

did in Central Asia, Turkey will most likely recognize that it can neither nor should it openly challenge and engage in a hot conflict with Russia in either the Cau-

casus or in the Middle East, especially given that Russia and Turkey have greater common interests.

About the Author

Şener Aktürk is an Assistant Professor at the Department of International Relations, Koc University in Istanbul. He is the author of *Regimes of Ethnicity and Nationhood in Germany, Russia, and Turkey* (New York: Cambridge University Press, 2012).

Further Reading

- Aktürk, Şener. "Turkish–Russian Relations after the Cold War (1992–2002)." *Turkish Studies* 7, no. 3 (2006): 337–364.
- Aktürk, Şener. "Counter-hegemonic visions and reconciliation through the past: the case of Turkish Eurasianism." *Ab Imperio* 4 (2004): 207–238.

ANALYSIS

What Is So Special About Russian–Turkish Economic Relations

By Natalia Ulchenko, Moscow

Abstract

This article analyses contemporary Russian–Turkish economic relations. It considers the problems that the two sides are faced with, in spite of their steadily increasing bilateral trade volume and investment flows, and highlights the rather different positions that they take towards addressing these problems and suggests how they might successfully manage these difference.

Economic cooperation is a key element of the Russian–Turkish relationship. According to a number of experts, economics surpasses political contacts in terms of importance. Moreover, the high level of economic interaction between Russia and Turkey is a factor that predetermines their mutual desire to maintain their political dialogue on a solid foundation. Therefore, it is important to understand the specific features that have propelled economic ties to a domineering position within the bilateral relationship between Russia and Turkey.

Why Does Increasing Bilateral Trade Volume Bother Turkey?

Bilateral trade is the primary vehicle driving the economic relationship. The statistical data in Figure 1 and Table 1 on page 9 reveals a steadily increasing trend in the volume of bilateral trade, which has been disrupted only once throughout the 2000s, as a result of the reverberations from the global financial crisis: in 2009, the trade turnover declined more than 40%, however by 2010, it was had already back on track and started to grow again.

The deficit between Turkey's imports from, as compared to exports to Russia is a chronic feature of the bilateral relationship, displaying a tendency towards steady and absolute growth. Its profound nature is exemplified by the fact that the maximum ratio of Turkey's exports to its imports has not been any higher than 25% throughout recent years. Consequently, some analysts are prone to draw a parallel between one of the most disturbing problems in the Turkish economy—the Current Account Deficit—and the development pattern in its trade relations with Russia.

The reason why Turkey's exports are unable to match the growth rates in its imports is the structure of Russian–Turkish bilateral trade. Since 2007, Russia has been Turkey's No. 1 foreign energy supplier, and is a major purchaser of primary energy resources: natural gas, crude oil and petroleum products accounted for 65% of its imports from Russia in 2012. During this year, the oil price that defines the market prices for all primary energy resources was 3.7 times higher than the corresponding price in 2003. Therefore, the trend of increasing expenditure on imports from Russia has

been sustained not only through greater purchases in terms of volume, but through the rise in world market prices as well.

At the same time, the volume of Turkey's exports to Russia, considering the relatively low international price for the majority of Turkish goods, appears to be insufficient to cover the value of imports from Russia. Although the reasons underlying this profound trade deficit are seemingly of an objective structural nature, it is a constant concern for Turkey, which has encouraged Ankara to search for remedies to rectify it. It can be also assumed with a high degree of certainty that Turkey is prompted to seek such remedies because it is keenly aware of the circumstances in which the first Natural Gas Agreement was signed between Turkey and the USSR in 1984. This agreement was made on condition that the payment for the gas supplied through the pipeline running across Eastern Europe could be offset by export commodities or services rendered by Turkish construction companies. This arrangement for mutual payments was in place *de facto* for only a short period after the commencement of natural gas deliveries in 1987, and was later rescinded by the Russian side in the mid-1990s.

Taking into account the current structure of Turkey's bilateral trade relationship with Russia, the trade deficit can be resolved, at least theoretically and across a long-term perspective, by a substantial change (reduction) in world prices for energy, or if Turkey manages to increase the share of high value added within its exports, an aim which has been asserted by the Turkish ruling authorities on multiple occasions. Today 25% of all Turkey's exports to Russia consist of textiles and ready-made clothing, about 15% is food products and some 8% is other consumer commodities (see Table 2 on page 10). While, automobile industry products make up a considerable share, 12%, with engineering and electrical products accounting for approximately the same share. However, all of the above commodity groups belong to the medium-tech manufacturing sector, while high-tech products are comparatively insignificant in Turkey's exports structure—about 3% of the overall value.

