

SESSION 4.

SECURITY SYSTEMS AND COMPETITION: REGIONAL POLITICS

THE TRANSCRIBED SPEECH OF *FERIDE INAN* AT THE CONFERENCE, SESSION 4

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Thank you very much.

Good afternoon ladies and gentlemen. First of all, I would like to begin my talk by thanking the organizers of this event for having me here, and for organizing this very fruitful discussion.

Today, I would like to talk about a project we have done as part of the EU funded “Armenia-Turkey Normalization Process” (ATNP) program, Round 2. Our research is related to the political economy of the region, the topic of this panel.

Let me first briefly to talk about the first round of ATNP where we looked at sectoral opportunities for economic cooperation between Armenia and Turkey. We chose the IT and tourism sectors that we had identified as promising areas for cooperation in a previous TEPAV study on product and sectoral complementarities between Armenia and Turkey, especially eastern Turkey.

In the IT sector we observed that both countries are emerging suppliers of IT services, we focused on raising awareness of this fact in both countries. The report for the IT sector cooperation was written in parallel with the entrepreneurship program of the ATNP Round 1 that TEPAV carried out with our Armenian partner, the Public Journalism Club. This program included an Exchange of Entrepreneurs Start-up Weekend event which helped to shift of perceptions of Turkish and Armenian industry specialists and entrepreneurs.

The second project in the first round of the ATNP looked at the creation of tourism clusters in eastern Turkey, emphasizing cooperation between Armenia and northeastern parts of Turkey.

After the first round of the ATNP project, where we looked at specific areas of IT and tourism, we took a step back to take stock on the changing dynamics of the larger region, including increasing presence of China, as well as factors such as sanctions being lifted from Iran. We aimed to see how these dynamics influence actors in a larger Eurasian region - in the South Caucasus, as well as in Central Asia. From this study, we can move to better understand, new areas for economic cooperation between Armenia and Turkey, as well as cooperation patterns of multiple actors in the region.

The focus of our study was economic corridor development on the Eurasian landmass focusing on connections through the South Caucasus. Early in the 90's, the EU initiated the TRACECA program with an aim to develop transport corridors from Europe crossing the Black Sea to the Caucasus over the Caspian into Central Asia and to China. More recently, corresponding to this EU initiative, are trans-Caspian corridor initiatives led by regional actors, including Turkey's Middle Corridor initiative, which have the potential of being integrated into China's One Belt One Road initiative, further reinforcing objectives of the One Belt One Road initiative. In this respect, Turkey and China signed a memorandum of understanding in 2015 during the G-20 summit in Turkey on aligning the OBOR Initiative with Turkey's Middle Corridor initiative.

The Middle Corridor initiative includes countries in Central Asia, such as Kazakhstan and Turkmenistan and Azerbaijan and Georgia in the South Caucasus. Although Armenia is so far not included in this initiative, it can benefit from spillovers of the regional development and trade in the South Caucasus. First, Armenia is one of the official One Belt One Road countries and it can benefit from Chinese foreign direct investment incumbent on the One Belt One Road initiative. Furthermore, it is to Armenia's advantage to have trade corridors concentrated in the Middle Corridor, where as it may be difficult for Armenia to access the northern

and southern alternatives that are being discussed in parallel. For instance, a future opening of Armenia's borders with Turkey and Azerbaijan would enable a more cost-effective alternative to the current and longer route over Georgia. There is already an old Soviet railway that passes from Turkey to Armenia and from Azerbaijan to Armenia – both have been closed for more than two decades because of the frozen conflict between Azerbaijan and Armenia.

There are different possibilities for economic corridor development emerging on the land route between Europe and China. So far, the northern routes have gained traction for the conduct of China-EU trade. There is a market to expand beyond these options as we observe through the large and increasing volumes of EU-China trade. Yet another alternative to northern routes is China's Central Asia-Eurasia corridor, which passes through Central Asia to Iran and Turkey and then to EU.

I want to briefly talk about the benefits of Eurasian corridors from a Chinese perspective. Here I want to underline that China is not simply interested in corridors from a transportation perspective, but is also keen on making investments along Eurasian corridors. The benefits from a Chinese perspective are as follows:

1. Faster transportation of Chinese goods to the EU, especially as China upgrades its products to high tech products, as well as given its rapidly growing e-commerce market;
2. Eurasian corridors reduce China's risk of maritime interdiction stemming from American dominance in key spots in the seas surrounding China;
3. China wants to facilitate economic development in its poor inland western regions, most notably in Xinjiang, which border Central Asian states, as well as Pakistan and Russia;
4. By unlocking investment potential along the Eurasian corridors and by creating new industrial bases, China can address its overcapacity problem.

According to one perspective (Bruno Macaes), China is attempting to reconfigure existing value chains by opening new industrial sites in One Belt One Road countries. Macaes argues that while existing value chains are dominated by multinational companies, in the context of the One Belt One Road it is projected to shift the control to the political level, to national governments and the agreements they enter with the Chinese government.

To sum up, China's concern with the One Belt One Road goes beyond exploiting transportation possibilities and lies in opening of spaces for industrial investments.

