

TURKISH RUSSIAN RELATIONS
IN THE POST-SOVIET ERA:
LIMITS OF ECONOMIC INTERDEPENDENCE

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ABSTRACT

TURKISH RUSSIAN RELATIONS IN THE POST-SOVIET ERA: LIMITS OF ECONOMIC INTERDEPENDENCE

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This thesis aims to study the relations between Turkey and Russia in the post-Soviet era by focusing on the nature of economic interdependence between these countries. Focusing on the energy, trade, tourism and investment sectors, the thesis evaluates the interaction between the political and economic factors in the relations between Turkey and the Russian Federation. Contrary to the general view which claims that the historically conflictual relations between these two countries have been replaced by more cooperative economic and political relations, the thesis argues that these relations are characterized by both cooperation and conflict due to the complex nature of their interdependence. In this sense, there is always a potential for tensions in these relations due to the strategic role of economic relations between Turkey and Russia. Following the introduction chapter, the second chapter examines the historical background of Turkish-Russian relations until the end of the Soviet era in 1991. The third and fourth chapters analyze the Yeltsin and Putin periods in Turkish-Russian relations by exploring the limits of economic interdependence in four main sectors of economic transaction; trade, energy, investment and tourism. The last chapter is the conclusion.

Keywords: Turkey, the Russian Federation, economic interdependence, energy, trade.

ÖZ

SOVYET SONRASI DÖNEMDE TÜRK-RUS İLİŞKİLERİ: EKONOMİK BAĞIMLILIĞIN SINIRLARI

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Bu tez, Sovyet sonrası dönemde Türk-Rus ilişkilerini aralarındaki ekonomik bağımlılık faktörü açısından incelemeyi amaçlamaktadır. Enerji, ticaret, yatırım ve turizm sektörleri üzerine yoğunlaşarak, Türkiye ve Rusya Federasyonu arasında bulunan siyasi ve ekonomik faktörler arasındaki etkileşimi değerlendirmektedir. Tarihsel olarak çatışmaya dayalı olan ilişkilerin yerini Sovyetler Birliği'nin yıkılmasından sonra işbirlikçi ekonomik ve siyasi ilişkilerin aldığı savunulan görüşten farklı olarak tez bu ilişkilerin bağımlılığın karmaşık yapısından kaynaklanan işbirliği ve çatışma ekseninde şekillendiğini iddia etmektedir. Bu bağlamda, Türkiye ve Rusya arasında var olan ekonomik ilişkilerin stratejik rolünden kaynaklanan bir çatışma potansiyeli her zaman var olmaktadır. Giriş bölümünün ardından yer alan ikinci bölümde Sovyet sonrası döneme kadar olan tarihi sürece değinilmektedir. Üçüncü ve dördüncü bölümler, Ekonomik bağımlılığın sınırları içerisinde Yeltsin ve Putin dönemi ekonomik ilişkilerini ticaret, enerji, yatırım ve turizm olmak üzere dört sektörde incelemektedir. Son bölüm ise sonuç bölümüdür.

Anahtar kelimeler: Türkiye, Rusya Federasyonu, ekonomik bağımlılık, enerji, ticaret.

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To My Parents

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CHAPTER 1

INTRODUCTION

Bilateral relations between Turkey and the Russian Federation have taken a new form in the post-Soviet era basing on economic relations. These have been shaped within the limits of economic interdependence between these countries. This thesis aims to study the relations between Turkey and Russia in the post-Soviet era by focusing on the nature of economic interdependence between these countries.

1.1. Scope and Objective

This thesis aims to study Turkish-Russian relations within the limits of economic interdependence after the dissolution of the Soviet Union. Firstly looking at the history, the nature of the relations between Turkey and the Russian Federation is analyzed in the thesis. It focuses especially on the improving economic relations between Turkey and the Russian Federation in the post-Soviet era, Yeltsin period and then Putin period economic relations within the framework of trade, energy, investment and tourism under the limitations of economic interdependence.

Turkey and the Russian Federation as two regional actors and important political players in international relations have based their relations on economic relations. Due to the importance of the goods and services flowed between these countries and importance of economic relations in terms of their foreign policy priorities especially after the Cold War, their historical relations have turned out to be a more cooperational manner. However, due to the interdependence between them in economic

sphere of interactions, with respect to the sensitivities and vulnerabilities, the reality of conflict remains as an important possibility.

1.2. Literature Review

In terms of Turkish-Russian relations in the Post-Soviet period, the literature is generally dominated by the idea that liberalization is the remedy for the clashes and conflicts between the states and new liberalized world have created a tendency for the states to cooperate. On the other hand by the increasing dominance of economics in international relations beginning from the 1970s, the liberal literature has begun to replace the realist theory of international relations base on state of anarchy and conflict between states. However, as stated by the neo-liberal theory, the economic interdependence between the states have the potential of result in conflict due to the vulnerability ans sensitivity of the states in case of interdependence. In that regards, the thesis argues that, Turkish – Russian relations within the limitations of economic interdependence have the potential of conflict by their improving cooperational relations.

Duygu Bazoğlu Sezer identifies the Turkish-Russian relations in 1990s as “virtual rapproachment” that define the relations as an evolution states that in 1990s state level conflicts almost disappear and rivalry is replaced by cooperation in many fields to further develop cooperation.¹ Sezer, additionally argues that “a hard kernel of mutual fear and mistrust, and suspicion remained in the minds of the decisionmakers and political

¹ Sezer, Duygu Bazoğlu; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1, p.62.

elites.”² Although she states cooperation as the ruling mechanism of economic relations between Turkey and the Russian Federation, the economic instability in the Russian Federation in the late 1990s was perceived as a risk to future bilateral relations.³

Although there is place for the possibility of conflict and mistrust in relations between Turkey and the Russian Federation according to Duygu Bazoğlu Sezer, Dmitri Trenin argues that cooperation is the main driving force in the post-Soviet period for Turkish Russian relations. He argues that, Turkish and Russian economies are complementary and that forced them to cooperate in various areas of economic transactions. Especially in terms of Russian economic policy in Putin period he clearly states that “[t]he main tenets of the Kremlin’s economic policy under Putin –liberal reform at home plus integration into the world economy-are essentially sound.”⁴ In that regard, Trenin argues that cooperation is the main perception of Russian economic relations in the post-Soviet period.

Gülten Kazgan, on the other hand, while stating the agreements and protocols signed in various fields the sign of cooperation, she also focus on governemental conflicts. According to Kazgan, these conflicts hampers also the economic cooperation between these countries.⁵ In this respect the economic interdependence pushes Turkey to act ironically. It is stated by Kazgan that, although the agreements on sale of energy and oil sale were

² *Ibid.*

³ *Ibid.*, p.77.

⁴ Trenin, Dmitri; “From Pragmatism to Strategic Choice: Is Russia’s Security Policy Finally Becoming Realistic?” in *Russia After the Fall* (ed.by Kuchins, Andrew C.), Washington: The Brookings Institution Press, 2002, p.187.

⁵ Kazgan, Gülten; “The Political Economy of Relations between Turkey and Russia” in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed. By Rittenberg, Libby), Connecticut: Praeger, 1998, p.146.

signed, Turkey had attempts to play a role in the exploitation and distribution projects of oil and natural gas proved to be the major source of conflict between them.⁶ In this regard, despite the cooperational actions taken by Turkey and the Russian Federation, there is still place to search for better alternatives that hamper the cooperation and improving relations between Turkey and the Russian Federation.

Lerna Yanık also does not go far beyond the argument of Sezer. According to Yanık, while on the one hand dual normalization of relations between Turkey and the Russian Federation is about to be achieved, on the other hand the factors such as Turkey's natural gas requirements and other political matters such as Cyprus issue and relations with the United States makes Turkey simply a partner trying to make the most out of Russia's recent "economic pragmatism" and will likely to play the same role in the future.⁷

According to the mainstream literature the thesis accepts the improving relations and growing cooperation between Turkey and the Russian Federation. However, with respect to the theory of economic interdependence, the relations between Turkey and the Russian Federation have been limited in terms of vulnerability and sensitivity of the states in their relations. In line with the argument stated by Keohane and Nye⁸, that is the costs paid by the states for economic interdependence have the potential of conflict in nature, fit to the economic interdependence between Turkey and the Russian Federation.

⁶ *Ibid.*

⁷ Yanık, Lerna K.; "Allies or Partners? An Appraisal of Turkey's Ties to Russia, 1991-2007", *East European Quarterly*, 2007, Vol. XLI, No. 3, p.365.

⁸ Keohane, Robert O. and Nye, Joseph, S.; *Power and Interdependence*, Boston: Little, Brown and Company, 1977, p.12.

1.3. Argument

The thesis aims to argue that the economic relations between Turkey and the Russian Federation have been limited in line with the economic interdependence between these two countries in the post-Soviet period. Although the economic relations between two important regional powers - Turkey and the Russian Federation- are improving for decades, especially after increasing interdependence on trade and energy sectors beginning with the changing deal of the world and increasing relations of Turkey and the Russian Federation with the Natural Gas Agreement signed in 1984. On the basis of economic interdependence, the thesis accepts the level of cooperation between these countries. However, increasing economic interdependence has the possibility of creating conflict between these states in case of the situation clashes with the interests of the states.

In terms of theoretical framework, it aims to indicate the imbalance between cooperation and conflict led by economic interdependence and to indicate the nature of relations in the light of neo-liberal claim that accepts the conflict as a remaining basic feature of world politics.⁹ Beginning from the 1970s, especially after the Oil Crisis boomed in 1973, the theoreticians have begun to focus on economics in international relations. In that regard, the priority of state -as hard issue of the foreign policies of the countries- has been shaken. After the rise of that perception in world politics, international political economy and new theories of international relations that are neorealism and neoliberalism have come to the agenda.

⁹ Proedrou, Filippos; "The EU-Russia Energy Approach Under the Prism of Interdependence", *European Security*, 2007, Vol.16, No.3, p.329.

Contrary to classical theory of realism, neoliberalism states that in case of anarchy, meaning the absence of a world government, instead of pure war or conflict, cooperation is possible. Keohane and Nye's theory base on mutual benefit by facilitating and managing the activities in common shakes the classical international relations theory that displaces the zero sum power analysis favored by the realists.¹⁰ Furthermore, contrary to the realists, the "neoliberals substitute anarchy with interdependence in order to reveal the complexity of interrelationships that bind states and make conflict harder than realists assume."¹¹ However, it should be kept in mind that, "although interdependence is frequently conducive to peace, this does not mean the possibility that war might break out ceases to exist."¹² So, while the cooperation becomes the main tenet in international relations according to the neoliberal theory, the conflict is the one waiting for an environment to break out just as a more hard to be realized.

If it is necessary to explain the term interdependence, firstly it would be better to give the definition of dependence firstly. As prominent scholars, according to Keohane and Nye, "dependence means a state of being determined or significantly affected by external forces."¹³ In case of an emerging new world order by the developments that have shaken the

¹⁰ Moravcsik, Andrew; "Robert Keohane: Political Theorist" in *Power, Interdependence and Nonstate Actors in World Politics* (ed. by Milner, Helen V. and Moravcsik, Andrew), The United Kingdom: Princeton University Press, 2009, p.246.

¹¹ Proedrou, Filippou; "The EU-Russia Energy Approach Under the Prism of Interdependence", *European Security*, 2007, Vol. 16, No. 3, p.332.

¹² Proedrou, Filippou; "The EU-Russia Energy Approach Under the Prism of Interdependence", *European Security*, 2007, Vol. 16, No. 3, p.332.

¹³ Keohane, Robert O. and Nye, Joseph, S.; *Power and Interdependence*, Boston: Little, Brown and Company, 1977, p.8.

prominence of realist theory, with the rising importance of economy in world politics, the level of interactions have been assumed to increase. When that dependence takes a form of mutual dependence, it is defined by the neoliberal theory as interdependence.

“Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries.”¹⁴ A transaction among countries has ceased to be explained as making zero sum cost-benefit impact on those countries. With the words of Keohane and Nye, the sides may either have sensitivity or vulnerability on the same transaction.¹⁵ While the sensitivity refers to the costs each side suffers in case of a reduction in the resources, the vulnerability means the weakness of one side in front of the other side due to lack of alternatives.¹⁶ In that respect, the expected results of both kind of transaction have occurred differently.

In case of sensitivity when each state suffers, the type of reaction of the countries may emerge as a cooperative action towards finding a solution for the problem. However, in case of vulnerability the possibility of exploiting the weaker creates the possibility of conflict in terms of relations between two countries. “On the other hand, interdependent parties with mutually high vulnerability tend to cooperate and intensify their interdependent relationship in order to bind the other side even more tightly into it.”¹⁷ In that regard, the term interdependence does not only means

¹⁴ *Ibid.*

¹⁵ *Ibid.*, p.12.

¹⁶ Proedrou, Filippou; “The EU-Russia Energy Approach Under the Prism of Interdependence”, *European Security*, 2007, Vol. 16, No. 3, p.332.

¹⁷ *Ibid.*, p.333.

mutual benefit for each states; there are also vulnerabilites and sensitivities in neoliberal explanation.

Focusing on the economic interdependence -that is the “use of economic instruments of power”¹⁸ in interdependence- it also carries similar characteristics. The economic interdependence also has vulnerables and sensitives. Furthermore, due to the high level of economic transactions and interdependence between the countries with regard to the other military or political terms of interdependence, while on the one hand “[e]xtensive flows of goods, raw materials, people, and capital across borders benefit all countries involved, [on the other hand] often are critical to each country’s economy.”¹⁹ In that case the flow of goods, raw materials, people and capital may benefit all countries in transaction that means no problem, may create the sensitivity of the states in transaction that again may generally result in cooperation and it may create vulnerability of the one in front of the other states that generally result in conflict. In the latter case, “the most powerful side usually endeavors to exploit the high vulnerability of the weaker side in order to achieve counter-payments in other sectors.”²⁰

From another perspective, economic interactions not only affect the government of the states, but also the institutions and various groups. While on the one hand that kind of interactions prepare an important area to be more active both domestically and internationally, on the other hand due to

¹⁸ Moravcsik, Andrew “Robert Keohane: Political Theorist” in *Power, Interdependence and Nonstate Actors in World Politics* (ed.by Milner, Helen V. and Moravcsik, Andrew), The United Kingdom: Princeton University Press, 2009, p.258.

¹⁹ Milner, Helen V. “Power, Interdependence and Nonstate Actors in World Politics: Research Frontiers” in *Power, Interdependence and Nonstate Actors in World Politics* (ed.by. Milner, Helen V. and Moravcsik, Andrew), The United Kingdom: Princeton University Press, 2009, p.15.

²⁰ Proedrou, Filippou; “The EU-Russia Energy Approach Under the Prism of Interdependence”, *European Security*, 2007, Vol. 16, No 3, p.333.

their interest seeking role for various groups, that “[r]apidly rising economic interdependence can create fear and insecurity among politically important groups.”²¹ That does not stay limited with the politically important ones but it becomes more public. That interdependence cause fear in line with the consideration in minds of the groups such as labor unions and local community leaders that will cause unemployment and social distress that will at the end lead to more protectionism in economic transactions.²² “Thus, protectionism may increase as economic interdependence becomes more extensive.”²³ As a result of that situation, states’ protectionism to the others, as was the case in the past, does not fit with the interest seeking nature of many non-governemental groups, industrialists and the business world that create the potential of creating both domestic and international conflicts for the states.

As “two geographically adjacent, but historically and culturally remote, regional powers”²⁴ the post Cold-War arena with the increasing prevalence of economics presented to Turkey and the Russian Federation the chance of cooperation in economic affairs. Thanks to the era, both of these states have preferred to use that chance through seeking their own interests in the short and the long terms. Their relations gained a new aspect. Although they have stood on two different camps during the Cold War era, and despite the historical conflicts and clashing interests between them, the interrelation entered into a “normalization” period. As Lerna Yanik

²¹ Keohane, Robert O. and Nye, Joseph, S.; *Power and Interdependence*, Boston: Little, Brown and Company, 1977, p.41.

²² *Ibid.*

²³ *Ibid.*

²⁴ Sezer, Duygu Bazoğlu; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1, p.75.

mentioned, improvement of the ties between Turkey and Russia “...is a “dual normalization” and can be attributed to three overlapping developments: diminishing of the factors that elevated levels of mutual threat perception in Turkey and Russia; Russia’s emergence as a profitable market for Turkish entrepreneurs as well as the Turkish elite’s drive to make Turkey an energy hub; and, [later] Vladimir Putin’s goal to make foreign economic relations one of the priority areas in Russian foreign policy.”²⁵ Regarding that kind of relations that have been tried to be normalized, the economic interdependency between Turkey and the Russian Federation has been increased with the costs and benefits for both creating cooperation and conflict in relations.

In conclusion, improving relations between Turkey and the Russian Federation presents many cases as an example for the economic interdependency as explained by the neo-liberal school. With regards to energy relations from one perspective while Turkey is looked like vulnerable due to the need for energy, there is sensitivity in that case for both by Turkey’s geo-strategical place as a transit route for West’s energy import from the Russian Federation. On the other hand, in terms of highly increasing trade relations that has a significant place in improving relations between Turkey and the Russian Federation, while in the immediate aftermath of the dissolution of the Soviet Union, it may have seemed like vulnerability of the Russian Federation, the huge newly emerging market and the new area of interaction for Turkish economy on the one hand and cheaper goods for their new market for the Russian economy created an economic interdependence between these countries. As important powers of the new world in the East and for the West, the improving relations between

²⁵ Yanik, Lerna K.; “Allies or Partners? An Appraisal of Turkey’s Ties to Russia, 1991–2007”, *East European Quarterly*, 2007, Vol. XLI, No. 3, p.349.

Turkey and the Russian Federation are highly bound to economic relations and the power is used economically in case of any political reaction on other issues. In the framework of that economic interdependence, the relations are shaped through the sensitivity and vulnerability of the states in front of each other.

1.4. Research Method

In order to analyze the post-Soviet Turkish Russian relations within the limitations of economic interdependence, previously the historical background should be assessed. Limits of economic interdependence in line with the relations in trade, energy, investment and tourism become the main indicators of the possibility of conflict between Turkey and the Russian Federation.

In that respect, in order to analyze Turkish-Russian relations within the limits of economic interdependence library resources, governmental data, academic studies, newspapers, organizational researches, statistics and reports made by professional organizations are used for research.

1.5. Organization of the Thesis

The thesis is composed of five chapters. In Chapter 1 of the thesis after a short introduction scope and objective, the literature review, the argument, the research method and the organization of the thesis is explained.

In the second chapter the historical background of the relations between Turkey and the Russian Federation will be presented substantially. The premises of Turkish-Russian economic and political relations are classified with time periods until the Second World War, between 1945 and 1974,

between 1974 and 1985, and from 1985 to the end of the Soviet Union. The historical background is classified in terms of significant improvements in terms of Turkish-Russian relations.

The third chapter analyses Turkish-Russian relations within the limits of economic interdependence through focusing on the relations in the spheres of trade, energy, investment and tourism. While doing that, Russia's transformation period will be taken into account continuing with the period between 1991 and 2000 and the relations will be analysed within the framework of economic interdependence.

In the fourth chapter as in the third chapter the Turkish-Russian relations are analysed in Putin period. Again the spheres of economic transactions that are trade, energy, investment and tourism are taken into consideration and the limits of economic interdependence are assessed in terms of Turkish-Russian relations.

The last and the fifth chapter have concluding remarks. By keeping in mind the political economy of Turkish-Russian relations under the headings of trade, energy, tourism and investment, it is concluded that cooperation is the locomotive of relations not without doubt of conflict in sense. With respect to these analyses the main standing will be the cooperation game played on the basis of economic interdependence.

CHAPTER 2

HISTORICAL BACKGROUND

In this chapter of the thesis the historical background of Turkish-Russian relations will be analysed. Due to the fact that, unless looking at the history, understanding of the current picture of relations is inadequate, the economic relations between Turkey and the Russian Federation are assessed in terms of time periods. Firstly, the economic relations between Ottoman and the Russian Empires will be assessed. In the second part, the relations between Turkey and the Soviet Union will be taken into consideration until the Second World War. After the economic relations until the Second World War is assessed, the economic relations will be analysed in time periods between 1945 and 1974 in the third part, between 1974 and 1985 in the fourth part and 1985 and 1991 in the last part of the chapter.

2.1.Economic Relations Between Ottoman and Russian Empires

In this part of the thesis, the economic relations between Ottoman and Russian Empires, that had a considerable volume of interactions, will be assessed. Ottoman-Russian relations have been based on economic relations in the imperial rule. Besides the economic relations improved on the basis of trade relations, the wars waged between these two imperial states dominated the history. Firstly, as one of the most significant matter the straits has been the number one issue. The matter of straits has become the most prominent issue since the beginning of relations between Ottoman and Russian Empires in the late 15th century.

As stated by İnalçık in the “Symposium on 500 Years in Turkish-Russian Relations” the years between 1492 and 1512 can be identified as the friendship and solidarity years.²⁶ This Ottoman-Russian friendship based on antagonism between Grand Duchy of Moscow and Lithuania and Poland in the west, and Golden Horde in the east. The antagonism identified above led to an alliance between Crimean Khanate -which was a part of the Ottoman Empire- and the Grand Duchy of Moscow.²⁷ “Furthermore, the first relationship began with the attempts of Grand Duch which he did in order to get pragmatic privileges and assurances.”²⁸ On the other hand, in 1490s the first official Russian-Turkish diplomatic intercourses took place and they were on commercial matters.²⁹ Apart from these specific improvements, in general Moscow had many interests in trading with Ottoman Empire and a set of attempts in order to be in the group of friendly states status were performed by the intermediation of the Khan of Crimea.³⁰ Actually looking at today from that point the interest seeking diplomatic and economic relationships have been similar with those times. However, the relationship was not at a level of interdependence resulting in paying costs in line with the bilateral relations between them.

When it comes to the 16th century, the relations started to be intensified from many aspects. As asserted by Halil İnalçık, after 1512,

²⁶ İnalçık, Halil; “Osmanlı-Rus İlişkileri 1492-1700” in *Türk Rus İlişkilerinde 500 Yıl*, Ankara: TTK,1999, p. 28.

²⁷ *Ibid.*

²⁸ *Ibid.*

²⁹ Nekrasov, M.; “XVI. Yüzyılda Rus-Osmanlı Ekonomik İlişkileri” in *Türk Rus İlişkilerinde 500 Yıl*, Ankara:TTK, 1999, p. 95.

³⁰ Çağatay, Neşet; “T.T.K. Başkanvekili Prof.Dr. Neşet Çağatay’ın Konuşması” in *Türk Rus İlişkilerinde 500 Yıl*, Ankara: TTK,1999, p. 26.

Crimean-Ottoman-Russian rivalry period had begun with the end of the Golden Horde and Moscow's ambitions on the khanates established as the heirs of the Golden Horde.³¹ Beyond those political and military relations, the economic relations also started to be intensified. In the 16th century, the trade volume between Moscow and the Ottoman had increased.³² Considering the time's technology and opportunities, the main rationale behind these increasing trade relations was the geographical proximity. In this regard, that can be concluded that, there was an environment in which foreign trade and economic relations could be improved.