In view of this data, it is not clear how Russian–Turkish trade volume is going to reach the USD 100 billion target that has been publicly set by the leaders of the two countries for as the goal for the next few years.

At the same time, it should be noted that some possibilities that may lead to a more balanced bilateral trade can already be identified. According to Russian statistical data for 2009, the year most affected by the global economic crisis, import of fruits, including citrus fruit and vegetables, from Turkey grew substantially in terms of value, while the import of automotive industry and

engineering industry products declined by more than half. Therefore, it can be assumed that, although sufficiently diversified, the most stable of Turkey's exports to Russia are those products representing so-called traditional export items, while new product categories exported by Turkey do not have similarly strong competitive positions within the Russian market. Moreover, such positions are more easily lost in the event of a less favorable economic environment. Hence, there are potential opportunities for Turkey to boost its exports to the Russian market even under the existing market structure of their trade relationship, by way of focusing on their competitive strengths and launching appropriate marketing campaigns. Indeed, Turkish exporters encouraged by various forms of government support are actively engaged in taking advantage of such opportunities. For example there are a growing number of trade representations operating all across Russia, and numerous exhibitions of Turkish goods held in Moscow and other Russian cities.

Aside from these traditional exports, Turkey is faced with unfavorable market conditions for its exports of Russian energy, due to the general price elasticity of the energy market, which has seen several sharp increases in the cost of these resources over the last decade. Ankara has thus sought to mitigate the impact of this on the trade deficit by seeking preferential prices for its imports of Russian natural gas. To this end, two such moves were made by Turkey in late 2011 to coincide with common European measures seeking to exert pressure on Russian energy giant Gazprom in an effort to reduce the price of gas that Gazprom charges.¹

Firstly, Turkey stated that it refused to renew the Natural Gas Supply Agreement that came in force in 1987. The agreement was signed for a term of 25 years, and 2011 was the last year for the deliveries under this contract. The unwillingness of the Russian side to reduce the gas price under the “take or pay” scheme that was often too burdensome for Turkey was cited by Ankara as the reason behind its refusal: the Turkish side was obligated to pay for the contractually-agreed amount of natural gas, even if it *de facto* used less. Turkey planned to allow the pipeline facilities to be used by private companies for the supply of gas, which would be purchased not under

1 The point is that as things stand now, the gas price is in line with the petroleum product basket, however oil prices are largely determined by the speculative activity of exchange brokers. The European partners of Gazprom, including Turkey, do not want to buy fuel at speculative prices. In the pre-crisis period, spot prices and long-term contract prices were approximately at the same level. Post-crisis, spot contracts that are determined by the buyers' demand have been more lucrative than long-term contracts.

long-term agreements, but under spot contracts, and in this way Turkey was supposed to receive gas supplies at “more acceptable prices”.² This episode can be viewed as another instance of Turkey’s active protest against the practice of the “take or pay” payment principle.³

Secondly, in late 2011, Turkey granted its final permission to Gazprom for the construction of the South Stream Gas Pipeline within its exclusive economic zone (EEZ) in the Black Sea area. This is a key Russian natural gas project to diversify supply routes and to promote the growth of its gas exports to Central and Southern Europe destinations. An understanding was reached on the basis of previously-agreed lower price deal for the supply of Russian gas to Turkey. As has been reported by the Turkish media, Turkey was thus able to cut its annual payment for Russian natural gas by USD 1 billion. This compromise has allowed the two sides to agree a “partial” renewal of the 1987 Agreement—Turkey planned to purchase an extra 3 billion cubic meters of natural gas from the Western route of pipeline in 2012 under the previous “take or pay” terms.

Too Much Russia in the Turkish Gas Market?

Another factor that causes anxiety for Turkey is Russia’s monopolistic position within the Turkish gas market. In 2011, Russia accounted for 55% of all gas supplied to Turkey, and this percentage was lower than the historical high of 60% registered only a few years earlier. For this reason, the Turkish side has made strenuous efforts to diversify the sources of its gas imports. In the 1990s, Turkey entered into natural gas supply agreements with Iran, Nigeria (LNG), and in 2001 with Azerbaijan. In 2011, these countries accounted for 21%, 3% and 10% of total imported gas volume respectively.

