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# The Political Economy of Turkish-Russian Relations: Dynamics of Asymmetric Interdependence<sup>1</sup>

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## Abstract

*In examining Turkish-Russian economic relations, this paper puts forward three arguments. First, the relationship is characterized by an asymmetric interdependence that favors Russia over Turkey. The source of the asymmetry lies in the divergent domestic economic structures of the two countries. Moreover, the developments in the aftermath of the jet crisis of 2015 demonstrated Turkey's vulnerability to Russian economic sanctions. To support this argument, I use trade and foreign direct investment data to analyze the evolution of Turkish-Russian economic ties over the past decade. Second, international developments such as the global financial crisis and the West's sanctions against Russia have significantly diminished the capacity of Turkish-Russian economic cooperation. Third, Turkish-Russian economic interdependence cannot soon transform*

*into complex interdependence that characterizes bilateral ties in the advanced capitalist world. Despite the growing role of business groups and humanitarian ties, politics will continue to shape the prospects of Turkish-Russian economic cooperation in the foreseeable future..*

## Key Words

Turkish-Russian Relations, Economic Cooperation, Asymmetric Interdependence, Economic Interdependence, Turkey, Russia.

## Introduction

Economic cooperation has characterized Turkish-Russian relations in the post-Cold War era. Considering the history of conflict and lack of trust between the two countries prior to and during the Cold War, the improvement in bilateral trade and investments in the post-Cold War period, as well as the increase in humanitarian connections,

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have important ramifications not only for bilateral ties, but also for the transformation of the larger region of which the two countries are a part. Recently, the literature has increasingly focused on various aspects of Turkish-Russian relations. However, little has been done to offer a political economy perspective, analyzing the dynamics of economic cooperation between the two countries.<sup>2</sup>

In exploring the evolution of economic relations between Turkey and Russia, this article puts forward three arguments. First, Turkish-Russian economic relations are marked by an 'asymmetric interdependence'<sup>3</sup> which favors Russia over Turkey. The most recent crisis period in Turkish-Russian relations (November 2015-June 2016) demonstrated that Russia holds the upper hand in economic relations for various reasons, the most important being the structural difference of the two countries' economies. While natural resources dominate Turkey's imports from Russia, Russia in return imports mostly machinery and equipment, textiles and food products from Turkey. As I will explore, that inevitably gives Russia a structural advantage that can be used as leverage in times of political crises and disagreements over strategic issues. Similarly, while Turkey's investments in Russia are more diversified, Russian investments in Turkey converge around strategic

sectors, a positioning that offers Russia leverage to be more influential over Turkey.

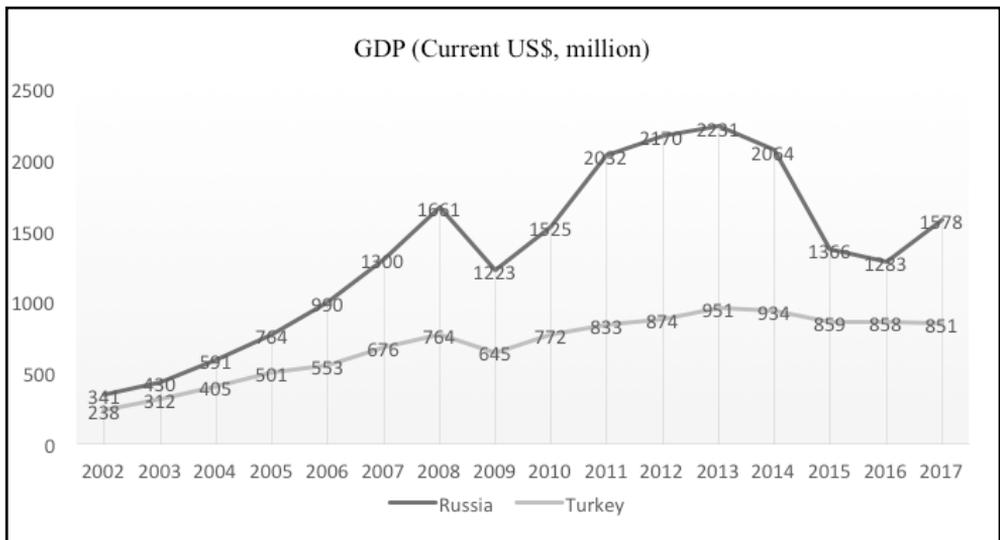
Secondly, Turkish-Russian economic cooperation is heavily influenced by global economic developments. In particular, the article will demonstrate the negative effects of two important developments for bilateral economic ties: the global financial crisis of 2008-2009 and the sanctions imposed by the United States (U.S.) and the European Union (EU) on the Russian economy after 2014. Finally, the paper argues that Turkish-Russian relations cannot evolve into complex interdependence that resembles economic relations between advanced capitalist states in the age of globalization in the foreseeable future. The main reason is again related to the difference between the two countries' economic structures. As the post-jet crisis period has demonstrated, the Russian economy is still state-centric, which prevents the flourishing of cooperation among non-governmental actors between the two countries without intervention by the state. This reality also highlights the importance of political will and leadership to intensify trade, investment and humanitarian ties between the two countries, which will continue to be influential neighbors and actors in various regions in the future.