The foreign trade of the Russian empire was separated in two kinds of trade - as private trade and Tsardom trade.³³ Although Tsardom trade was higher than the private trade, the volume of private trade was also in a manner that could not be slighted. The trade between Ottoman Empire and the Tsardom was mainly based on the trade of fur.³⁴ It was basing on only one type of good. However, that did not create interdependence between the Russian and the Ottoman Empire. Because, the fur was not a vital good and would not result in conflict or political costs for any sides. Yet, it should not be missed that even this kind of economic relations in that period was considerable. As a general idea on Russian Turkish economic relations in the 16th century, it can be said that despite the existence of frictions between the two communities, instead of enmity, trade and traditional diplomacy made their mark on the period.³⁵

³¹ İnalçık, Halil; "Osmanlı-Rus İlişkileri 1492-1700" in *Türk Rus İlişkilerinde 500 Yıl*, Ankara: TTK,1999, p. 28.

³² Nekrasov, M.; "XVI. Yüzyılda Rus-Osmanlı Ekonomik İlişkileri" in *Türk Rus İlişkilerinde 500 Yıl*, Ankara:TTK, 1999, p. 95.

³³ *Ibid.*

³⁴ *Ibid.*

³⁵ *Ibid.*, p. 96.

However, the economic and trade relations between Russian and Ottomans were not same in the 17th century. Instead of the improving and stable economic relations in the previous centuries, this century was composed of conflicts, rebellions and frictions in Russia, Ukraine and Poland. Treaty of Bahçesaray was concluded as a Russo-Turkish agreement in January 13, 1681.³⁶ Although this agreement was mainly related to Crimea, some articles of the agreement were directly pertained to trade relations between Russia and Turkey. Especially the provision which is suggesting that “Russian traders could move freely in the Crimea, where they were promised equitable treatment and immunity from illegal seizures of their goods.” was one of the first attempts of the Ottoman through giving freedom to Russia in its territory.³⁷ With this provision signed in the agreement, Ottoman lost control over the Black Sea and the Black Sea was ceased to be a Turkish lake as a classical identification. Doubtlessly, this development had been one of the very significant attempts which would have significant affects on the relations for centuries.

Nevertheless, the relations between Ottoman and Russian Empires were intensified in the 18th century.³⁸ As he continued; “During the 18th century as well as the wars waged with the Russians, commercial and cultural relations also left a permanent mark on the histories of two states. Because, the relations were institutionalized [...]”³⁹ in this period and that institutionalized relations provide the regularity of the relations between two

³⁶ O'Brien, C. Bickford; “Russia and Turkey, 1677–1681: The Treaty of Bakhchisarai”, *Russian Review*, 1953, Vol. 12, No. 4, p.265.

³⁷ *Ibid.*

³⁸ Ortaylı, İlber; “XVIII. Yüzyıl Türk-Rus İlişkileri” in *Türk Rus İlişkilerinde 500 Yıl*, Ankara: TTK,1999, p. 125.

³⁹ *Ibid.*

states. Furthermore, that institutionalization was a kind of creating interdependence between Ottoman and Russian Empires in the 18th century.

The Treaty of Küçük Kaynarca signed in 1774 can be accepted as the constituting part of today's Turkish-Russian economic relations. Signed between Russia and the Ottoman Empire, it has given Russia rights on the straits. In the 11th article of the treaty, trade in Ottoman lands was freed for the Russians and right to establish consular offices anywhere in the Ottoman Empire was given.⁴⁰ "Russia's subjects who traveled, traded, or resided in Ottoman domains [...] now enjoyed capitulatory favors: reduced customs duties, consular representation, exemption from Ottoman taxes and laws, and guarantees of personal security and freedom of worship."⁴¹ In all degrees the merchants had gained extensive rights. So, they became very active in the Ottoman territories.

However, assuredly the things were not so smooth in which everyone was happy with his condition. There were of course frictions on many issues at all stages. "Friction over protégés formed part of the "precarious balance" between conflict, trade, and diplomacy along the Russo-Ottoman frontier, as the two adjacent autocratic empires competed for lands, peoples, and resources yet engaged in mutually beneficial commerce."⁴² As mentioned earlier, Ortaylı identified these improvements as the institutionalization of the relations between two sides⁴³ that created

⁴⁰ Prousis, Theophilus C.; "Disputes in the Dardanelles: A Report on Russo-Ottoman Relations", *East European Quarterly*, 2002, Vol. XXXXVI, No.2, p.155.

⁴¹ *Ibid.*

⁴² *Ibid.*, p.158.

⁴³ Ortaylı, İlber; "XVIII. Yüzyıl Türk-Rus İlişkileri" in *Türk Rus İlişkilerinde 500 Yıl*, Ankara: TTK, 1999, p. 125.

kind of interdependence and provided the continuity of economic and other relations between the states.

Firstly in 1783, after nine years from Küçük Kaynarca, the Treaty of Commerce was signed between the two. As can be seen from the name of the treaty it was aimed to arrange the commercial activities between Russia and the Ottoman Empire. Many details about the bilateral trade relations were identified by the agreement. As an example, Article 45 of the Treaty enabled the Russian merchants to buy oil, rice and coffee from Mocha, and silk from the Ottoman Empire except Constantinople.⁴⁴ As can be seen the limitations were always in the agenda of the freedom agreements. It is more visible in terms of the application about articles 5, 7, 19 and 21 of the same Treaty that were granting Russian traders the freedom to import any kind of merchandise and to export all Ottoman products –except grains and military stores- and supposing Russian merchants not to pay anything beyond a single customs duty levied only once.⁴⁵

By such means, it [the Ottoman government] wants to secure for itself the exclusive traffic in certain goods and the collection of costly dues assesses on other items.”⁴⁶ In other words in order to maintain the bilateral trade relations and trade of identified goods the costs paid shows us the increasing interdependence of Ottoman and Russian empires in the 18th century.

⁴⁴ Prousis, Theophilus C.;“Disputes in the Dardanelles: A Report on Russo-Ottoman Relations”, *East European Quarterly*, 2002, Vol. XXXXVI, No.2, p.164.

⁴⁵ *Ibid.*, p.165

⁴⁶ *Ibid.*

When it comes to the Treaty of Jassy signed in January 9, 1792 in order to end the war between 1787 and 1792, it also had a characteristic assisting the decreasing dominance of the Ottoman Empire on the region and the Black Sea.⁴⁷ This agreement was also a milestone in terms of the future of the Ottoman Empire. Because, it had brought the beginning of the period, that will end the empire. This was also a diplomatic event that put a point to the wars and relations with Russia for the 18th century. Also the control of Crimea passed to Russia from the Ottoman Empire. Actually, this formed an important process in terms of relations between the two looking at that from the past and the future. The recession period which had started with the Karlofça Agreement left its place to the disintegration period of the Ottoman period which will provide many benefits to Russia in many terms.

In the 19th century, the relations became more complicated through the wars and agreements. Firstly, the Crimean War fought between Ottoman and Russian Empires was a political victory for Ottoman by the huge costs paid in economic terms. Through economic interdependence, on silver imported to Ottoman and the straits which were vital for Russian trade and economy created interdependence to each other.⁴⁸ Ottoman's dependence on silver was an important matter due to the fact that the issued Ottoman money was silver and the straits were very important for foreign trade of Russian Empire. As a result of the Crimean War, the institutionalized economic relations between Ottoman and Russian Empires entered into a long stagnation period. Moreover, due to improving relations, actually

⁴⁷ "Treaty of Jassy", accessed on http://en.wikipedia.org/wiki/Treaty_of_Jassy, 31.03.2008.

⁴⁸ Kazgan, Haydar; "Tarih Boyunca Osmanlı-Rus Ticareti ve Sanayi Devrimi Ülkelerinin Ticaret Politikaları" in *Dünden Bugüne Türkiye ve Rusya: Politik, Ekonomik ve Kültürel İlişkiler* (ed.by Kazgan, Gülten and Ulçenko, Natalya), İstanbul: İstanbul Bilgi Üniversitesi Yayınları, 2003, p.39.

increasing control of Britain and France, this time Ottoman became dependent to the Britain and France. With the 1877-1878 Ottoman-Russian War, won by Russian Empire, Ottoman finance was collapsed and Russians were strengthened. At the end of that war, the relations reached to a more critical level that would have the potential of conflict or war on any economic matter.

Despite the exclusive rights given to the Russians, Ottomans had some interventions in the movements of Russian ships. Actually, the main reason on this action was the conservation of her interests through limiting the “freedom” of the other. For example; “Ottoman interference in Russia’s affirmed right of unfettered shipping in the Black Sea, Straits, and Levant took several forms and drew complaints from envoys and consuls in the early 19th century.”⁴⁹ It had a perspective that may have created diplomatic discords. In this respect, again it should be repeated that whatever the stage of relations, either there were ranges or cooperation between the two; the main interests have always been the essence of the motives in the dialogues in order to minimize to costs that would be paid as a result of economic interdependence.

2.2. Economic Relations between Turkey and the Soviet Union until World War II

Beginning from the World War I, as the catalizor of the end of the Ottoman Empire and Russian Empire, this chapter will analyze the ups and downs of the relations between Turkey and Russia after the imperial period.

⁴⁹ Prousis, Theophilus C.; “Disputes in the Dardanelles: A Report on Russo-Ottoman Relations”, *East European Quarterly*, 2002, Vol. XXXXVI, No.2, p.160.

After a devastating century for Ottoman and Russian Empires in economic and political terms, the World War I brought both empires to the end. In this respect with new state ideologies enhanced by Mustafa Kemal and Lenin and also by new set of interests and concerns, the relationship between Russia and Turkey was entered into a path of new cooperation and conflict.

As Kurat claims, “The Ottoman Empire entered the World War I which prepared the end of it under these conditions when the Ottoman navy attacked the Russian ports at the Black Sea on 29 October 1914.”⁵⁰ However, Ottoman Empire was not the only Empire that prepared his end. Russian Empire was also taking the last breathes. Although they had experienced many wars, conflicts and disagreements, interestingly they started to cooperate after the World War I. “The age of imperial competition that ended with World War I was followed by an extraordinary period of mutual empathy and accommodation between the leaderships of two young states, Lenin’s Bolshevik regime in Moscow and Mustafa Kemal’s nationalist regime in Ankara.”⁵¹ In the framework of Mustafa Kemal’s ideology of “Peace at home, peace in the world” with the search of new friends for security and Lenin’s expansionist ideology two countries turned into noteworthy factors in their newly shaping foreign policies. In this respect, they concluded their mutual affinities to each other with an agreement and they officially recognized each other.

The official document, that established the political relations between the Soviet Russia and Turkey, was the Moscow Agreement dated

⁵⁰ Kurat, Akdes Nimet; *Türkiye ve Rusya*, Ankara: Kültür Bakanlığı Yayınları, 1990, p.304.

⁵¹ Sezer, Duygu Bazoğlu; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1, p.61.

March 16, 1921 that was signed in the National Struggle period.⁵² Through this agreement, Soviet Russia was recognizing Turkish hegemony on the Straits and Istanbul in return for Turkey was accepting the determination of Black Sea only by ashore states.⁵³ Nevertheless, despite this agreement mutual confidence could not be achieved because of “communism”.⁵⁴ These ideological differences and Russia’s general attitude towards imposing their ideology to the world discontinued these relations for a while and institutionalization of the Soviet-Turkish relations was delayed for few years which will be performed with the agreement signed in 1925.

Within this time period the Treaty of Lausanne brought peace to Turkey. Nevertheless, this does not mean that all the problems were expired. Moreover, new set of problems came into agenda and for Turkey a number of problems remained unsolved. After the Treaty of Lausanne each state started to face with number of domestic and international problems. Although there were some cracks in terms of the stage of mutual confidence between them, they started to seek friendship as an assurance towards hostile states. Yet, their relations were shaped on the basis of three factors; Commercial relations, problem of communism and Turkey’s eagerness to ameliorate her relations with the West.⁵⁵ In this respect, they were interdependent to each other.