Until now, Turkey has not successfully implemented an agreement with Turkmenistan, which was reached back in the late 1990s, whereby Turkmen gas was to be crucial in the realization of the NABUCCO Project. This project was to provide an alternative option to Rus-

sian natural gas supplies for Europe. However, Russia successfully ensured that European nations yielded to its preference for the South Stream Project. The unfailing conviction with which Turkish Prime Minister R.T. Erdogan has tried to assert his country’s right to continue purchasing natural gas from Iran, in spite of the economic embargo imposed on the latter by EU member-states, can be explained, *inter alia*, by the acute necessity for Turkey to diversify the geography of its natural gas supplies. “We cannot support such sanctions. We have stated earlier that we would continue to receive gas from Iran”, the Prime Minister said in December 2012, although it should be noted that a few months before Turkey had attempted to challenge the Iran’s pricing of its gas in court.

Long-term ambitions entertained by Turkey include the further reduction of the strategic importance of both Russia and Iran within its domestic gas market, and a gradual transformation of its subordinate role as an energy resource importer, to a major actor in global energy politics. It is hoped that this may be achieved through the aggressive employment of its advantages related to geographic location to concentrate the majority of the energy raw material imports from the countries in the region within Turkish territory.

Turkish state-owned gas corporation Botas plans to construct an Iraq–Turkey gas pipeline, as well as the previously announced Turkmenistan–Turkey gas pipeline; and to increase the volume of gas purchased from Azerbaijan within Phase II of their joint project, which already connects Azerbaijan with eastern Turkey through a gas pipeline. As a result, Turkey hopes to focus the energy resources of the region on its territory, and in turn to use these to meet demand for energy from European countries and other nations (Israel), thus evolving into an international energy hub and obtaining greater geopolitical leverage. To achieve this goal, the currently operational pipelines carrying energy resources from Azerbaijan to Turkey are considered as a contributing factor, likewise the gas pipeline connecting Turkey with Greece, as part of the Southern Europe Gas Ring. In other words, Russia does not feature highly on the Turkish agenda for the development of its energy sector. Turkey sees Russia as a stable and rather important energy resource supplier in the future, but it does not foresee any potential growth in supplies, rather Turkey’s major hopes are linked to other countries that possess hydrocarbon resources.

The Role of Turkey Within Russia’s Foreign Economic and Foreign Policy

Russia is not as deeply concerned about the problem of bilateral trade imbalances as Turkey. The reasons for this

2 Russia supplies gas to Turkey along the Blue Stream gas pipeline (with a full design capacity of 16 billion cubic meters of gas per year) and the western route also known as the Trans-Balkan pipeline. In 1998, a long-term Contract for the delivery of 8 billion cubic meters of natural gas per year along the western route was signed to complement the delivery of 6 billion cubic meters, which was set forth under the 1984 Treaty. The term of this Contract was extended until 2025.

3 The first “price” crisis was in 2003, when natural gas deliveries were due to begin along the Blue Stream pipeline connecting Russia and Turkey across the bottom of the Black Sea. At that time, Turkey asserted that there had been a miscalculation in the price formation formula and eventually secured a price revision in its favor.

are easily explainable. Russia faces its own challenges in increasing the volume of and receipts from its hydrocarbon exports, as well as in diversifying these exports geographically and reinforcing its position as a major energy superpower. Moreover, it is generally acknowledged that the imbalances in trade relations with Turkey are compensated for by a strikingly apparent advantage held by Turkey in tourism (over the first nine months of 2012 alone, 3 million Russians traveled to Turkey, while the number of Turkish citizens who visited the Russian Federation over the same period was only 0.2 million), and the presence of the phenomenon of shuttle trade (whose revenue based on the results of the first 11 months of 2012 was assessed by the Central Bank of Turkey as USD 5.2 billion, however, exports to Russia hardly represent the most substantial part of this).

Lastly, but not least, for a long time the Turkish side contrived to retain an advantage regarding foreign investment (the biggest investment have been made by the Turkish companies Efes Pilsen, Vitra, Vestel, Pasabahce, Enka, Gama, and others). However, recently, owing to the purchase by Sberbank of the Turkish DenizBank, investment by the Russian steelmaking giant Magnitogorsk Metallurgical Plant in a flat rolled product manufacturer in Turkey, the entry of the largest Russian IT company Yandex into the Turkish market, this situation has changed. On aggregate, the total investments made by the Russian side reached USD 6 billion as against USD 4 billion of investment from Turkey. Russia's investment portfolio will be further enhanced by the ongoing implementation of a construction project for the first nuclear power plant on Turkish territory valued at USD 20 billion. An important part of both Russian and Turkish macroeconomic strategy is to attract foreign investment. Thus, if the pattern of Russian–Turkish investment is viewed from this perspective, Russia should perceive it unfavorably as it is receiving less investment from Turkey than it is providing to her. However, within the context of the Russian–Turkish bilateral economic relationship, Russia seems to be content with the status of a giver, rather than a taker.

