestic Turkish exports

²⁶ Turkish and Armenian Businessmen Await Normalization of Relations, *Today's Zaman*, February 16, 2009, <http://www.todayszaman.com/tz-web/detaylar.do?load=detay&link=167060>.

²⁷ Ibid.

²⁸ Turkey and Armenia: Opening Minds, Opening Borders, International Crisis Group Report, April 14, 2009.

to Russia²⁹. If the border with Azerbaijan is opened as well, Armenia could become a genuine regional trading partner and transit country, and the size of its economy could double³⁰.

Ambassador Rouben Shougarian thinks that it was thought that the membership of Armenia to EEU could save the situation. But the absence of communications and transportation systems and unresolved territorial conflicts will not allow to come to a significant result. At the same time with Iran, Armenia doesn't have political problems but Iran has high customs and this country is still under sanctions³¹.

The experience of Israel-Egypt and Israel-Jordan initiatives suggests that, apart from the economic gain, qualified industrial zones have the potential to serve as powerful tools both in foreign policy and in sustainable development in the region.

Stakeholder Analyzes

To weigh the potential risks and benefits of a policy, a stakeholder analysis is usually conducted, considering the interests and positions of all parties involved. Establishing a qualified industrial zone between Armenia and Turkey is a policy that affects the following stakeholders:

1. Armenia: Suffering from an economic isolation by two of its four neighbors since 1993, Armenia has to rely on Georgia and Iran for trade. The disruption of transit into Armenia during the Georgia-Russia conflict in August 2008 highlighted how vulnerable Armenia's supply chains for key goods, such as gasoline, are to instances of regional instability.

Besides, there has long been strong pressure on the part of the EU and US to normalize relations with Turkey, and in 2009, even Russia has joined the club.

²⁹Crisis Group interview, Kaan Soyak, co-chairman, Turkish-Armenian Business Development Council, Ankara, 2 April 2009.

³⁰ **Gültekin B.**, Op. cit.

³¹ **Shougarian R.**, *The Armenian-Turkish Limbo, International Mediation and the Fragmented Identity of a Security-Conscious Region Does Armenia Need a Foreign Policy?* Rouben Shougarian, Gomidas Institute London, 2016 p. 145.

For Armenia, the alternative to coming to an agreement with Turkey is to continue to rely on Iranian and Georgian roads for land transportation, which means a great deal of extra cost for foreign trade. Not only does Armenia suffer from the high cost of transportation but also from political uncertainty surrounding Georgia and Iran, whose stability is often questioned in light of the Russian-Georgian war, as well as the US-Iran conflict over the nuclear agreement, agreed under Obama and brought back into the agenda by Trump. Failure to come to an agreement with Turkey means isolation from regional energy and transportation projects bypassing Armenia, while Azerbaijan's economy and military budget, on the contrary, will continue to grow and surpass the Armenian capacities. The increasing gap between the two countries' capacities will, most likely, lead to escalation of the Nagorno-Karabakh conflict (as happened in April 2016) with a possible outbreak of long scale war, which, at this time, Armenia would need to be better prepared, considering the large asymmetry in resources. On the other hand, should the stalemate go on any longer, chances are the Armenian lobbyist organizations will successfully pass the Genocide resolution in the US Congress and ensure stronger pressure on Turkey on the part of the Western powers.

Last but not least, the closed border between Armenia and Turkey should not be viewed as closed border just between two neighbor countries. From geopolitical point of view, closed Armenian-Turkish border also means a closed border between Armenia and NATO, South Caucasus and NATO, between Armenia and Black Sea Economic Cooperation Council, South Caucasus and Black Sea region, Turkey and Eurasian Union, and finally European Neighborhood Policy member country and EU membership candidate country. Most importantly, Armenian-Turkish border is the border of CIS and NATO and The Collective Security Treaty Organization, a security alliance that includes Armenia, Belarus, Kazakhstan Kirgizia, Russia and Tajikistan.