## Asymmetric Interdependence in Turkish-Russian Economic Relations

During the age of globalization, economic interdependence has characterized relations between many countries in various regions of the

world. This has also been the case for Turkey and Russia, whose national interests have frequently diverged, especially regarding conflicts in the Black Sea region, the Caucasus and the Middle East. Russia and Turkey have both been regarded as emerging market economies despite the differences in their economic structures, populations and key sectors.

**Figure 1: Russian and Turkish GDP**



**Source:** World Bank Data, available at <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2016&start=2002> (last visited 16 August 2018).

Different from a situation of dependence, interdependence rests on a reciprocity of economic transactions between two countries. Therefore, in a situation of economic interdependence between two countries, a break-up of

bilateral relations is costly for both sides.<sup>4</sup> Moreover, interdependence does not result in gaining equal shares from the bilateral economic relationship. On the contrary, the costs associated with a crisis in bilateral relations are in general

higher for the weaker party. Therefore, any asymmetry in the economic relationship between two states provides a “source of influence” for the stronger party.<sup>5</sup> The developments in the aftermath of Turkey’s downing of the Russian jet demonstrated that a crisis is costly for both sides, but costlier for Turkey.<sup>6</sup> In November 2015, the Russian government announced a decree with a package of economic restrictions on Turkey. Russia’s economic sanctions against Turkey included the abolishment of the visa-free regime which had been in effect since 2011, restrictions on Turkish investments and labor in Russia, restrictions on Turkish goods exported to the Russian market, and the abolishment of charter flights to Turkey.

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Keohane and Nye measure the power asymmetries in economic interdependence in two dimensions. The first dimension, ‘sensitivity,’ asks, “how quickly do changes in one country bring costly changes in another, and

how great are the costly effects?”<sup>7</sup> The second dimension, ‘vulnerability,’ explores the alternative economic policy options that parties enjoy; the bigger the number of alternatives, the smaller the costs associated with economic interdependence.<sup>8</sup> Russia’s economic sanctions demonstrated that Turkey was highly sensitive to a change in Russian policy. Also, Turkey was more vulnerable to a change in the rules of the economic exchange with Russia. Three reasons exacerbated Turkey’s vulnerability to Russian sanctions. Firstly, it was harder for Turkish exporters to find an alternative market that could replace Russia. As I demonstrate below, Turkey’s exports to Russia fell from US\$ 5.9 billion in 2014 to US\$ 3.6 billion in 2015, and to US\$ 1.7 billion in 2016, and recovered to US\$ 2.7 billion in 2017. Secondly, it was very difficult to substitute Russian tourists, the number of which had risen to 4 million in 2014, constituting 12% of total tourist arrivals to Turkey in the same year. Russian tourists spent an estimated US\$ 3 billion in Turkey in 2014.<sup>9</sup> Only seven hundred thousand Russian tourists visited Turkey in 2016, despite the gradual normalization of relations that had started in the summer of 2016. Finally, it was almost impossible to do without natural gas imports from Russia and immediately find alternative sources of energy. Russia supplied almost 55% of Turkey’s

natural gas imports, and almost half of Turkey's electricity consumption was produced by natural gas.<sup>10</sup> We need a closer examination of bilateral trade and foreign direct investment (FDI) ties between the two countries to understand why the Turkish economy was so vulnerable to Russian sanctions. This is what the paper will turn to now.<sup>11</sup>

### *Bilateral Trade Ties*

The most important source of the asymmetry in bilateral trade between Russia and Turkey is the difference in economic structures, which results in different comparative advantages. Bilateral trade has expanded significantly in the post-Cold War era, making Russia Turkey's top trade partner in 2008 (See Figure 2). As a resource-rich country, Russia enjoys a comparative advantage in energy production and exports. In 2016, almost 70% of Russian exports were made up of petroleum, crude oil and natural gas. Conversely, Turkey is dependent on imported energy in meeting its domestic consumption and power production needs. According to Çelikpala, Turkey's energy ties with Russia should be examined from a perspective of energy security in which Turkey should seek to mitigate its dependence on natural gas imported from Russia.<sup>12</sup> In 2015, Turkey

produced 0.38 billion cubic meters of natural gas, while importing 26.78 bcm of natural gas from Russia. In the same year, Turkey's total imports of natural gas stood at 48.43 bcm.<sup>13</sup>