During Russian President Vladimir Putin's visit to Turkey in December, 2012, he commented on the positive benefits that Turkey would gain from the nuclear power plant construction. He asserted by that it is a very big project which will be fully financed at the expense of the Russian side, however at least 25% of the total financing costs will be allocated to the creation of new employment opportunities in the Turkey. "We are speaking not only about the construction of the nuclear power plant itself, but of the development of an entirely new high-tech industry in Turkey, inter alia, related to the program of fostering the Turkish national workforce", added Putin.

Some analysts tend to view Russia's increased investment in Turkey as driven by its apprehension about the future of the South Stream project. But that round of negotiations with Turkey is now over, decided in favor of the Russian side. Besides, much to Turkey's dismay, the construction of the South Stream project was approved at a time when the NABUCCO project was deemed no longer relevant for reasons beyond Turkey's control. Therefore, it was not possible for Turkey to link its consent to the South Stream project to the receipt of a tangible gain elsewhere as might have been possible if competition between the two projects had existed. Indeed, there has been criticism of the Turkish Government's handling of the negotiations with Russia over the South Stream project within domestic Turkish politics. K. Kilicdaroglu of the Republican People's Party (CHP), the largest opposition party, stated that Turkey's consent to the South Stream Project in late 2011 had "offered Turkey to Russia as a Christmas turkey".

As a result of this loss of leverage in its bargaining position over energy pipelines, Turkey is confronted with the risk of losing its significance within Russia's foreign policy. If this trend is complemented *de facto* by a gradual reduction in Russia's leading role in Turkey's global energy strategy, then it is most likely that the two nations might be facing the prospect of their relationship losing its magnitude. However, Russia would not be in the least satisfied with such a scenario: it seeks to maintain a positive dynamic within its relations with Turkey using bilateral energy cooperation as basis for this. In addition to the far-reaching nuclear energy project, President Putin declared his readiness to negotiate the possibility of granting access to the Blue Stream Project for third-party countries, which effectively means that he is agreeable to the idea of assigning the role of a regional energy hub to Turkey. According to another source, during the Russian President's December visit to Turkey, the two sides discussed the Samsun–Ceyhan Pipeline—an alternative oil transit route designed to ease the transit burden through the Black Sea Straits.

Russia's interest in maintaining close ties with Turkey can also be linked to a number of factors. It is likely that the Russian leadership appreciates the more independent foreign policy pursued by Turkey's ruling Justice and Development Party (JDP). Also of critical importance is Turkey's status as one of the most influential players in the turbulent Middle East region, with whom it is highly beneficial to maintain a long-term partnership, in order to have influence in this region. Given a mounting degree of tension in Russia's relationships with the US, Turkey's role is expected to rise significantly in all matters concerning the Middle East policies of Russia and the US alike. Indeed, Turkey has

retained its skill, acquired over the Cold War years, in pragmatically and effectively balancing these two poles.

Furthermore the rounds of negotiation over energy issues are not over. Not wasting any time after the loss of the promising momentum for the NABUCCO project, Turkey has embarked on the realization of its own mini-version—the TANAP (Trans-Anatolia Pipeline) Project. Turkey's Energy Minister T. Yildiz, who attended the ceremony to commemorate the launching of the South Stream Project in December 2012, outlined that

he did not consider this project to be competitive with regards to the NABUCCO Project over the long-term: “If I believed that the last nail had been driven in the NABUCCO coffin, then I would not be here”. So, it is essential for Russia to use the important leverage of “economic diplomacy” from its energy partnership with Turkey to sustain a constructive political and geopolitical dialogue, as long as Turkey is also willing to participate in a positive relationship.

About the Author

Natalia Ulchenko, *kandidat ekonomicheskikh nauk*, is Head of the Turkish Sub-Department Sector at the Department of Countries of the Near and Middle East at the Oriental Institute of the Russian Academy of Sciences.