⁵² Gürün, Kamuran; “17 Aralık 1925 Türk-Rus Anlaşması” in *Türk Rus İlişkilerinde 500 Yıl*, Ankara: TTK, 1999, p. 181.

⁵³ Armaoğlu, Fahir; *20. Yüzyıl Siyasi Tarihi*, İstanbul: Alkım, 2004, p.313.

⁵⁴ Gürün, Kamuran; “17 Aralık 1925 Türk-Rus Anlaşması” in *Türk Rus İlişkilerinde 500 Yıl*, Ankara: TTK, 1999, p. 181.

⁵⁵ Armaoğlu, Fahir; “20. Yüzyıl Siyasi Tarihi”, İstanbul: Alkım, 2004, p.313.

According to Armaoğlu their commercial relations were based on mutual interests. He says that; “The basic issue of Turkish-Soviet trade relations is Soviet’s endeavor to control Turkey through commercial and economic relations and on the other hand, Turkey’s effort not to limit trade only with Soviet Russia and also orient to the West. In this respect, Soviets would establish commercial agencies in various places of Turkey and they would able to use these agencies for their communist propaganda and Turkey on the other hand would not be trapped.”⁵⁶ That mutual dependence and interests formed the basis of their relations.

After arise of the close relations, it was strengthened by a new agreement that would have an important role in the institutionalization of their relations. In this respect they perceived each other as ally and signed a “Friendship and Neutrality Agreement” in December 17, 1925.⁵⁷ This period after a devastating World War for new established states was mainly engaged by political and security matters. After the immediate establishment of new states, politics was before economics for a period. So, as the base of the study the economic relations did not take place in a considerable manner.

After a short break of economic relations, it began again in 1930s and it was based “on the Trade and Navigation Agreement signed on 8 October 1937.”⁵⁸ Yet, before this Trade and Navigation Agreement, in 1936 Montreux Straits Convention was signed and by this agreement disarmament on the Straits was abolished and Turkey had some advantages

⁵⁶ *Ibid.*

⁵⁷ Şimşir, Bilal N.; “1878-1918 Yıllarında Türk-Rus İlişkileri” in *Türk Rus İlişkilerinde 500 Yıl*, Ankara:TTK, 1999, p. 147.

⁵⁸ Gürtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara: METU, 2006, p. 77.

from the Convention. In case of a threat perception, Turkey would have right to permit and in case of a war in which Turkey would not be a side, the vessels would not be able to pass through the Straits. After this Convention Turkey's increasing dominance on the Straits attracted Britain and firstly between Britain and Turkey and then among Britain, France and Turkey close relationships and alliances were established. On the other hand, Soviet Russia signed a "Nonaggression Pact" with Nazi Germany. In this regard, relations between Turkey and Soviet Russia entered into a long remoteness period by the beginning of the World War II and Cold War. In this respect the long break between Soviet-Turkish economic relations was given.

2.3. Economic Relations between Turkey and the Soviet Union between 1945-1974

The Cold War period that started by the end of the Second World War will be focused in three periods. The periodization is done as 1945-1974, 1974-1985 and 1985-1991 through the crucial improvements in terms of Turkish-Soviet relations. In this part the first period that is between 1945 and 1974, the years of stagnation will be assessed.

Firstly, as a result of a devastating War for the world, a new world order in terms of security and economic matters has been suggested. In order to support the ruined economies of the states, institutions like International Trade Organization and General Agreement on Trade and Tariffs were instituted. On the other hand, the improvements between Turkey and the Soviet Union on bilateral matters like the command of the straits against the Soviet Union and the increasing communism tensed the relations between Turkey and the Soviet Union.

The Turk-Soviet Neutrality Pact signed in 1925 was declared off by Soviet Russia in March 1945. This development also cooled off Soviet-Turkish relations. Furthermore, through the straits, Soviet Russia dispensed with the promise and “[...] pressed for joint control of the Turkish Straits and territorial concessions in Turkey’s northeast.”⁵⁹ In this respect in the new world order in which two Super Powers ideologically dominated and separated the world, Turkey selected the side of the West. Beyond that ideological choice, Turkey found herself in the search for a security pact. In this context, “Turkey then sought in a military alliance with the United States.”⁶⁰ This movement brought Turkey to the door of NATO and in 1952 Turkey became a NATO country that would endure until today and that would define Turkey’s position in the Cold War period.

In this context, after a devastating World War by which a new world order was established under the dominance of two super powers, Turkey turned her face towards the West. In light of this development, naturally, political relations between Soviet Russia and Turkey entered into a secession period. “Although the early Turkish regime of Mustafa Kemal Atatürk has been interpreted as having sought to base its principles on the ideals of both the American and Russian Bolshevik revolutions⁶¹, Turkey took a decisively pro-Western and anti-Soviet orientation after World War II.”⁶² The intensive threat perception especially after the World War II as

⁵⁹ Sezer, Duygu Bazoğlu; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1, p.61.

⁶⁰ *Ibid.*

⁶¹ Warhola, J. W. and Mitchell, William A; “The Warming of Turkish-Russian Relations: Motives and Implications”, *Demokratizatsiya*, 2006, Vol. 14, No. 1, p.129.

⁶² *Ibid.*

being in two opposite sects of security has overwhelmed year by year by creating the perception of hostility between the two states.

Although Turkey chose to be with the West in security matters that did not ended the economic relations with the Soviets. In line with the nature of the new world order, economic relations between them continued with some breaks. “With the exception of approximately a twenty-year period from the start of World War II till the mid 1960s, Turkey’s economic ties with the Soviet Union had always been good.”⁶³ Through this argument, looking at Turkish-Russian economic relations decade by decade will be fruitful. In this respect, 1960s will be the starting point of a very brief study of economic ties in the Cold War period between Russia and Turkey. In terms of these increasing relations between Soviet Russia and Turkey, Stalin’s death in 1953 also played an important role. Because, the foreign policy of Russia was reshaped, and Russia shifted from harsh policies of communism to a rather moderate situation. So, after the 1950s, new policies of Soviet Russia led them to reenter into the relations.

In 1960s, as old friend, Soviet Russia did not break the ties with Turkey. Reciprocity became the main factor of Turkish-Soviet relations after 1964 and reciprocal visit were performed by high level officials.⁶⁴ “Between 1965 and 1979 Turkey and the Soviet Union held high level diplomatic visits, signed “agreements and Turkey accepted the Russian economic aid.”⁶⁵ Especially after the visit of Prime Minister Suat Hayri

⁶³Yanık, Lerna K.; “Allies or Partners? An Appraisal of Turkey’s Ties to Russia, 1991-2007”, *East European Quarterly*, 2007, Vol. XLI, No. 3, p.359.

⁶⁴ Armaoğlu, Fahir; *20. Yüzyıl Siyasi Tarihi*, İstanbul: Alkım, 2004, p.829.

⁶⁵ Tellal, Erel; “Sovyetler ile İlişkiler” in *Türk Dış Politikası* (ed.by. Oran, Baskın), Vol. I, İstanbul: İletişim Yayınları, 2002, p.161 cited in Gürtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara: METU, 2006, p. 87.

Ürgüplü in August 1965, Turkish-Soviet economic relations picked up speed and some foundations were started to be built such as İskenderun Iron and Steel Industry, Aliğa Refinery and Seydişehir Aluminum Complex.⁶⁶ Besides investment issues, monetary intercourses also turned out to be important activity between them. “Beginning from 1967 Turkey began to get credits and aid from the Soviet Union. On 25 March 1967 The-Economic Technological Agreement was signed and provided the resources for the establishment of seven industrial units in Turkey [and] on 09 January 1975 The Second Economic Technological Agreement was signed and provided an industrial investment costing seven thousand dollars .”⁶⁷ In that respect, the Soviet Union’s endeavours have been continuing on the way towards normalization of the relations with Turkey. The Cyprus Issue was a reason for the tense relations in that period. As not different from today, Russia’s attitude by the Greek Cypriots warned Turkey for acting more carefully towards the Soviet Union. However, the West’s attitude towards the issue on the other side made Turkey to reevaluate the relations with the Soviet Union.

In the beginning of the 1970s, at the same time with an important OPEC oil crisis in 1973, the relations have entered into anew phase between Turkey and the Soviet Union. Contrary to the oil prices increased in the world, the unincreased prices in Turkey due to political rivalries pushed Turkey to a crisis situation. As an oil producing state, the Soviet Union has profited from that situation and achieved an economic prosperity. In this regard, the economic interdependence has increased as a result of completing characteristics of the economic situations.

⁶⁶ Armaoğlu, Fahir. 2004. “20. Yüzyıl Siyasi Tarihi”, Alkım, İstanbul, p.830

⁶⁷ Tellal, Erel; “Sovyetler ile İlişkiler” in *Türk Dış Politikası* (ed.by. Oran, Baskın), Vol. I, İstanbul: İletişim Yayınları, 2002, p.161 cited in Görtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara: METU, 2006, p. 87.

As a result, between 1945 and 1974, although some political tensions existing between Turkey and the Soviet Union, firstly the relations entered into a stagnation period until the 1960s. However, with the normalization tendency of these states at that period, reciprocity became the main tenet of relations between Turkey and the Soviet Union. When it comes to 1970s, by the Cyprus Issue and some political tensions, world's economic situation led by the OPEC oil crisis increased the prices and brought the Soviet Union to an economically prosperous position. In short, between 1945 after a devastating World War and 1974 a world economic crisis, the relations between Turkey and the Soviet Union has been shaped through the improvements in the world and relations have been directed towards an economic interdependence between them.

2.4.Economic Relations between Turkey and the Soviet Union between 1974-1985

This term was a peculiar period in terms of tense political improvements on the one hand and improving economic relations on the other, between Turkey and the Soviet Union.

Beginning from 1974, due to the political improvements within Turkey on the way through a revolution, Turkey was trying to embed communism in Turkey. Within this framework, the relations between Turkey and the Soviet Union were tense. However, the “[e]conomic relations reached its peak in 1979 when Turkey and the Soviet Union signed an agreement providing Turkey eight billion dollars aid and credit for the construction of a thermal power plant and for the improvement of

refineries.”⁶⁸ While Turkey was in an unstable political environment and sceptic through the Soviet Union, the economic relations have continued. Especially after the revolution, by the trade agreement signed in 1982, the relations have again started to be normalized. Although September 12 revolution stagnated the Soviet Turkish relations, in 1980s after the establishment of new democratic government, especially because of the change in Turkey’s political structure and intense liberalization through Özal’s policies, foreign trade and foreign economic relations started to re-increase with all countries. As regional actor and geographical mate especially in terms of energy matters, Russia started to become economic partner in the region.

In conclusion, between 1974 and 1985, by the political events such as anti-communist movement in Turkey and Russia’s state towards Cyprus issue, and the post-OPEC crisis environment in which the Soviet Union was in an advantegous and Turkey was in vulnerable position, there was an economic interdependence of Turkey towards the Soviet Union on energy issue and accordingly on economic issue.

2.5.Economic Relations between Turkey and the Soviet Union between 1985-1991

The relations between Turkey and the Soviet Union between 1985 and 1991 were experiencing their golden years within the Cold War years. In this regard, the agreements signed in 1985 and 1989 has played important role for the beginning of intense economic relations in that period. For Russia, this increasing openness was the product of Gorbachev’s economic

⁶⁸ Gürtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara: METU, 2006, p. 87.

and political reforms named as perestroika and glasnost. On the other hand in turkey, similar policies were held by the Prime Minister Turgut Özal at the same time period.