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Russia's place in Turkey's energy imports have grown gradually since the treaty signed in 1984 between Turkey and the Soviet Union. In the post-Cold War era, the Blue Stream pipeline running through the Black Sea has solidified the importance of Russia for Turkey's energy imports. The Blue Stream, which has been in operation since December 2002, has been criticized for increasing Turkey's energy dependence on Russia and preventing Turkey from focusing on the East-West corridor, which was supported by the U.S. and the EU in that period. However, Turkey saw the rival pipeline projects as a means of increasing its geopolitical leverage.<sup>14</sup> Nonetheless, Turkey's increasing domestic energy consumption has resulted in a parallel increase in the importance of Russian gas for Turkey. As reported by Likhachev, Turkey's

energy use increased from 45 million tons of oil equivalent in 2005 to 131 million tons in 2015.<sup>15</sup>

From 2002 onwards, the European Union promoted the Nabucco pipeline project, which was planned to bring natural gas from Azerbaijan and Turkmenistan to Europe through Turkey.<sup>16</sup> As an alternative to the Nabucco project, Russia developed the South Stream pipeline project in 2007 with an aim to deliver natural gas from the Russian port of Novorossiysk to Bulgaria. The project therefore sought to contribute both to Europe's energy security and Russia's goal of bypassing Ukraine.<sup>17</sup> Pronouncing the South Stream dead in December 2014 during his visit to Ankara, Russian President Vladimir Putin touted a new project that would deliver Russian natural gas to European markets via Turkey, namely Turkish Stream. The Turkish Stream, or 'TurkStream' project should be understood in relation to Russia's geopolitical target of ending Ukraine's transit country status. While this remains a long-standing goal, it has intensified since 2014. Moscow's deadline is 2019, when the current Russia-Ukraine gas transit contract is set to expire. This explains Russia's desire to increase the amount of gas delivered to Europe through Nord Stream and to build the Turkish Stream, a new pipeline through the Black Sea to Turkey.<sup>18</sup>

During the World Energy Congress that was held in Istanbul in October 2016, Russia and Turkey signed an intergovernmental agreement for the project. The agreement pledges the two countries to the construction of two pipelines, each with a capacity of 15.75 bcm of gas. While one branch will supply gas to the Turkish market, the other will deliver gas to the European market through Turkish territory.<sup>19</sup> Turkish Stream, once completed, is expected to divert the 14bcm natural gas that is imported annually via the Ukraine-Moldova-Romania-Bulgaria route.<sup>20</sup> In November 2017, the Turkish Stream pipeline entered the Turkish exclusive economic zone, and as of December 2017, 30% of the offshore section of the Turkish Stream pipeline was completed. The future of the Turkish Stream project depends significantly on the political ties between Russia and Turkey. But even more importantly, the EU's stance on Russian plans to bypass Ukraine in exporting natural gas to Europe will shape the prospects of the project. So far, the EU has not demonstrated signs of willingness to import Russian gas through the Turkish Stream. Therefore, it is not clear yet whether the second pipeline that will deliver Russian gas to Europe will be constructed.<sup>21</sup>

While Turkey is the more vulnerable player in the asymmetric interdependence game, it nevertheless

continues to be an important energy partner for Russia. Several reasons help explain Turkey's importance for Russian natural gas exports. First of all, Turkey is a reliable trade partner for Russia. Despite several ongoing gas pricing problems between the two countries, Turkey has remained a reliable source of revenue for the Russian economy. As of 2017, with its consumption of 29.03 bcm of natural gas, Turkey is Gazprom's second biggest customer after Germany, which bought 53.44 bcm of natural gas from Russia in the same year.<sup>22</sup> Russia's annual revenue from its energy exports to Turkey amounts to US\$ 15 billion, which is higher than Russia's annual arms sales.<sup>23</sup> Secondly, the fact that Russia devised the Turkish Stream upon the cancellation of the South Stream demonstrates Turkey's ongoing geopolitical importance for Russia. Moscow's desire to bypass Ukraine and thereby reduce its reliance on Ukrainian territory to export natural gas to Europe has enhanced Turkey's position in the energy relationship. Currently, more than 40% of Russian gas exported to Europe (and Turkey) goes through the Ukrainian Gas Transmission System.<sup>24</sup> The Nord Stream-2 and Turkish Stream pipelines, therefore, serve a common purpose for Russia: they will allow Gazprom to continue to sell natural gas to Europe while isolating Ukraine economically.<sup>25</sup> Moreover, Russia's oil and petroleum exports to

global markets are shipped through the Turkish straits, adding to Turkey's geopolitical importance for Russia; around 150 million tons of Russian crude oil pass through the Bosphorus and the Dardanelles every year.<sup>26</sup>

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Conversely, Turkey mainly exports automobiles, machinery and equipment, textiles and food products to the Russian market. While the Turkish media has primarily paid attention to the Russian ban on Turkish tomatoes, the sectors that were most severely damaged by the Russian sanctions following the jet crisis are the automobile industry, and machinery and equipment. According to data from the Turkish Ministry of Economy, the value of Turkey's automotive exports to Russia fell from US\$ 289 million in 2014 to US\$ 44.6 million in 2016. Similarly, the value of machinery and equipment exports fell from US\$ 221 million in 2014 to US\$ 108 million in 2016. With an export value of US\$ 270 million, citrus fruits replaced automobiles as Turkey's top

export item to the Russian market in 2016 following the jet crisis. Citrus

fruits were followed by machinery and equipment, automobiles and fish.