Figure 1: Turkish–Russian Trade (Million US\$)



Source: TURKSTAT

Table 1: Turkish–Russian Trade (Million US\$)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Turkey's Exports	1,368	1,859	2,371	3,238	4,727	6,482	3,202	4,628	5,993	6,683
Turkey's Imports	5,451	9,033	12,818	17,806	23,508	31,365	19,450	21,601	23,953	26,620
Volume	6,819	10,892	15,189	21,044	28,235	37,847	22,652	26,229	29,946	33,303
Deficit	-4,083	-7,174	-10,447	-14,568	-18,781	-24,883	-16,248	-16,973	-17,960	-19,937
Export/Import (%)	25	20.5	18.4	18.2	20.2	20.1	16.4	21.4	25.0	25.1

Source: TURKSTAT

Figure 2a: Turkish–Russian Foreign Trade*

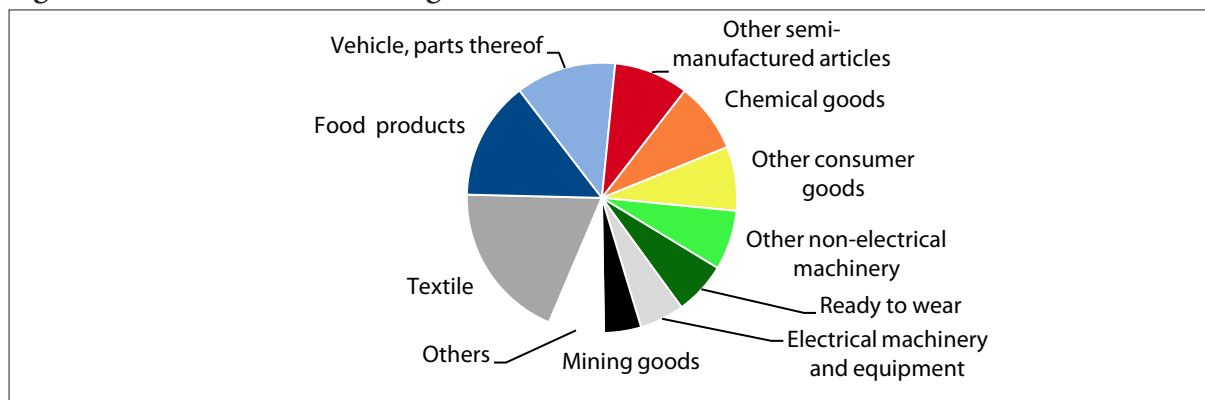


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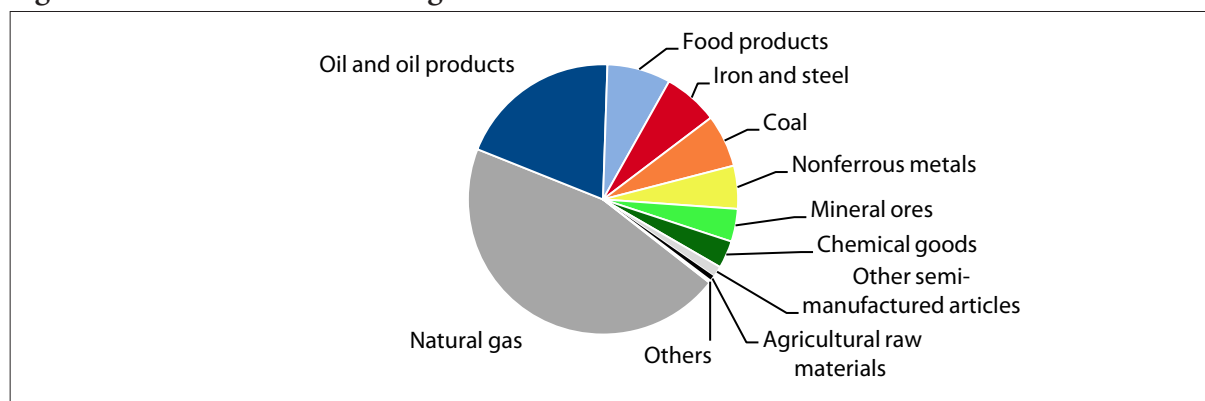


Table 2: Turkish–Russian Foreign Trade*

Export from Turkey to Russia			Import from Russia to Turkey		
2012	million \$	% Share	2012	million \$	% Share
Textile	1,174	19.0	Natural gas	10,987	45.5
Food products	878	14.2	Oil and oil products	4,700	19.5
Vehicle, parts thereof	741	12.0	Food products	1,834	7.6
Other semi-manufactured articles	551	8.9	Iron and steel	1,584	6.6
Chemical goods	518	8.4	Coal	1,521	6.3
Other consumer goods	474	7.7	Nonferrous metals	1,242	5.1
Other non-electrical machinery	441	7.1	Mineral ores	947	3.9
Ready to wear	390	6.3	Chemical goods	795	3.3
Electrical machinery and equipment	330	5.3	Other semi-manufactured articles	315	1.3
Mining goods	274	4.4	Agricultural raw materials	156	0.6
Others	410	6.6	Others	64	0.3
Total	6,181	100.0	Total	24,145	100.0

* January–November; Source: TURKSTAT