2. Turkey: As an aspiring regional mediator, Turkey is interested in stabilizing and reinforcing its influence in the volatile region. In order to speed up its accession to the European Union, the ruling AKP Party has sought a peace process with Cyprus, trying to end the conflict in the eastern Kurdish region and mending ties with Armenia by pursuing a

“Zero Problems with Neighbors” Policy³². By pursuing the normalization policy with Armenia, Turkey hopes to push the EU to play fair when it comes to Turkey’s EU membership plans. The EU demanded that border conflicts among its member states are eliminated, and many EU members have also pressed Turkey to recognize the 1915 massacres as Genocide. Also, should Turkey succeed in its Zero Problems with Neighbors Policy, Ankara's role as a broker and stabilizing influence would be boosted in a volatile region. Also, if we take into consideration the fact that Turkey did not decrease the number of the neighbors without problems, the QIZ could help him to develop relations with one of them³³.

Though, arguably, in its deal with Armenia, political considerations are primary for Turkey, there are also certain economic benefits that Turkey will most probably gain from an open border with Armenia, including a rise in the volume trade.

By establishing a QIZ with Armenia, Turkey will develop Eastern regions of the state, particularly the Kars region. Yet, opening up to Armenia might entail more economic risks for Turkey than benefits. Armenia’s total trade volume of \$4.7 billion is barely one tenth that of Azerbaijan, and its economy cannot make a significant impact on Turkey’s \$142 billion exports and \$205 billion imports³⁴. Yerevan markets are already saturated with Turkish goods from indirect trade through Georgia and Iran. Some in Turkey, therefore, have suggested that opening the border only makes sense within the context of a full regional south Caucasus development plan, including Russia and Iran³⁵. Still, the border opening would boost small businesses and develop the economy

³² Speech delivered by Consul General of the Republic of Turkey in Melbourne, Australia on the occasion of 86th Anniversary of the Republic of Turkey, Melbourne, 29 October 2009, <http://melburn.bk.mfa.gov.tr/ShowSpeech.aspx?ID=152>.

³³ **Torosyan T., Arshakyan G.**, Turkey’s Modern Foreign Policy: New Challenges and New Opportunities, *Armenian Journal of Political Science*, 02.2014, http://arjps.org/archive/articles/arm/02_2014/Torosyan-Arshakyan.pdf.

³⁴ Azerbaijan’s overall trade is \$39.8 billion, of which \$32.3 billion is exports. The trade figures are taken from the “World Factbook”, Central Intelligence Agency, and are from 2008.

³⁵ **Laçiner S.**, Türkiye-Ermenistan İlişkilerinde Sınır Kapısı Sorunu ve Ekonomik Boyutu (The Border Issue in Turkey-Armenia Relations and its Economic Dimension), *Ermenistan Araştırmaları*, no. 6, 2002.

of depopulated and sometimes isolated eastern border towns like Kars, Iğdır, Trabzon and Erzurum, where Turkish traders have long been unhappy about delays at Georgia's busy border and high transportation costs³⁶. In Kars, more than 100,000 signatures were collected from people supporting an open border with Armenia as a step toward opening the Caucasus at large³⁷. Communities in Kars and Iğdır particularly want to sell dairy products, fruits and poultry across the border³⁸. The fine, ancient Armenian churches, the ancient Armenian capital of Ani and other heritage sites just over the border in Turkey could boost tourism, attracting tours not just from Armenia but also from wealthy members of the Diaspora and other foreign tourists.