**Figure 2: Russia's Place in Turkey's Foreign Trade, 2006-2017**



**Source:** Author's calculations based on data from the Turkish Statistical Institute and the Turkish Ministry of Economy; at <http://www.tuik.gov.tr/UstMenu.do?metod=temelist>, <https://www.ekonomi.gov.tr/portal/faces/home> (last visited 16 August 2018).

In the past decade (2007-2016), with a share of 11.2%, Russia has been Turkey's top import partner. Russia has been followed by Germany and China with 9.7% each. Conversely, Turkey's exports to Russia in the same period accounted for only 3.7% of Turkey's total exports, placing Russia in the 7<sup>th</sup> position after Germany, the UK, Iraq,

Italy, France and the U.S. In the same period, imports from Turkey accounted for 3.2% of Russia's total imports, while its exports to Turkey accounted for 8.8% of Russia's total exports.<sup>27</sup> All in all, this discrepancy demonstrates the asymmetric interdependence in bilateral trade, which favors Russia.

## *Bilateral Investment Ties*

Another important dimension of the economic interdependence between Russia and Turkey is investments. While the literature has paid considerable attention to trade and energy ties between the two countries, bilateral investment ties have been rather unexplored, despite the fact that foreign direct investment (FDI) and international production have become highly significant components of national economic power in the age of globalization.<sup>28</sup> In the past decade, Russian firms have increased their presence in the Turkish economy, which has closed the direct investment gap between the two countries in favor of Russia. That is primarily because Russian investments in Turkey concentrate on sectors such as energy, metallurgy, banking and the automotive industry, which are of higher strategic importance and added value compared to Turkish investments in Russia. Turkish investments in Russia concentrate on the construction sector, which is of socio-economic importance for Russia, as well as low to medium technology sectors such as alcoholic beverages, chemicals and glass production.

In the new millennium, Turkish outward FDI has increased significantly. As demonstrated by Bakır, from 2000 to 2013, Turkish outward FDI stock

went up from US\$ 3.6 billion to US\$ 32.7 billion, while FDI outflows similarly increased from US\$ 870 million to US\$ 3.1 billion.<sup>29</sup> According to OECD data, Russia's outward FDI stocks increased from US\$ 139 billion in 2005 to US\$ 335 billion in 2016.<sup>30</sup> Its outward FDI flows, on the other hand, went up from US\$ 16.7 billion in 2005 to a historic high of US\$ 70 billion in 2013, to decrease to US\$ 26.9 billion in 2016.<sup>31</sup> In this context, it is meaningful to examine Turkish-Russian investment ties since the turn of the new century. Unlike bilateral trade, Russia and Turkey have a rather balanced record of bilateral FDI stocks. The Russian market has been an important destination for outgoing Turkish investments in the post-Cold War era. As stated recently by Russian Minister of Energy Alexander Novak at the Izmir International Fair, Russian investments in Turkey have amounted to US\$ 10 billion, which is almost equal to Turkish investments in Russia.<sup>32</sup> Turkish firms are more experienced in the Russian market as Turkish construction companies have been key players in the Russian

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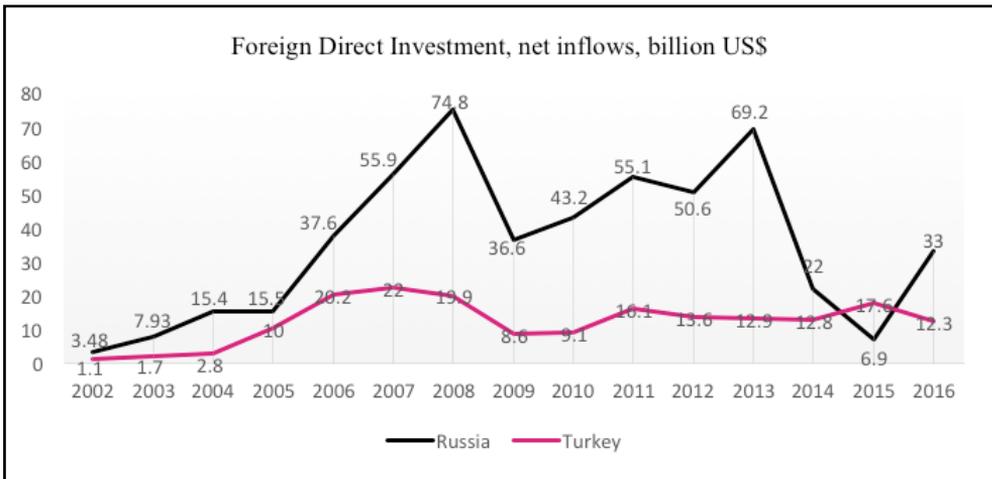
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construction sector since the early years of the post-communist period. In fact, Turkish contractors started to develop projects during the late 1980s thanks to

the 1984 intergovernmental agreement permitting Turkish investments in the Soviet Union in return for natural gas imports.<sup>33</sup>

**Figure 3: FDI Net Inflows, Russia and Turkey**



**Source:** World Bank, available at: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2016&locations=RU-TR&start=2002&view=chart> (last visited 26 November 2017).