Gorbachev inherited a declining economy and weak state in 1985. In this respect, something should be done for this declining economy under the Gorbachev regime. After he came to power he investigated some ways in order to ameliorate the economic situation of the country. According to Gorbachev the most likely way to terminate this poor situation was a reform referring to depoliticized management of the Soviet economy through market system.⁶⁹

The Soviet Union on the one hand and Turkey on the other hand, have directed their faces towards the same direction. That Western and liberal oriented policies brought them together and created an arena to act together as two big powers of the region. In order to achieve the aimed policies Turkish and Soviet governments started to act together. However, these efforts performed by the governments to enhance economic cooperation yielded their results in the second half of the 1980s, after the private initiatives increased.⁷⁰ Besides the trade volume that increased in that period, in many other areas Turkey and the Soviet Union started to become partners.

⁶⁹ Phillips, Anthony; "The political economy of Russia: transition or condition" in *Russia After The Cold War* (ed.by Bowker, Mike and Cameron, Ross), Italia: Longman,1999, p.122.

⁷⁰ Kazgan, Gülten, "The Political Economy of Relations between Turkey and Russia" in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed.by Rittenberg, Libby), Connecticut: Praeger, 1998, p.140.

As stated by Kazgan, “[t]he agreement on the sale of natural gas by the USSR from 1985 [...] onward had served as the major basis on which economic relations expanded.”⁷¹ “But ironically Turkey’s attempts to play a role in the exploitation and distribution projects of oil and natural gas proved to be the major source of conflict between them [...].”⁷² Regarding that explanation, even before the dissolution of the Soviet Union, an economic interdependence have been the case in relations between Turkey and the Russian Federation.

In this period, however, the relations between Turkey and the Russian Federation had to be ceased because of collapse of the reforms of Gorbachev. Many reasons were adduced for the failure of Gorbachev’s reforms. However, Vladimir Popov suggests that “...Gorbachev reforms of 1985-91 failed not because they were gradual, but due to the weakening of the state institutional capacity leading to the inability of the government to control the flow of events.”⁷³ Lack of institutional structures and unsettled policies and applications yielded this result. Despite undeniable improvements in the three decades after Stalin’s death, the Soviet government ultimately proved unable to keep country from sliding into political, economic, and social decay.

In conclusion the relations between Turkey and the Soviet Russia that has been sought to be improved in the 1980s through the attempts of Özal and Gorbachev by their policies towards opening up should have to be

⁷¹ *Ibid.*, p.146.

⁷² *Ibid.*

⁷³ Popov, Vladimir, “Political Economy of Growth in Russia”, 2000, accessed on http://csis.org/files/media/isis/pubs/ruseur_wp_017.pdf

broken up for a while due to the regime change in Russia and change of world order.

CHAPTER 3

YELTSIN PERIOD

In the third chapter of the thesis, after giving information about the Yeltsin's statement in the newly established Russian Federation, Turkish-Russian economic relations in the Yeltsin period between the years 1991-2000 will be assessed. In line with the explanation that is both Turkey and the Russian Federation is on the path towards liberalization, they have tendency towards cooperation. However, through the economic interdependence base on the relations in energy and trade in Yeltsin period, the costs paid by each, have created the potential of conflict between them.

3.1. Turkish-Russian Economic Relations During Yeltsin Period

Boris Yeltsin was the most important player in the transition period from the Soviet Union to the Russian Federation. The end of the Soviet Union in the sake of Boris Yeltsin's victory and presidency required a new step towards transformation of the old and ruined economic structure of the new Russian Federation. As a long-ruled leader, he stayed on the seat approximately for a decade.

As a follower of Western ideology, he started to turn post-Soviet Russia's face towards West and he tried to eliminate the cracks asserted by Gorbachev reforms. In order to realize these aims he offered his own government's reforms. For a state that experienced 70 years authoritarian rule, to project and implement a reform was not so simple. Although, "Yeltsin believed that the only realistic way to rebuild Russia's shattered

economy was through market reform, he still faced considerable opposition inside Russia.”⁷⁴ However after the collapse of the Soviet Union many people looked at Boris Yeltsin as their hero that will move Russia to democracy and free-market economy. Which type of reform would be successful in order to achieve these targets was the essential point that was bedeviling the minds. After a short time Yeltsin explained new economic system that shall be realized in the shortest time and he adopted a reform aiming at transforming the economy into a market economy and stabilizing macroeconomic nature of the country. However, either the inexperienced management of economy and corruptions remained negative impacts on Yeltsin’s reforms.

Actually, “...Yeltsin understood little of economics; he encouraged Gaidar to be ambitious and told his acting Prime Minister to make the reforms ‘quick and beautiful’.”⁷⁵ Because of the fact that, Yeltsin left the whole economic reforms to Gaidar, who is a strong advocate of the market economy, the route of Soviet economy which was drawn before find its method to reach to the end point. Through the consideration of the declining economy with the remainders of the Soviet economy, Gaidar advocated to solve the problem with a radical shift. In this respect he suggested to apply a ‘shock therapy’. It is applied through two stages among which the first phase included the ‘liberalisation of prices and foreign trade, and, second, financial stabilization through tight monetary and fiscal policies.’⁷⁶ However, Gaidar’s plan could not be realized. Instead of solving problems it

⁷⁴ Phillips, Anthony. “The political economy of Russia: transition or condition” in *Russia After The Cold War* (ed.by Bowker, Mike and Cameron, Ross), Italia: Longman, 1999, p.123

⁷⁵ *Ibid.*

⁷⁶ *Ibid.*, p.124.

had created new problems. As Phillips argues, “[s]hock therapy had a truly devastating impact on the vast majority of Russian people.”⁷⁷

However, although their actions were resulted in fiasco, even after these failed reforms Yeltsin government adopted a new constitution in 1993. As Tikhomirov suggests, with that constitution Yeltsin government was shown as “ready to sacrifice some earlier democratic gains and to turn increasingly non-democratic ways of rule as the means of promoting radical reform”.⁷⁸ Through these unstable policies, as argued by Tikhomirov, no clearly defined and realistic reform strategy could be defined and implemented until 1998.⁷⁹

The main target was dissolving the Soviet Union and establishing a Western type, liberal state. In order to achieve this target, many functional and fundamental measures were taken. According to Trenin, these measures have started as ultra liberal, opening up to the West and aspiring to full integration with it.⁸⁰ This kind of an ultra liberal policy have resulted in dissolution of the Soviet Union. However, this ultra liberal reforms did not stay just as an ultra liberal but peculiarly as authoritarian as Tikhomirov argues.⁸¹

⁷⁷ *Ibid.*, p.125.

⁷⁸ Tikhomirov, Vladimir; *The Political Economy of Post Soviet Russia*, New York: Palgrave, 2000,p.329.

⁷⁹ *Ibid.*, p.330.

⁸⁰ Trenin, Dmitri; *The End of Eurasia; Russia on the Border Between Geopolitics and Globalization*, Washington DC: Praeger, 2002, p.228.

⁸¹ Tikhomirov, Vladimir; *The Political Economy of Post Soviet Russia*, New York:Palgrave, 2000, p.2.

As an interesting co-existence, both authoritarian features and liberalizing, democratic features come together at that period. In line with this co-existence the President Yeltsin declared the new Russian foreign policy had two main tasks: “to secure Russia’s entry into the civilized community [which can be assessed as the part of the liberalizing facts], and to enlist maximum support for efforts towards Russia’s transformation.” [which can be assessed as the search of a national interest]⁸² Through this statement it can be said that the path of liberalization has been mixed with the inherited characteristics and national interest. In other words, in terms of the need of support towards transformation of the regime, Russia has come to a point that is interdependent to the other states.

In terms of Turkish-Russian relations in the Yeltsin period, the relations have been shaped through the economic relations generally. Due to the complementary economic characters between Turkish and Russian economies has paved the way for furthering economic relations between the two. While on the one hand Russia has been almost indispensable in terms of energy imports, Turkish goods in big numbers have been marketed in Russian markets. The political relations between them have also been shaped through the petroleum and natural gas transfer pipeline routes.

Regarding international relations in terms of the relations between Turkey and the Russian Federation, the Western powers’ interest was also on these critical bilateral relations and on the other hand, lack of technological and capital has had the role in bringing the West within the

⁸² Crow, Suzanne., “Russian Federation Faces Foreign Policy Dilemmas”, RFE/rl Russian Report, 6 March 1992, p.15 cited in Mangıtlı, Ulaş; *Russia, Turkey and Eurasia: Intersection of Turkish and Russian Foreign Policy Spheres in Eurasia*, Unpublished M.A. Thesis, Ankara: Bilkent University, 2001, p.7.

issue.⁸³ In this respect, it won't be wrong to say that, the interdependence has been increasing both between the Russian Federation and Turkey and with the Western world.

Another factor that has had important impact on the relations between Turkey and the Russian Federation has become the financial crisis of the Russian Federation experienced in 1998. As newly transforming states to the free market economy, the problems and instabilities in economic situations have had reciprocal impacts on each other. However, Turkey has been affected by the changes in the Russian market more than the Russian economy affected by the changes in Turkish economy.⁸⁴ In this respect that can be said that Turkey is more dependent to the Russian Federation in economic terms which means that the costs paid are more than the Russians paid for the stable relations. The reason of that situation is, while the Russian market has been an important market for Turkish goods and exports, Turkey has not been the number one for the Russian imports. In contrast, Turkey has become always among the firsts in Russian exports.⁸⁵

To sum up, the new world order, the new free market system, changes in domestic politics and the economic situations has an important role in shaping the relations between Turkey and the Russian federation. However, the role of the economic relations is the locomotive factor that have shaped the relations in Yeltsin period. On the one hand, the level of economic interdependence in terms of trade and energy issues with the complementary characters of the economies while bringing them to a

⁸³ Kazgan, Gülten; "Batı İle İlişkilerin Gölgesinde Türkiye-Rusya İlişkileri" in *Dünden Bugüne Türkiye ve Rusya: Politik, Ekonomik ve Kültürel İlişkiler* (ed.by Kazgan, Gülten and Ulçenko, Natalya), İstanbul: İstanbul Bilgi Üniversitesi Yayınları, 2003, p.149.

⁸⁴ *Ibid.*, p.160

⁸⁵ *Ibid.*

position of economic partners, on the other hand putting on them the costs of that interdependence that may have the potential of conflict. In the next parts, these economic relations will be analyzed through four important areas of economic transactions between Turkey and the Russian Federation.

3.2. Trade

In this part of the thesis the deepening economic relations between Turkey and Russia have started to be analyzed within the limits of economic interdependence.

Through the fact that Yeltsin period was forming the initial relations between Turkey and Russia in the post-Soviet period, it has great importance on the evolution of conducts between the two. However, as the focus of the thesis and as the nature of the post-Soviet world the relations has been shaped on not only political relations but also economic relations creating an an environment in which the relations are shaped through economic interdependence. Bearing this line of explanation in mind, it is better to begin with an assessment mentioning the significance of trade in international political economy and bilateral relations.

As very significant item in terms of economic relations today, even before the energy dominated it, it was the first. So, trade has had a huge importance in improving the relations between Turkey and the Russian Federation through the point of an economic view. Especially the variable character of the trade between Turkey and Russia provided a wide spectrum of preferences and means in terms of Turkish-Russian economic relations. Because of the fact that mutual interests has been in the agenda in terms of trade relations between the two, the level of trade has sharply increased in Yeltsin period. As an explanation of that sharp increase, the

“[c]omplementary character of the Turkish and the Russian economies played an important role to develop trade and economic relations in the second half of 1980s and 1990s in various sectors.”⁸⁶ That complementary character of the economies have created an environment for economic interdependence between each other.