3. US as a Global Superpower: US ties with Turkey, a key American ally, have repeatedly come under strain because of the draft resolution in the US Congress lobbied by the American Armenians to name the World War I killings as Genocide. Retreating from his campaign promise, Barack Obama, in his April 24 address of 2009, avoided the juridical term “genocide” by using the Armenian term *Meds Yeghern* (Great Calamity). Obama, in spite of his campaign promise to recognize the Armenian Genocide, did not use the term within his two terms as a president and eight messages to the Armenians every April 24. So did President Trump during his first message to the Armenian people on April 24, 2017. Also, the US will clearly benefit from a more stabilized region and Armenia, freed from the status of Russia's pawn, and thus becoming a viable candidate to be part of an alternative energy route for the allies in Europe.

Arguably, for the United States the establishment of QIZs will have more of political and geo-political rather than economic benefits. Yet, economic presence of US in the South Caucasus region cannot be underestimated. The economic interests of Russia in the South Caucasus

³⁶ Transport adds 50 per cent to the cost of local products to Armenia, more than double the usual additional cost. In 1996, some 30 enterprises in the Trabzon Free Zone wrote to Turkey's foreign ministry to complain about “improper passage fees” collected by Georgia. **Gültekin B.**, Op. cit.

³⁷ “Doğukapısı açılın!”, campaign launched in 1996, kent haber.com.

³⁸ **Kalayıoğlu S.**, Exploring Complementarities between Turkey and Armenia for Regional Cooperation: Potentials and Challenges, *The Economic and Social Consequences of Opening the Armenian-Turkey Border*, AIRPG, Yerevan, 2007.

are so strong, that by establishing qualified industrial zones, US will gain an easy way of involvement in the region's economy with a potential success story. Both, in case of failure of the protocols, and in case of their ratification by parliaments of Armenia and Turkey, a QIZ initiative looked a viable option. By granting a QIZ status to cities of Gyumri in Armenia and Kars in Turkey, US could extend its regional influence and increase economic dependence of Armenia and Turkey. At the same time, high quality, moderately priced textile, apparel, organic agricultural products or even high tech may find a decent niche in the US market. The viability of the QIZ project is also reinforced by the advantage of bringing the Armenian and Turkish lobbies and Washington together to work towards a joint goal. By working together to pass the necessary legislation in US Congress, two groups bring added value to the project, which gains a strategic regional importance.

4. Russia as a Regional Superpower and Georgia as a Regional Transit Monopolist: Russia also stands to gain from the Turkey-Armenia deal by limiting the role of Georgia and its ally the US in the region. The war between Russia and Georgia in August 2008 made the opening of the Armenia-Turkey border look more attractive to both Moscow and Ankara for economy, political, and security reasons. Moreover, as Armenia became a member of the Eurasian Economic Union, it has the only land border with Turkey. Although formally, Georgian government has welcomed the Armenian-Turkish peace talks, the status of Georgia as a transport monopolist for Armenia will be undermined if the border is opened, and its importance as an energy bridge and focus of the attention of great powers could diminish, especially if Armenia-Azerbaijan relations improve.

As a major geopolitical deal, the Armenian-Turkish agreement involves a number of other stakeholders, whose interests, perceptions and positions are likely to affect both the behavior of the primary parties and the outcome of the negotiation process. The major stakeholders are:

Armenian Diaspora: Despite all economic and geopolitical limitations, Armenia's economy imbalance has been somewhat mitigated by its large Diaspora, widely dispersed throughout the world, which excelled in generating international support for Armenia in the development, funding and implementation of humanitarian aid programs,

as well as in mobilizing private transfers, remittances and foreign investment. In general, there has been a broad consensus that the Diaspora is one of the most fundamental resources for the economic, social and political development of Armenia³⁹.