Currently, the leading Turkish firms investing in the Russian market include Anadolu Efes (alcoholic beverages), Enka (construction), Renaissance (construction), Şişecam (glass), Trakya Cam (glass), Eczacıbaşı (tiles and ceramic ware), Hayat (fast-moving consumer goods and wood products), Koç (household appliances and banking) and Zorlu (household appliances and energy). While hundreds

of smaller Turkish companies are also active in the Russian market, these big Turkish firms account for the majority of Turkish FDI in Russia. According to Bakır's calculations, from 2003 to 2013, Turkish firms operating in Russia made 105 greenfield investments with a total net investment amount of more than US\$ 9 billion.<sup>34</sup> Moreover, with investments worth US\$ 2.6 billion, Russia was also the first market in

terms of Turkish investors' mergers and acquisitions in the same period.<sup>35</sup> The Turkish Ministry of Economy estimates that projects conducted in Russia account for around 20% percent of Turkish contracting businesses abroad. Beko and Vestel, similarly, accounted for 10% of the durable goods sector in Russia.<sup>36</sup> Anadolu Efes, which has been operating in the Russian market since 1997, was the second biggest player in the beer market with a 14.9% value share in 2016.<sup>37</sup> The head of Anadolu Holding's executive board, Tuncay Özilhan, also chairs the Turkish-Russian Business Council within Turkey's Foreign Economic Relations Board (DEİK). Şişecam, which is Europe's biggest and the world's 4<sup>th</sup> largest glass producer, currently has eight factories operating in Russia. In October 2016, Şişecam opened a flat glass and an automotive glass factory in Alabuga, Tatarstan. The company's investments in the Russian market have exceeded US\$ 1.1 billion.<sup>38</sup>

While the value of Russian FDI in Turkey was quite minimal for the first two decades of the post-Cold War period, it started to rise significantly in 2011 (See Figure 4). That was mainly thanks to the world's biggest steel producer, Russia's Magnitogorsk Iron and Steel Works (MMK Metal), which opened a plant in Turkey in the southern town of İskenderun in 2011. MMK Metal is currently Turkey's largest

industrial enterprise, which began as a greenfield foreign direct investment project. MMK Metal also currently operates Turkey's biggest privately-owned port in Dörtöyol, Hatay.<sup>39</sup> The company has another plant in Gebze. In 2012, Russia's state-owned Sberbank bought Deniz Bank for US\$ 3.6 billion from Belgian Dexia, a deal that became Russia's biggest overseas acquisition.<sup>40</sup> In the past decade, Russia's second biggest oil company Lukoil has also strengthened its presence in the Turkish market. After buying Akpet in 2008, Lukoil has rapidly expanded to become one of the biggest distributors in Turkey. So far, Lukoil's investment in Turkey has exceeded \$1 billion. Russia's largest commercial motor vehicles producer, GAZ Group has been producing its "Gazelle Next" brand in Sakarya since 2014.

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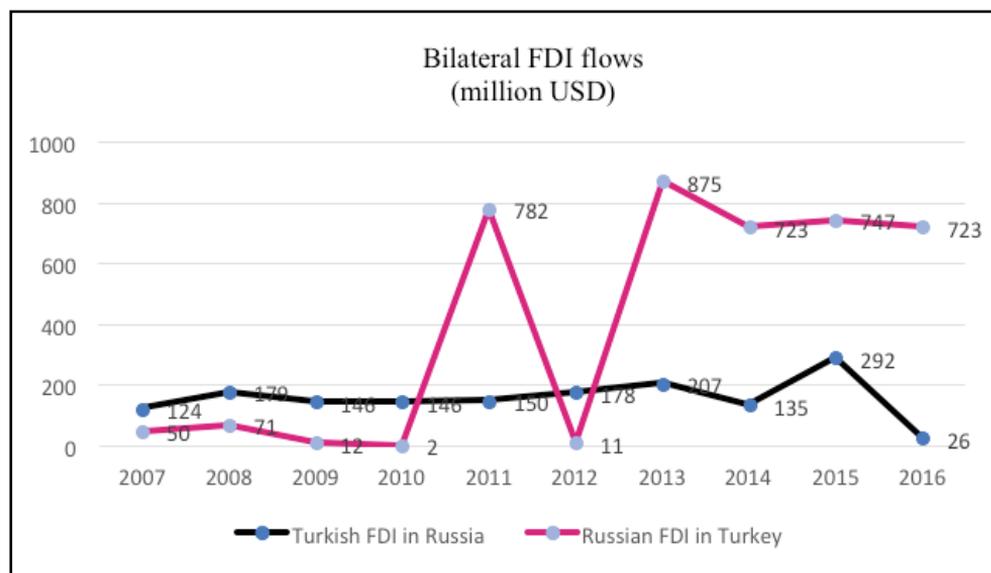
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Nuclear energy has been the most strategic area in which the Russian and Turkish governments have agreed to cooperate so far. When completed,