According to Balaam and Veseth trade may be used by the states in order to create economic interdependence.⁸⁷ Surely it does not stay limited with just interdependence in economic field of relations. They also add that this economic interdependence in sight may also provide them to involve in their economic, even in their military issues such as their preference not to use military force.⁸⁸ Taking that explanation into consideration, the trade volume between Turkey and Russia that was increased in considerable numbers after the collapse of the Soviet Union does not have only an international economic aspect but also a political and diplomatical aspect.

From another perspective, another question may come into the minds. As mostly clashing states throughout the history, how these reached levels could be achieved in terms of the beginning of Turkish-Russian trade relations. Undoubtedly that has two aspects. On the one hand, when it is considered from the Russian perspective it can be seen as the need of a transition economy for capital and goods.⁸⁹ On the other hand when it is

⁸⁶ Kazgan, Gülten; “A Survey of Turkish-Russian Economic Relations in the 1990s”, *Insight Turkey*, 2002, Vol. 4, No. 2, p.101 cited in Gürtuna, Anıl; Gürtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara:METU, 2006, p. 77.

⁸⁷ Balaam, David N. and Veseth, Michael; *Introduction to International Political Economy*, New Jersey: Prentice Hall Inc., 1996, p.121.

⁸⁸ *Ibid.*

⁸⁹ Sezer, Duygu Bazoğlu; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1, p.61.

taken into consideration from the Turkish perspective, the search for new markets and new economic regions in the world to integrate was the main points in the minds of the Turkish businessmen.⁹⁰ Through this line of explanation it can obviously be seen that the demands and supplies of these two neighboring states have created environment for them to cooperate in trade. In other words, “[t]he complementary character of their economies forced them to cooperate first in the field of economics and this played an important role for the development of relations in other fields.”⁹¹ In other words, the vulnerabilities and sensitivities have made them more interdependent to each other as two regional powers.

In terms of time, because of many other developments in the world, the relations were not very stable in reality before the 1990s. As Şener mentioned, “[i]n the field of economic cooperation and trade, there were significant fluctuations on a yearly basis, but one can say that the T-R trade volume stabilized at the relatively high-level that it reached by the early 1990s.”⁹² The reforms that were tried to be implemented and the regime change have created this unstable environment. However, the immediately post-Soviet measures taken by two countries have resulted in more stabilized trade relations.

⁹⁰ *Ibid.*

⁹¹ Grtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Ankara: METU, Unpublished M.A. Thesis 2006, p. 7.

⁹² Aktrk, Şener; “Turkish-Russian Relations after the Cold War (1992-2002)”, *Turkish Studies*, 2006, Vol. 7, No. 3, p.344.

Table 1. Turkish-Russian Trade Relations in Yeltsin Period⁹³

	X (euro)	M (euro)
1993	432.805.101	1.318.035.123
1994	684.715.671	880.477.777
1995	958.701.327	1.611.116.187
1996	1.205.477.511	1.534.313.528
1997	1.833.092.304	1.934.227.660
1998	1.221.022.875	1.930.022.551
1999	552.365.409	2.240.889.173

Source: Turkish Statistics Institute

As mentioned in the table, looking at the data between 1993 and 1999 while on the one hand export of Turkey has an important amount of increase till the financial crisis of Russia in 1998, the level of import in terms of Turkey has sharply increased in 1999. Looking at the export of Turkey to Russia on the other hand, it has increased approximately three times from 1993. The effect of 1998 economic crisis has been seen in the next year, in 1999. Besides the financial crisis experienced in Turkey and the economic crisis in Russia in 1998, the political fluctuations lived in Russia can also be seen as a reason of that table.

After 1998 financial crisis of Russia the bilateral trade relations have been moved to a negative direction for Turkey. “Prospects for economic cooperation in the short term seem dim because everything from trade to tourism has been hit by the 1997 East Asian economic crisis and the August 1998 Russian financial collapse.”⁹⁴ However, beginning from the year 2000, Turkish exports to Russia again tended to increase and imports from Russia have tended to decline. When it comes to the goods mostly traded between

⁹³ Turkish-Russian Trade Relations in Yeltsin Period, extracted from the foreign trade data accessed on <http://www.tuik.gov.tr>

⁹⁴ Sezer, Duygu Bazoğlu; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1, p.75.

Turkey and Russia, undoubtedly natural gas forms the main part of the volume. “Russian natural gas not only increased the volume of trade between Turkey and Russia, but because of its sheer amount has also started to create a negative trade balance for Turkey.”⁹⁵ Besides natural gas specifically, mineral fuels, mineral oils and derivatives and iron-steel formed the huge part of trade between Turkey and Russia.

In terms of Turkish export to Russia while knitted or un-knitted wearing apparels are the first for all times until 1999, electrical materials, plastics and plastic materials and food sector especially the cereals dominates the volume. However, interestingly in 1996 export of motor vehicles, bicycles and its accessories was in considerable amounts. In short, “[f]ollowing the boom in trade relations, Turkey has been exporting to Russia mainly services and consumer products and importing from Russia products of heavy industry, inclusive of military equipment, in addition to fuel materials.”⁹⁶ In that respect, looking at the goods imported by the Russian Federation, it can obviously be seen that except the food sector, the other sectors have not had the potential of making the Russian Federation interdependent to Turkey.

Another aspect of the trade between Turkey and Russia is about security. “Russia has also been interested in arms exports to Turkey.”⁹⁷ In this respect, in other words in terms of trade and security, arms and weapons

⁹⁵ Yanik, Lerna K.; “Allies or Partners? An Appraisal of Turkey’s Ties to Russia, 1991–2007”, *East European Quarterly*, 2007, Vol. XLI, No. 3, p.361.

⁹⁶ Kazgan, Gülten, “The Political Economy of Relations between Turkey and Russia” in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed.by Rittenberg, Libby), Connecticut: Praeger, 1998, p.149.

⁹⁷ “Russia: ‘Source’ Comments on Moscow-Ankara Military Trade”, FBIS-SOV-96-244, 12/17/96, in Moscow cited in Sezer, Duygu Bazoğlu ;”Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1, p.74.

sales has had a big portion. So, the relation between Russia and Turkey shifted to another stage beyond its basic nature of imports and exports of just goods. It gains an important political and diplomatic importance and goes beyond staying in just an economical point. This kind of trade, basing on the security issues of course more than an economical relation. Although it has a combining and cooperating aspect, it has also become a reason of many controversies. For example; the sale of S-300 air defense missiles to the Greek-Cypriot government in Nicosia through Russian arms exports policies is perceived as a destabilizing factor by Turkish side.⁹⁸ In this context, on the one hand there is picture of cooperation in terms of security of Turkey, but on the other hand there is a table of contradiction presenting a picture of cooperation with the rival side of the cooperationist. This type of good traded between two countries, especially between two regional powers easily has created the economic interdependence to each other because of the fact that, that kind of a vital issue related to the security have the role of limiting the relations and policies in that context of trade.

However, when the balance of trade between Turkey and Russia is analyzed, it is obviously seen that there is a negative balance for Turkey. Yet, “[t]he Russians claim that there is no such negative balance because the trade numbers do not include revenue generated by shuttle traders, investments of the Turkish enterprises in Russia, and the Russian tourists coming to Turkey.”⁹⁹ As also stated by Kazgan, the given data are just limited due to the fact that being not able to display the true importance of

⁹⁸ Sezer, Duygu Bazoğlu; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1, p.64.

⁹⁹ Yanık, Lerna K.; “Allies or Partners? An Appraisal of Turkey’s Ties to Russia, 1991-2007”, *East European Quarterly*, 2007, Vol. XLI, No. 3, p.361.

Russia in Turkey's exports.¹⁰⁰ Because it is clearly known that the figures related to the trade between Turkey and Russia should also include the informal side of the story, namely the shuttle or suitcase trade.

Because of the lack of production and excess demand in Russia, firstly in the beginning of the 1990s the shuttle trade was a type of trade held in order to prove the needs.¹⁰¹ However, beginning from 1995 the shuttle trade between Turkey and Russia has tended to move backward. According to Cihangir Gürkan Şen, the entrance of Chinese and Polish cheap goods to the Russian markets created alternatives to the Turkish goods through creating a rivalry among them. Furthermore he also says that the process for membership to the IMF and WTO required some limitations to the shuttle trade and unofficial trade.¹⁰² Besides these reasons, the wide existence of Turkish stores and goods relative to the previous terms may also resulted in decrease in quantity of demands of Russians for Turkish goods.

Despite all these facts shuttle trade has an unignorable volume market between Turkey and Russia. "Shuttle trade played a functional role to shape the bilateral economic relations between Turkey and the Russian Federation not only because of billions of dollars entering the Turkish territory but also for the opportunities encouraging the establishment of

¹⁰⁰ Kazgan, Gülten, "The Political Economy of Relations between Turkey and Russia" in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed.by Rittenberg, Libby), Connecticut: Praeger, 1998, p.150.

¹⁰¹ Şen, Cihangir Gürkan; "Türkiye-Rusya Ekonomik ve Ticari İlişkileri", Moscow: Rus-Türk İşadamları Birliği, May 2003, p. 8. Accessed on <http://www.rtibnet.com/contents.php?cid=19>.

¹⁰² *Ibid.*, p.9.

small businesses and the employment of a number of people in these businesses.”¹⁰³

In terms of its effects on small firms, according to Kazgan, “[...] goods traded in this market are rather low-quality products that Turkey cannot market elsewhere and that are sold at very low prices.”¹⁰⁴ In this respect the producers of such low quality products which are generally the small firms can reach an export outlet in a direct way without the burden of official procedures and constraints on export.¹⁰⁵ Another important point again asserted by Kazgan is its importance on the regional development. She inserts the importance of the suitcase trade market in terms of Turkey’s regional development through explaining its catalyzing role in reviving the economy of northeastern Anatolia, namely Trabzon.¹⁰⁶

To sum, in Yeltsin period as the beginning of the post-Soviet era, in terms of Turkish Russian trade relations until the financial crisis of 1998, immediately increasing trade volume has stemmed from and resulted in various political improvements. While on the one hand a newly established transitional economy, anxious public of that state, new practices and newly shaping foreign policy and world order, and on the other hand Turkey trying to determine her place in that new world order, trying to become popular in

¹⁰³ Gürtuna, Anıl.; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara: METU, 2006, p. 80.

¹⁰⁴ Kazgan, Gülten, “The Political Economy of Relations between Turkey and Russia” in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed. by Rittenberg, Libby), Connecticut: Praeger, 1998, p.150.

¹⁰⁵ *Ibid.*

¹⁰⁶ Kazgan, Gülten, “The Political Economy of Relations between Turkey and Russia” in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed. by Rittenberg, Libby), Connecticut: Praeger, 1998, p.150.

the Blacksea Region and realizing new responsibilities and foreign policy facts have decided to use trade in order to establish friendly relations keeping in mind their interests. Furthermore, with the complementary character and in the search of partnership in the region, they became important partners in economic arena. However, due to the importance of the goods traded and the interests clashed on the goods and the region, Turkey and the Russian Federation's relations have been shaped through the limits of economic interdependence. That is to say, to stabilize political relations trade relations is used to create a cooperational environment keeping in mind the possibilities of conflict with lack of confidence.

3.3. Energy

Energy has been the most important sector of economic transaction between Turkey and the Russian Federation. "Perhaps the most critical area of economic relations between the two countries concerns fuel and energy dependence of Turkey and Russia."¹⁰⁷ Due to the role in politics and security matters it is not just limited to being a basic economic transaction but, it is a source of energy and economic dependence of Turkey to the Russian Federation.

When we look at the Soviet term, most of the fuel and crude oil was imported mainly from the Middle East instead of the USSR.¹⁰⁸ However with the agreement signed in 1984 the picture has changed and the Soviet Union became the main energy partner of Turkey. Not only in terms of

¹⁰⁷ Warhola, J. W. and Mitchell, William A.; "The Warming of Turkish-Russian Relations: Motives and Implications", *Demokratizatsiya*, 2006, Vol. 14, No. 1, p.130.