I also want to say a few words about Iran, another emerging actor in the region. Iran's economic role in the Eurasian continent was limited. However, following the lifting of sanctions, the country is likely to regain its strategic role in the region participating in both north-south and east-west trade connections. For instance, the first Silk Road train carrying cargo from Yiwu in China to Tehran was launched in 2016 suggesting a new chapter of cooperation between Iran and China in the post-sanctions era. The Iranians also pushed for the north-south railway option over Armenia to Georgia. However, Azerbaijan is also putting in substantial resources to redirect the north-south corridor in its own direction. The future of Iran's proposed link with Armenia is ambiguous as Iran has sped up work on Rasht-Astara line, linking the railway networks of Iran and Russia through Azerbaijan. Baku has made Iran a \$500 million loan for the completion of this railway. This line will enable Russian goods to reach the Persian Gulf and perhaps more importantly it will facilitate trade between Russia and India via the Indian Ocean from ports in India to Iran and to the north. I want to emphasize that India is also an important actor in the development of north-south trade. In fact, the North-South Transport Corridor (NSTC) initiative involving Russia, Iran and Azerbaijan, can be seen as part of an Indian plan crossing the continent in parallel to China's initiatives.

Another big actor with stakes in the region is the EU. The EU is developing its economic presence in Central Asia. It has presence especially in Kazakhstan. In the South Caucasus, Georgia has the EU

Association Agreement. Azerbaijan, which is closely linked to the EU through its energy exports, is in talks with the EU for signing an Association Agreement. Armenia will most likely sign the Comprehensive and Enhanced Partnership Agreement (CEPA) with the EU. Turkey, an EU accession country, has been in a Customs Union with the EU since 1995.

On the other hand, Russia remains a very influential economic actor following the Soviet presence both in Central Asia and in the South Caucasus. Even when we look at Georgia, with which it does not have good relations, we see that Russia is one of Georgia's top trade partners.

From the perspective of countries in the South Caucasus and Central Asia, the Middle Corridor is an opportunity to develop their industrial bases. For our project we made field trips to Armenia and Turkey, the main foci of our research, as well as to Kazakhstan, to Georgia and Azerbaijan to observe emerging dynamics. I want to conclude with few insights from our fieldwork.

In Turkey, we observed that the country is intensifying its trans-regional involvement to the east, most importantly looking at trade and investment partners, as well as to ensure energy security. Turkey is building a regional network of relationships not only with its neighbors in the South Caucasus and the Middle East, but also further to the east with Central Asian countries and with China. Domestically, Turkey is focusing on transport infrastructure projects towards the realization of the Middle Corridor.

Armenia is attempting to diversify its economic partners looking to sign the comprehensive agreement with the EU before the end of 2017. Previously, Armenia's EU Association Agreement did not come through; this one seems likely to be signed. At the same time, Armenia is looking to enhance its links through the north-south corridor involving Iran and Georgia, albeit with limited success. As I mentioned before, the southern railway option connecting the Persian Gulf to the Black Sea via Armenia seems to be put on hold. There is another north-south highway project, which is moving slowly. Last but not the least, Armenian policy makers

and managers of free economic zones interviewed for our project, showed a lot of enthusiasm to attract Chinese investments to the country.

Georgia, together with being a loyal western ally and having signed the Association Agreement with the EU, is looking to China as a key trade partner and an investor. The Association Agreement puts Georgia in a key position to become a transit hub for Eurasian trade with the EU, as well as a key destination for FDI. In relation to Georgia's position as a transit hub, its maritime connections on the Black Sea are gaining traction. Georgian policy makers are very keen on developing a new port, Anaklia on the Black Sea in addition to Georgia's Poti Port. With Anaklia, which harbors a special economic zone and industrial clusters, Georgia aspires to become a maritime hub for the region also competing with Turkish ports. Furthermore, Chinese presence in Georgia makes Georgia very unique in the South Caucasus, as the only country to sign a free trade agreement with China. This agreement will be effective by the end of 2017. For China, Georgia is its window to the Black Sea. At the same time, through Georgia, Chinese investors may hope to link with the EU. Lastly, Georgian policy makers express interest in establishing links with Iran on the north-south route from the Persian Gulf to the Black Sea over Armenia. However, as I pointed out, this connection appears to be diverted to Azerbaijan and away from Armenia and Georgia.

In Kazakhstan, we see an effort to diversify transport routes. Kazakhstan has made substantial investments to modernize its transport network in several directions. Kazakhstan sees emerging opportunities to institute itself as a key transit country especially under China's ambitious One Belt One Road initiative - Kazakhstan has the longest border with China. So far, the northern transport options for China -EU trade that cross Kazakhstan, include the Western European-Western China Highway, as well as the New Eurasian land bridge, a major rail transport route. However, Kazakhstan is not overlooking the Caspian option. An important part of Kazakhstan's infrastructure state program, "Nurly Zhol", is the modernization of the Aktau Port on the Caspian shore of Kazakhstan. Moreover, with its own funds, the Kazakh government constructed a

second port on the Caspian Sea, Kuryk. Speaking of the development of external networks, Kazakh policy makers emphasize the presence of Iran to give Kazakhstan access to the Persian Gulf.

Lastly, Azerbaijan, which has its economy largely dependent on oil exports to the EU, has traditionally pushed for the Trans-Caspian connection to increase trade between Central Asia and the EU over the Caucasus, positioning itself as an east –west hub. After sanctions being lifted from Iran, it has taken an active role in the development of north-south corridor led by India involving Iran and Russia.

I would like to end my talk with a bird's eye view. Of our three actors in the context of the EU ATNP Round 2 project (Armenia, Turkey, and the EU); both Turkey and Armenia are trying to be included in trade and investment zones that are underway in the South Caucasus into Europe linking to China in the east. The EU, on the other hand, is focusing on cultivating relations in the South Caucasus to connect to Central Asia and to China and is hoping to bypass its present reliance on Russia.

Thank you very much.