the Akkuyu nuclear power plant will increase the value of Russian FDI in Turkey substantially. It is estimated that the Akkuyu project will cost US\$ 20 billion. This means that the Akkuyu nuclear power plant will exacerbate the asymmetric interdependence in terms

of bilateral investment ties at Turkey's expense. It will be impossible for Turkish investments in Russia to catch up with Russian investments in Turkey after the Akkuyu nuclear power plant starts operating.

**Figure 4: Bilateral FDI Flows**



**Source:** Author's calculations based on data from the Central Bank of Russia, Central Bank of Turkey and UNCTAD.

Similar to bilateral trade, bilateral investment ties also favor Russia. In the past decade (2007-2016), FDI originating from Russia has accounted for 2.8% of the total FDI inflow to the Turkish economy. Conversely, FDI originating from Turkey has accounted

for only 0.3 % of the total FDI in the Russian economy.<sup>41</sup> This demonstrates that the two countries have a long way to go in terms of solidifying their investment ties. In March 2017, during President Erdoğan's visit to Russia, the Russian Direct Investment Fund

(RDIF) and the newly-established Türkiye Wealth Fund (TWF) signed a memorandum “to work together to identify attractive investment projects that could strengthen bilateral economic ties and increase investment flows between Russia and Turkey.”<sup>42</sup> Each country’s sovereign wealth funds are expected to invest up to US\$ 500 million in the joint investment fund. This is an important project that can potentially boost mutual investments in the future if used wisely. However, the most important criteria for increasing FDI ties will be the health of the Russian and Turkish economies, the confidence of investors in each economy, and the prospects for deeper political cooperation between the two governments.

## The Importance of the International Context for Turkish-Russian Economic Ties

As Erşen has recently argued, it is quite difficult to examine Turkey’s political relations with Russia in isolation from international developments and both countries’ ties with the West.<sup>43</sup> This section aims to demonstrate that one can make the same argument with regard to Turkish-Russian economic relations. I show that Turkey’s trade capacity with Russia has been negatively

affected by the global financial crisis, the Eurozone crisis and the West’s sanctions on the Russian economy. A close scrutiny of bilateral trade reveals the causes behind the fluctuations in economic ties. In the past decade, bilateral trade has experienced two major shocks. Firstly, in 2009, Turkey’s trade with Russia fell by 50.8% to US\$ 22.7 billion compared to the previous year.<sup>44</sup> That was because of the credit crunch and pervasive recession due to the global financial crisis that erupted in the U.S. housing market and spread rapidly to the rest of the world.<sup>45</sup> It is important to recall that the year 2008 witnessed Russia’s rise to a new status as Turkey’s top trading partner, surpassing Germany as total bilateral trade hit US\$ 37.8 billion. The Russian economy experienced negative growth in 2009, as GDP contracted by 7.8%; the Turkish economy also experienced negative growth in the same year, contracting by 4.7%.<sup>46</sup> As Figure 3 demonstrates, both countries experienced a sharp downturn in net FDI inflows in 2009, one year after the great recession. In both countries, incoming FDI flows fell by more than 50% from 2008 to 2009; from US\$ 74.8 billion in 2008 to US\$ 36.6 in Russia, and from US\$ 19.9 billion to US\$ 8.6 billion in Turkey. In both countries, the amount of incoming FDI has still not returned to 2008 levels. It is important to note that this trend in FDI has had

more detrimental consequences for Turkey, which structurally runs current account deficits.

The second critical juncture was experienced in 2015 as Turkey's exports to Russia fell by 39.6% compared to the previous year. This time however, the downturn was caused not only by the jet crisis, but by the sanctions imposed by the U.S. and the EU on the Russian economy. Since April 2014, the West has expanded its sanctions on the Russian financial system, targeting Russia's banks and business community. While Ankara has officially condemned Russia's annexation of Crimea, it has not joined the sanctions imposed by the U.S. and EU on the Russian economy. Turkish decision makers and the business community initially expected that the sanctions would make Turkey an inevitable partner for Russia. For example, Mehmet Büyükekçi, the head of the Turkish Assembly of Exporters argued that Turkey could boost its exports in the fruit, egg and poultry sectors.<sup>47</sup> Initial hopes were soon replaced by pessimism, however, as Turkey's exports to Russia fell by 14% in 2014 compared to 2013 (from US\$ 6.9 billion to US\$ 5.9 billion). The immediate impact of the Western sanctions on the Russian economy was the main cause of this downturn. As the Russian economy started to experience negative growth, it became harder for Turkish exporters

to expand their markets in Russia. Moreover, the sanctions resulted in a rapid depreciation of the Russian ruble vis-à-vis the U.S. dollar. Low oil prices in global energy markets, coupled with Western sanctions on the Russian economy, pushed the ruble to a record low of 86 rubles to one U.S. dollar in January 2016.<sup>48</sup>