¹⁰⁸ Kazgan, Gülten, "The Political Economy of Relations between Turkey and Russia" in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed. by Rittenberg, Libby), Connecticut: Praeger, 1998, p.147.

energy and natural gas imported to Turkey, but also Turkey's transitory role on the way of the pipelines between Russia and the West made Turkey a key on the matter. In that regard, the energy issue not just have created dependence of Turkey to the Russian Federation however presents a picture of economic interdependence with sensitivity.

1984 natural gas agreement has been the starting point of warming economic relations between Turkey and Russia. As also mentioned by Yanık, may be "...[it] was the most crucial step boosting Cold War economic activity between Turkey and Russia."¹⁰⁹ Turkey's energy need and dependency has more supported this kind of activity. Especially, "[t]he agreement on the sale of natural gas by the USSR from 1985 and by the Russian Federation from 1992 onward had served as the major basis on which economic relations expanded."¹¹⁰ These economic relations that have been expanded has reflected to the political relations.

Within the framework of the trade volume, energy has been the biggest part of the volume especially after 1987 when Russia started to give energy to Turkey. "The expansion in the total volume of trade from 1987 onward calls for a brief look into the nature of the natural gas agreement since it has been acting as the major catalyzer."¹¹¹ As one of the biggest gas producers, regarding the increasing demand Russia has produced largest quantity of gas in 1991.

¹⁰⁹ Yanık, Lerna K.; "Allies or Partners? An Appraisal of Turkey's Ties to Russia, 1991-2007", *East European Quarterly*, 2007, Vol. XLI, No. 3, p.359.

¹¹⁰ Kazgan, Gülten, "The Political Economy of Relations between Turkey and Russia" in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed.by Rittenberg, Libby), Connecticut: Praeger, 1998, p.146.

¹¹¹ *Ibid.*, p.149

Additionally, after the natural gas agreement signed in Yeltsin period in 1994, the Russian federation started to deal with economic interests through the energy market. Within the transitional economy that had the enthusiasm to be capitalized Turkey's either the strategic location or energy dependency would provide Russia many opportunities. "...[E]nergy relations of Turkey and the Russian Federation are questioned given the interdependency between Turkey as consumer of the Russian resources and the Russian Federation as supplier."¹¹² However, "[a]s opposed to the recent arguments that the Russian aim is to control the Turkish markets, however, Russian success in energy deals with Turkey is important to prevent transfer of Caspian resources to new consumers of the West via Turkey."¹¹³ In line with this explanation, neither Russian energy, nor Turkey would have paid important costs due to the interdependence. In that regard, Turkey's shift to a new pipeline or Turkey's refusal of being a transit route for the Russian natural gas to the West would have devastating economic damages to them and political and military interventions would not be a surprise.

In 1997, Viktor Chernomyrdin visited Turkey. After the dissolution of the Soviet Union, for the first time a head of government was visiting Turkey in order to close the Blue Stream that was a huge natural gas deal.¹¹⁴ In this case "Turkish Prime Minister Mesut Yılmaz expressed the Turkish desire to discuss any question and to cooperate rather than compete with its great neighbor."¹¹⁵ With respect to the explanation made by Turkish Prime

¹¹² Gürtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara: METU, 2006, p. 87.

¹¹³ *Ibid.*

¹¹⁴ Sezer, Duygu Bazoğlu; "Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership", *Turkish Studies*, 2000, Vol.1, No.1, p.66.

¹¹⁵ *Ibid.*

Minister, “Russian Prime Minister Chernomyrdin declared that ‘If Turkey shakes the hand extended by Russia, we shall become strategic partners in the economy in the twenty-first century’.”¹¹⁶ Through this argument, as may be guessed he continued to his speech by the words mentioning regional cooperation. He said that; “We shall be able to do much together in third countries and contribute to the insurance of stability and tranquility in the region”¹¹⁷ Following that agreement, the economic and strategic cooperation has deepened with many assets and liabilities to Turkey and the Russian Federation. While on the one hand Turkey would have the advantage of having its energy from the neighbour, the Russian Federation has had the idea in mind to benefit from Turkey’s existence at the road to the Western world and the huge market needing energy.

“Russia’s natural resources are part of its comparative economic advantage and state management of their performance will ensure that advantage is the exploited principally to support national goals.”¹¹⁸ “As Fiona Hill argues, energy sector has been the main source of value to subsidize and sustain the vast portion of Russia’s economy that has been unable to transform into market economy”.¹¹⁹ Furthermore, “energy is by far the most important sector in the Russian economy and a central pillar of its foreign trade”¹²⁰ As stated in Warhola and Mitchell “Russia’s economic

¹¹⁶ *Ibid.*

¹¹⁷ *Ibid.*, p.64

¹¹⁸ Grace, John D.; *Russian Oil Supply: Performance and Prospects*, Oxford: Oxford University Press, 2005, p. 217.

¹¹⁹ Soltanov, Elnur; *A Political Economy of Russian Foreign Policy: The Effects of Natural Resource- Financial Sectors on the Formation of Russian Foreign Policy in the Context of the International Market*, Unpublished M.A. Thesis, Ankara: METU,2004, p.31.

¹²⁰ Von Hirschhausen, Christian; “The Internationalization of the Russian Gas Industry and Its Export Potential” in *Economic opening up and growth in Russia* (ed. by Gavrilencov, E., Welfens, P.J.J., Wiegert, R.), Verlag Berlin: Springer, 2004, p.141.

growth over the last five years has been fueled primarily by energy exports , particularly given the boom in Russian oil production and relatively high world oil prices during the period. This type of growth has made the Russian economy dangerously dependent on oil and natural gas exports and especially vulnerable to fluctuations in world oil prices.”¹²¹ Furthermore, “From its own economic perspective, Russia is interested in transportation of Caspian oil through Russia to Novorossiysk and from there by way of the Black Sea to Europe.”¹²²

On the other hand, it has been a huge part of opportunities for Russia’s strategic interests also. The changes in the international situation are ongoing for Turkey and the former Soviet states and one of the most important issues for them is the future of their relationship regarding energy resources.¹²³ In this regard, the huge impact of energy on bilateral relations did not stay limited to the area of economy, but strategic and political interests has also been affected by these core bilateral matter.

As stated by Gökhan Bacık, Turkey is important as a place where significant profits may be generated by shipping oil and natural gas through Turkish territory to Western markets.¹²⁴ On the first side, energy hub of Turkey that made her dependent to Russian gas has improved the relations with some risks and possibilities of conflict at hand. Moreover, the

¹²¹ Warhola, J. W. and Mitchell, William A. ;“The Warming of Turkish-Russian Relations: Motives and Implications”, *Demokratizatsiya*,2006, Vol. 14, No. 1, p.132.

¹²² Kovalev, Felix N.; “Transportation of Caspian Oil Through Russia”. in *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development* (ed.by Amirahmadi, Hooshang), New York: St. Martin’s Press, 2000, p.155.

¹²³ Ruseckas, Laurent; “Turkey and Eurasia: Opportunities and Risks in the Caspian Pipeline Derby”, *Journal of International Affairs*, 2000, Vol. 54, No.1, p.217.

¹²⁴ Bacık, Gökhan; “The Blue Stream Project, Energy Co-operation and Conflicting Interests”, *Turkish Studies*, 2001, Vol. 2, No. 2, p. 87.

intermediary bridging role put some burdens on Turkey that should have set a balanced and bisided foreign policy. From that perspective, in order to achieve moderate relations on that core issue such as energy and in order to play that important a fair role for both the Russian Federation and Europe “[...] stability and co-operation in the region can greatly benefit Turkey.”¹²⁵

Especially from the economical point of view Turkey benefits so much due to the fact that “[...] Turkey could offset part of its energy import bill through transit fees charged for oil and gas shipments across its territory.”¹²⁶ “Given that Turkey is so energy-resource dependent on Russia, stable diplomatic and economic relations are paramount.”¹²⁷ Moreover, “Turkey for its part endorses the Baku-Ceyhan line. To boost its prospects, Turkey undertook in 1994 to restrict tanker traffic from the Black Sea through the Bosphorus in order to dampen the enthusiasm for the rival Novorossiysk route.”¹²⁸ In that regard, “Improvement of navigation through the straits will be in the interest of Turkey itself.”¹²⁹

“Turkey and the Russian Federation, the former as one of the fastest growing markets of energy and the other as one of the biggest suppliers of natural gas and oil resources have an important place in debates concerning the issue of energy.”¹³⁰ As stated by Yanık, Russian natural gas has been the

¹²⁵ *Ibid.*

¹²⁶ *Ibid.*

¹²⁷ Warhola, J. W. and Mitchell, William A. ;“The Warming of Turkish-Russian Relations: Motives and Implications”, *Demokratizatsiya*, 2006, Vol. 14, No. 1, p.130

¹²⁸ Kovalev, Felix N.; “Transportation of Caspian Oil Through Russia” in *The Caspian Region at a Crossroad : Challenges of a New Frontier of Energy and Development* (ed.by Amirahmadi, Hooshang), New York: St. Martin’s Press, 2000, p.159.

¹²⁹ *Ibid.*, p.160.

¹³⁰ Gürtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara: METU, 2006, p. 86

key to the trade between them helping Turkish businessmen take root in the Russian business scene and causing natural gas to become the most important trade item helping trade volumes to skyrocket ¹³¹between Turkey and the Russian Federation.

Table 2. Turkey's Natural Gas Agreements

Agreements	Amount (Plato) (billion m ³ /year)	Date of Signature	Duration (year)	Status
Rus.Fed. (West)	6	14 February 1986	25	On
Algeria (LNG)	4	14 April 1988	20	On
Nigeria (LNG)	1.2	9 November 1995	22	On
Iran	10	8 August 1996	25	On
Rus. Fed. (Blacksea)	16	15 December 1997	25	On
Rus. Fed. (West)	8	18 February 1998	23	On
Turkmenistan	16	21 May 1999	30	-
Azerbaijan	6.6	12 March 2001	15	On

Source: BOTAŞ¹³²

According to the table, the agreements signed in Yeltsin period have an important affect on the dependence of Turkey and Russia. Through the agreement signed on Western pipeline on the other hand, Russian deal with the Western markets shows itself via Turkey. By this data, it can be obviously seen that a kind of deteriorating relations will have the effect on economy through the agreements signed, energy situation of Turkey and a future regional stability. The Blue Stream Project that has been firstly signed in Yeltsin period has an important prevalence in the energy relations between Turkey and the Russian Federation. Even it is disclaimed that

¹³¹ Yanık, Lerna K. ; “Allies or Partners? An Appraisal of Turkey’s Ties to Russia, 1991–2007”, *East European Quarterly*, 2007, Vol. XLI, No. 3, p.360.

¹³² “Gas Trade”, accessed on <http://www.botas.gov.tr/index.asp>

Baku-Supsa route and Blue Stream's construction is because of Turkish dependency on Russian energy resources.¹³³ These are the projects serving for the interests of different actors. For example, the role of Blue Stream project is an important role for interests of both the Russian Federation and Turkey and constructed through their priorities.

After it has been decided and negotiated, many opinions have been raised by both sides' sections. For example in Turkey while some argue that Turkey should reduce its dependence on Russia by multiplying its sources of supply, on the other hand others view the *Blue Stream* as an important step to developing a strategic partnership with Russia.¹³⁴ However, the thesis is closer to the argument that, that much amount of energy linkage between Turkey and the Russian Federation has the potential to create interdependency. Even it has the potential of creating a monopoly of Russian gas in Turkey bringing Turkey to a vulnerable position with economic interdependence. Additionally, when the project has been accepted, increase in passages of tanker through the straits that resulted in increase in transport costs represents clashes of economic interest intertwined with power conflicts.¹³⁵

As the argument of my thesis, the relations between Turkey and the Russian Federation have been shaped through economic relations between them. In this respect, the economic interdependence put some limits to the

¹³³ Gürtuna, Anıl; *Turkish-Russian Relations in the Post-Soviet Era*, Unpublished M.A. Thesis, Ankara: METU, 2006, p. 87.