For the Armenian Diaspora, it seems that the Armenians do not gain much by opening the borders, but lose a lot by opening a debate over the tragic events of 1915, which is an unforgivable betrayal. The Armenian National Committee of America, the largest and most influential Armenian American grassroots organization, voiced concerns that Armenia, blockaded by Turkey and under intense economic and diplomatic pressure, is being forced into accepting terms that threaten its interests, rights, safety, and future, referring to the proposed historical commission as “a tactic long pursued by Ankara to cast doubt on the historical record of the Armenian Genocide, intended to serve Turkey’s drive to roll back the growing tide of international recognition of this crime against humanity”.⁴⁰ According to the statement released by ANCA, the protocols undermine the right to freedom and self-determination of the Nagorno-Karabakh Republic; surrender the historical rights of the Armenian nation to a just resolution of the Armenian Genocide. For these, and other reasons noted in the ANCA’s point-by-point analysis of the Protocols, the ANCA opposed what it believes is a results of pressure applied upon Armenia to accept a set of “reckless and destructive concessions”.⁴¹

Republic of Azerbaijan: When, in 1993, Armenia took control of territories around the Nagorno-Karabakh enclave, Turkey closed the border with Armenia. In 1993, Turkey joined Azerbaijan in imposing a blockade on Armenia in the attempt to force Yerevan to abandon its military and political support of the Nagorno-Karabakh authorities.

³⁹ **Minoian V., Freinkman L.**, Diaspora’s Contribution to Armenia’s Economic Development: What Drives the First Movers and How their Efforts Could be Scaled Up?, *The World Bank*, <http://info.worldbank.org/etools/docs/library/152388/victoriaminoian.pdf>.

⁴⁰ ANCA Warns Capitol Hill about Dangers of Turkey-Armenia Protocols, Press Release, *Armenian National Committee of America*, http://www.anca.org/press-releases/press_releases.php?prid=1753.

⁴¹ Ibid.

Turkey later added two new preconditions before it would consider establishing diplomatic relations and raising the blockade: that Armenia accepted the 1921 treaty of Kars between Kemalist Turkey and Soviet Russia (which established the current state borders)⁴², and that Armenia ceased pursuing international recognition of the genocide. Turkish government has promised the Azeri government that the border will not be reopened until the conflict is resolved, and Armenian forces withdraw from the territories outside the enclave. However, in practice, Turkish negotiators have put the issue aside, viewing it as a parallel process handled through mediation by the Organization for Security and Cooperation in Europe (OSCE). Withdrawal of the Armenian troops is not mentioned as a condition in the protocols for establishing formal diplomatic relations and opening the border, which, according to the BBC South Caucasus analyst, Tom Esslemont, is a move that has left Azerbaijan feeling isolated⁴³.

Azerbaijan has many times warned Turkey that, should it improve relations with Yerevan before the Nagorno-Karabakh issue is resolved, Azerbaijan would look for alternative energy routes and increase the price of gas for Turkey, which it has been selling at one-third of market prices for many years. By choosing not to improve relations with Armenia, Turkey will enjoy all benefits of its fraternity with Azerbaijan, preserving the “one nation, two states” concept of relations.

Legal Framework for the Regional Cooperation

The first and the most important step towards establishing a QIZ is signing a Free Trade Agreement with US. The FTA can be signed between either both Armenia and Turkey and US, or between Armenia and US, or between Turkey and US. Alternatively, in addition to these combinations, Armenia and Turkey might consider cooperating with an FTA country that has experience in QIZ practices. In this case, the

⁴² Treaty of Kars (Treaty of Friendship between Turkey, the Socialist Soviet Republic of Armenia, the Azerbaijan Socialist Soviet Republic, and the Socialist Soviet Republic of Georgia).

⁴³ How Turks and Armenians See New Ties, *BBC News*, October 10, 2009, <http://news.bbc.co.uk/2/mobile/europe/8299996.stm>.

cooperation with US would extend to Armenia-Turkey-Israel, or Armenia-Turkey-Jordan, respectively.

An extremely important role can be played by the Armenian lobby, which has its influence upon the US policy in the region. Shortly after gaining independence from USSR, Armenia signed an agreement on trade relations with the US, according to which, Armenia received the status of a most favored nation and non-discriminatory treatment⁴⁴. In 2003 Armenia became a member of World Trade Organization.