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The depreciation of the ruble indirectly meant that the ongoing economic sanctions on the Russian economy would hurt Turkish exports to the Russian market. Also, the Russian government wanted to turn the Western economic sanctions into an advantage for the Russian economy. Soon after the first wave of sanctions, the Russian government announced a program of import substitution with the goal of enhancing Russia's economic sovereignty.<sup>49</sup> The depreciation of the ruble was also regarded an opportunity to boost domestic businesses. Most importantly, the program aimed to reduce imported

food and invest in the agricultural sector to contribute to Russia's food security. The Russian government imposed retaliatory sanctions on food imported from the European Union, and increased subsidies for domestic producers. Overall, the program has been successful. As reported by the *Financial Times*, agricultural products have surpassed arms sales to become Russia's second biggest export sector after raw materials.<sup>50</sup> The jet crisis between Turkey and Russia solidified the Russian government's commitment to decreasing Russia's dependence on imported food products. That is why it has proven so difficult for Ankara to convince Moscow to lift its ban on Turkish fruits and vegetables.

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All in all, bilateral trade volumes have not yet returned to the 2008 level. This marks an important lesson for the Turkish economy; if one of Turkey's major partners is going through an economic downturn, that immediately affects its ability to trade with that country. More importantly, because

the Turkish economy enjoys a very high level of integration into the global economy, it does not benefit from political chaos in its neighborhood. On the contrary, the ongoing sanctions crisis demonstrates that Turkey's export capacity is highly contingent on its partners' economic well-being.

## **Towards Complex Interdependence in Russian-Turkish Economic Relations?**

This section will discuss whether Turkish-Russian asymmetric interdependence can soon transform into complex interdependence, resembling for example, the relations between the U.S. and Canada, or France and Germany. In Keohane and Nye's framework, complex interdependence between two countries is measured by three main characteristics: multiple channels between societies, the absence of hierarchy among issues, and the disappearance of military force in bilateral intergovernmental relations.<sup>51</sup> First, for asymmetric interdependence to evolve into a more complex form, societies need to be strongly connected to each other without intervention from governments. Societal ties include, but are not limited to, humanitarian connections and cooperation among non-governmental organizations (NGOs). While Turkish and Russian

societies know each other much better than they did three decades ago, the jet crisis clearly demonstrated the limits of trust between the two societies. The rapid and substantial decrease in the number of Russian tourists visiting Turkey in the aftermath of the downing of the Russian jet also reveals the delicate nature of inter-societal ties. According to Keohane and Nye, the second condition for complex interdependence is the absence of hierarchy among issues that connect the two countries. That, first and foremost, includes the fading dominance of military security in bilateral relations. The end of the Cold War has without doubt reduced the importance of military/strategic issues in the agenda of Russian and Turkish decision makers vis-à-vis each other. Nevertheless, as demonstrated recently by the disagreement over Crimea and the jet crisis, the two countries continue to have diverging strategic interests in the Black Sea region and the Middle East. Moreover, even if military issues are not on the agenda, bilateral ties can become entrapped in a rather narrow focus on energy security. Third, the threat of use of military force toward one another should be eliminated for two countries to enjoy complex interdependence. Although highly unlikely to be repeated, the jet crisis did reveal the possibility of a military conflict between Turkey and Russia.

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Several factors in Turkish-Russian relations reinforce the status quo, and, with it, the absence of complex interdependence between the two countries. Most importantly, Turkey and Russia lack international regimes that bind them together. The Black Sea Economic Cooperation Organization (BSEC) has served an important function since its establishment in 1992, but today it can best be referred to as a loose form of regionalism that does not foresee any deep form of economic integration among its members.<sup>52</sup> Moreover, the ongoing crisis over Ukraine puts the prospects of the BSEC under doubt. Even though both Russia and Turkey are members of the World Trade Organization (WTO), they continue to be members of different regional integration mechanisms. Russia has pursued deeper economic integration with the post-Soviet states through the Eurasian Economic Union (EAEU), while Turkey is a party to the

European Union's Customs Union. It would be unrealistic and economically irrational to expect Turkey to join the EAEU in the foreseeable future.

The activities and influence of non-governmental actors such as business groups in policy-making is also important in examining the dynamics of economic interdependence between the two countries.<sup>53</sup> Traditionally, the semi-official Foreign Economic Relations Board (DEİK) is influential in Turkey's foreign economic strategy. As mentioned above, Tuncay Özilhan, head of the executive board of Anadolu Holding, chairs the Turkish-Russian Business Council within DEİK. The Russian-Turkish Business Council is headed by Akhmet Palankoev, who is a member of Russia's Federation Council. A businessperson, Cavit Çağlar, played a crucial role in solving the jet crisis in June 2016. Yet despite the growth of trade and investment ties among business groups since the early 1990s, the jet crisis demonstrated the ongoing dominance of the Russian state in guiding Russia's foreign economic relations. The radical decline in Russian tourists arriving in Turkey in 2016 is a clear indicator of the power of the Russian state to influence humanitarian ties as well. Finally, Russia's turn to import-substitution in response to the West's sanctions, coupled with Russia's state-led economic system, will continue to impede deeper forms

of economic cooperation between the two countries.

## Conclusion

Turkish officials have often touted the official target of Turkish-Russian bilateral trade as US\$ 100 billion. Albeit exciting, this number is unrealistic to achieve due to the asymmetric interdependence in bilateral ties that this paper has aimed to explain. Also, for Turkey to increase its exports to the Russian market, the two countries need deeper forms of economic integration, which do not seem likely to emerge any time soon. More importantly, a significant enhancement of wealth among both Turkish and Russian societies is required for economic ties to flourish. Finally, various regional and international developments with a security dimension interfere with the economic interdependence between the countries. While Turkey and Russia have been cooperating toward a peaceful solution to the Syrian crisis, for example, they continue to have divergent preferred outcomes regarding the future of Bashar al-Assad and the PYD.

As rightly observed by Öniş and Yılmaz, partnerships with asymmetric interdependence restrict the bargaining leverage of the weaker side.<sup>54</sup> In the case of Russian-Turkish relations, the

intensification of economic ties has clearly strengthened Russia at the expense of Turkey. As explored above, the sanctions imposed by Russia in the aftermath of the jet crisis have highlighted the asymmetric nature of the countries' economic cooperation. However, Russia needs Turkey as a reliable energy partner at a time of deteriorating ties with the West and Ukraine. That is one reason why the jet crisis was resolved within a time span of seven months, despite the initial anger and shock experienced by both governments.

How can Turkey and Russia revitalize their economic ties and assure that economic relations will not be negatively affected by disagreements over strategic issues? One easy proposal might be to 'bring compartmentalization back' to Russian-Turkish relations. However, as Erşen has recently argued, the sharp disagreements around Crimea and Syria have demonstrated that the strategy of compartmentalization, characteristic of Turkish-Russian relations in the 2000s, is no longer sustainable.<sup>55</sup>

Both countries' international economic activity depends to a significant extent on international political and economic developments. The ups and downs in Turkish-Russian relations demonstrate the primacy of politics for sustained economic interdependence in the future. As politics will continue to dominate

the economic agenda, bilateral political ties through mechanisms such as the High Level Cooperation Council should be enhanced. In addition, despite the difficulties posed by both active and frozen conflicts in the region, the two countries could once again strive to revitalize BSEC as a platform for joint investments and trade in the region.

The jet crisis provides lessons for Turkey's

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The ups and downs in Turkish-Russian relations demonstrate the primacy of politics for sustained economic interdependence in the future.

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foreign economic strategy. In its current form, economic interdependence favors Russia due to the structure of the two countries' economies. The structural difference, as explained above, affects economic relations in terms of both investments and trade. In the long run, bilateral economic ties can evolve toward a more equitable balance for Turkey due to its diversified economic structure. However, what is obvious at this point is that Turkey needs to reformulate its foreign trade strategy vis-à-vis Russia to reduce its vulnerability. Intensifying Turkish direct investments in Russia with a focus on sectors that are of higher added value should be a

target. Employing a greater number of Russian citizens would allow Turkish companies doing business in Russia to increase their power and influence in the Russian market, and curb the Russian government's ability to restrict their economic activities in the future. Turkey risks suffering significant economic losses in a potential disagreement with Russia on a strategic issue in the future. As long as Turkey exports medium-technology manufactured goods, foods and vegetables, and imports natural gas and petroleum products, it is destined to be vulnerable. The Turkish government should therefore focus on diversifying Turkey's energy import partners, while at the same time continuing to utilize Turkey's geopolitical importance for Russian natural resource exports. However, the most important goal of Turkey's

foreign economic strategy should be to develop a long-term plan that fosters investments in high technology sectors, which can eventually lead to greater value added for Turkish exports. Such a strategy would not only reduce Turkey's vulnerability to external shocks, but also ameliorate its chronic current account deficit.

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The most important goal of Turkey's foreign economic strategy should be to develop a long-term plan that fosters investments in high technology sectors, which can eventually lead to greater value added for Turkish exports.

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## Endnotes

- 1 The author would like to thank Mustafa Aldı, Ph.D. candidate, and Ömer Faruk Şen, Ph.D. student of Bilkent University, for their research assistance.
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