With the proposal of establishing a qualified industrial zone between Armenia and Turkey on the agenda, obtaining an FTA with US seems a likely option for Armenia, especially in light of the recent shift in the balance of power in the Black Sea/South Caucasus Region.

After obtaining an FTA with US, Armenia can create QIZs in Gyumri and Kars. To do so, Armenian and Turkish governments will have to sign an agreement on implementing the QIZ project, covering the following important issues:

1. The opening of the mutual border between cities of Kars and Gyumri (distance between the cities are 41 miles).
2. Joint use of the existed Kars-Gyumri railroad, jointly reconstructed.
3. The content and the products to be produced in both qualified industrial zones.
4. The methods of the transportation of the products through the territories of both states.
5. The method of the transportation of the labor force.
6. The content of labors, citizenship, gender.
7. The content and the size of the investments.
8. The legal status of foreign labors in receiving state.
9. The opening of the offices of special trade representative.
10. Other issues concerning the cooperation.
11. Dispute settlement in US courts.
12. Control mechanisms over the process

⁴⁴ Treaty between the Republic of Armenia and the United States of America concerning the reciprocal encouragement and protection of investment, Article 2.9, <http://armeniaforeignministry.com/doc/conventions/92-16-americaninvestprotect-23-09-92-e.pdf>.

13. Possibility of using Armenian energy and labor force and Turkish investments.

An important element of developing a qualified industrial zone is having sound bureaucracy and tax regulations. The flow of both, national and international direct investments in newly established QIZ is the key to success and development of QIZs and economies of Armenia and Turkey. High tax rates are causing negative environment for potential investments that are looking for “low taxes in stable countries”. It goes without saying that tax exemptions can cause negative environment such as corruption, discrimination between companies and fraudulent activity among market players, especially in developing countries such as Armenia and Turkey.

The parties may agree on creating special tax exemption mechanisms within the territories QIZs, which will help to involve local and foreign investments. Granting special tax regimes to companies located only in QIZs will not cause negative effect on the entire business environment in both countries.

Parties may also agree on concrete mechanism, which will help them to involve more and more investments. For example, parties may agree that each of them shall grant all the national and international investments in QIZs tax free status within the first year of their activity, or if the investment is more than a certain amount of money (for example USD 50 million), or if the factory or a business has more than 3000 labors etc.

It is also important to grant a tax and custom free access of all products made in QIZs to the systems of transportation of both countries such as railways, airports, ports etc. In this regard, the mutual reconstruction and operation of Gyumri-Kars railroad can be crucial. All these possibilities are not contradicting the agreements signed by Armenia after entering into the Eurasian Economic Union.

Conclusion

Many things have changed dramatically in the world and the region, since the beginning of the football diplomacy, where Armenia played very active and constructive role in negotiation process with Turkey. The

situation changed in the Middle East and Arab countries, the civil war in Syria, the creation of the ISIS and the refuge crisis are the new challenges that the world, as well as Turkey and Armenia are facing. Armenia became a member of the Eurasian Economic Union, the Kurdish referendum took place in September 2017 and the Russia-Turkey as well as Turkey-US relations are in turbulence due to many unresolved issues and problems.

Though the protocols were pre-signed but never ratified by the national parliaments of both states, Armenian president Sargsyan, during his two speeches in the United Nations General Assembly sessions in 2015 and 2017, mentioned that Armenia will not keep the Protocols in its agenda until the end of April 2017.

Though it is generally recognized by the international community that the failure of the Armenian-Turkish Protocols are the fault of Turkey, which did not move forward after the pre-signing of the Protocols in Zurich, that very fact does not necessarily mean anything for Armenia, as it still doesn't have the borders opened and still suffers from the blockade imposed by Turkey. For that particular reason, the concept of the QIZ is a key opportunity for Armenia and the establishment of the QIZ is still the best option for neighbor states to normalize their relations, and to prove the world that normalization is possible even in the case of Armenia and Turkey.