¹³⁴ Sezer, Duygu Bazoğlu; "Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership", *Turkish Studies*, 2000, Vol.1, No. 1, p.74.

¹³⁵ Kazgan, Gülten, "The Political Economy of Relations between Turkey and Russia" in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed. by Rittenberg, Libby), Connecticut: Praeger, 1998, p.147.

relations. Energy has been the most prominent among these relations that created interdependence with each other, with the huge costs that would be paid in case of vulnerability or sensitivity of each side. As mentioned in Bacik's article "[t]his approach would suit Turkey for several reasons: environmental; geographic; energy security; economic; and political."¹³⁶

To conclude, it can be asserted that trade and energy are two very effective and interrelated sectors for the faith of the Russian economy. To sum up, economic relations over the energy issue with one's dependency to other, search of alternatives keeping in mind the security issue and huge economic transactions between the two has again indicates that, that kind of an economic relation has political cost such as it would have vice versa.

3.4. Investment

After the dissolution of the Soviet Union, Turkish investments and Turkish existence in construction sector has increased in the Russian Federation. Through using the advantage of high volume trade relations and improving relations between two states, Turkish investors and constructors highly engaged in business in the Russian Federation. The small investments started in Gorbachev's reformation period have been increased and new bigger investments have been initiated in the Russian Federation. Especially the construction sector has very much inserted into the sector in the newly restructuring economy and state.

¹³⁶ <http://www.eia.doe.gov/emeu/cabs/turkey> in May 25, 2001 cited in Bacik, Gökhan; "The Blue Stream Project, Energy Co-operation and Conflicting Interests", *Turkish Studies*, 2001, Vol. 2, No. 2, p. 87.

As one of the biggest investors Enka has first invested in Russia in 1988 right after the Natural Gas Agreement signed in 1984 and started to be implemented in 1987 between Turkey and the Russian Federation. With a considerable amount of foreign investment in Russia, it was one of the biggest investments and one of the first examples even before the dissolution of the union. Enka's first initiative in Russia has motivated them to make long term investments and the company's existence in Russia has increased in 1990.

Another important Turkish investor in Russia is Efes Beverages Group which has also first invested in 1996. Besides Efes and Enka, Netaş has also invested firstly in 1995. In Yeltsin period, on the way towards capitalism, among the very first foreign investments, the first steps towards an existence of Turkish investments has been put. In this respect, those investments made would become important measures for economic and strategic relations between Turkey and Russia.

Thanks to the 1998 crisis in Russia, the level of investments has increased after the crisis due to the fact that Russia has started to implement export-subsidizing policy. Because of the fact that making trade has become more difficult, the investment has seemed to be a more feasible way of conducting economic relations between the two.¹³⁷ On the line where the economic relations have been weakening, the crisis environment has made the reverse effect on the investment sector.

From another perspective, construction sector has become the image-rescuing matter behind the fact of shuttle trade between Turkey and the Russian Federation. After 1987 natural gas agreement that has been agreeing

¹³⁷ DEİK; *Rusya Ülke Bülteni*, İstanbul: DEİK, 2008, p.39.

that Turkish side will pay the natural gas as goods and services to Russia, the number of construction firms in Russian market has increased. Especially after the dissolution of the Soviet Union, existence of Turkish firms has risen in Russian market and became first among countries in which Turkish contractors act. Until 1999 total construction level has become 9, 610 billion dollars in the post-Soviet period.¹³⁸

To sum up, Turkish investments in the Russian Federation has been initiated in Yeltsin period has had a constitutive impact on Turkish-Russian relations and mutual trust between two countries. The quality works done in the Russian Federation besides the low-quality shuttle trade has recovered the image of Turkey in Russia. Furthermore, in the immediate post-Soviet period the investment made by Turkish companies gave Russia employment areas, stimulated the market in Russia, met the fact of capitalism to an extent. In conclusion, in terms of economic interdependence in that sector, the interdependence seems no lead to any conflictual situation but it is a cooperational dependence with mutual benefits had.

3.5. Tourism

Another way that has improved the relations between Turkey and Russia has become tourism after the dissolution of the Soviet Union. Eliminated ideological confrontation after the dissolution of the Soviet Union has given way to the citizens of two countries to inspire each other. In that regard, the number of Russian tourists coming to Turkey has increased until 1998 economic crisis of Russia in Yeltsin period. Although the number of tourists has decreased in considerable amounts after the

¹³⁸ Kazgan, Gülten, "The Political Economy of Relations between Turkey and Russia" in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed.by Rittenberg, Libby), Connecticut: Praeger, 1998, p.160.

Russian economic crisis, Turkish financial crisis has given way to the tourists again because of the fact that the crisis hit the costs of holidays in Turkey. So, while on the one hand Turkey has suffered from the low-level prices conducted at tourism sector, the increased number of tourists has had an important impact on improving relations between Turkey and the Russian Federation.

Table 3. Number of tourists coming to Turkey from Russia (* All CIS states)

1990	223.211*
1991	731.869*
1992	1.241.010*
1993	1.167.044*
1994	1.430.107*
1995	1.356.735*
1996	1.582.423*
1997	1.513.566*
1998	676.183
1999	438.719

Source: Ministry of Culture and Tourism¹³⁹

According to the above table, although there is no record of the number of Russian tourists until 1998, the cumulated number for all CIS states have give the idea that, the level of interaction between Turkish and Russian public has enourmously increased with the wall collapsed. However, the data given for 1998 ad 1999 again obviously indicates the impact of Russian financial crisis on tourism.

¹³⁹ “Tourism Statistics”, accessed on:
<http://www.kulturturizm.gov.tr/TR/BelgeGoster.aspx?F6E10F8892433CFF2B81939FD5B60AFAFFDE13C621852F44>

That is to say, as an important economic factor that provides large quantity of revenues generated from the tourism, the tourists also have had an important role besides the politicians in order to strengthen the relations between post-Soviet Russia and Turkey. Thanks to the warm seas of Turkey and the Mediterranean Coasts, these places worked more than Cankaya and Kremlin in the transition period on the way to the good economic and political relations behind the critical energy and trade sectors. In this sector of economic transaction, the complementary character of Turkish tourism sector and demands of the Russian tourists fit each other. In that regard, both have satisfied with the services given and the income generated. That is to say, in terms of tourism, conflict has not the expectation, but the cooperation.

3.6. Limits of Economic Interdependence in terms of Relations Between Turkey and the Russian Federation During Yeltsin Period

In this part of the thesis, the mentioned relations in Yeltsin period will be assessed within the limits of economic interdependence. The complementary characteristics of their economy have become the main locomotive of the argument. Due to that complementary character, the relations generally have been generated by the mutual benefits or costs that can be described as interdependence. As Keohane argues, “[i]nterdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries.”¹⁴⁰ A transaction among countries has ceased to be explained as making zero sum cost-benefit impact on those countries. With the words of Keohane and

¹⁴⁰ Keohane, Robert O. and Nye, Joseph, S., *Power and Interdependence*; Boston: Little, Brown and Company, 1977, p.8.

Nye, the sides may either have sensitivity or vulnerability on the same transaction.¹⁴¹ While the sensitivity refers to the costs each side suffers in case of a reduction in the resources, the vulnerability means the weakness of one side in front of the other side due to lack of alternatives.¹⁴² The expected results of both kind of transaction has occurred differently.

When looking at Turkish-Russian relations from that framework, Turkey and the Russian Federation are interdependent in many fields. Due to the importance of economic relations within their relations, the relations in political or in security matters also have been affected by the economic relations and the economic interdependence to each other in Yeltsin period.

Different from the literature insisting on the improving partnership between Turkey and the Russian Federation, the improving relations have been base on cooperation at first sight by the opening up policies of Turkey and Yeltsin. However, increasing interdependence in time created sensitivity for Turkey and the Russian Federation. Regarding these sensitivities in mind, the costs should have to be paid and the policies have been set through this line of explanation.

In terms of trade relations in Yeltsin period, both Turkey and the Russian Federation were sensitive towards the relations. Because of the fact that the Russian Federation has been a huge and virgin market for Turkish goods, and there has been the advantage of geographical proximity, the level of Turkish goods have increased in Russian market shares. However, in

¹⁴¹ Keohane, Robert O. and Nye, Joseph, S. *Power and Interdependence*; Boston: Little, Brown and Company, 1977, p.12.

¹⁴² Proedrou, Filippos; “The EU-Russia Energy Approach Under the Prism of Interdependence”, *European Security*, 2007, Vol. 16, No 3, p.332.

terms of trade of Turkish goods such as motor vehicles, textiles and spare automotive parts, Russia was not so dependent on Turkey. But, because of the fact that trade of food stuff has had a huge share in the volume of trade and because of the vitality of the food due to lack of alternatives Russian sensitivity is a matter of fact in Turkish-Russian relations in Yeltsin period.

On the other hand, when Turkey's import from the Russian Federation is taken into consideration, the amount of natural resources raw materials made Turkey to be interdependent to Turkey. In that respect, Turkey become more sensitive than the Russian Federation due to the lack of alternative sources for the natural resources and increasing demands for the goods. In that regard, Turkey has implied a policy regarding friendly relations with the Russian Federation.

In terms of energy relations, the limits of economic interdependence can be seen obviously. While energy is an important card in the hands of the Russian Federation, in terms of transit routes and for dissemination of Russian gas to the West, the other card is at the hand of Turkey. In that regard, economic interdependence shows itself with Turkish sensitivity and Russian sensitivity.

Due to the fact that, Turkey has been importing the most of its energy and natural resources from the Russian Federation, Russia has the advantage of using that factor in policy matters. With the cool relations in the Yeltsin period, there was no conflict resulted from that kind of interdependence.

In terms of tourism and investment also, besides the fact that the economic interdependence is not as much as in trade and energy matters, just the developments in terms of trade or energy may have a conflictual

effect on the relations between Turkey and the Russian Federation. However, with regard to the Russia's criticism towards Turkey's engagement in Baku-Tbilisi-Ceyhan route and Russia has engaged in some supportive actions towards PKK and S-300 missiles crisis.¹⁴³

In conclusion, regarding the relations in Yeltsin period, due to the fact that, the relations were not so intensified in that term, the relations were based on economic relations between turkey and the Russian Federation. Although the huge trade relations due to the complementary character of Turkey and the Russian Federation and energy relations carrying risks for both sides as well as advantages, the potential of conflict has been in the agenda. So, it can be said that, the policies have been set with these considerations in mind.

¹⁴³ Karakaya, Dilek and Koraş, Fatih; "Enerji Bağlamında Türkiye Rusya İlişkileri" accessed on <http://www.turksam.org/tr/a411.html>.

CHAPTER 4

PUTIN PERIOD

In the fourth chapter of the thesis, after giving an information about Putin's statement towards Turkey and the relations between Turkey and the Russian Federation, Turkish-Russian economic relations in Putin period between 2000-2008 will be assessed. Through focusing on the economic relations as foreign policy priority of Putin, the limits of economic interdependence that is more than Yeltsin period will be analyzed.

4.1. Turkish-Russian Economic Relations during Putin Period

As a general assessment very firstly it should be said that, foreign policy of Russia and so the relation between Turkey and the Russian Federation has changed with Putin's presidency period. After Putin came to power in 2000, state officials made speeches towards friendship between Turkey and the Russian Federation and gave cooperation signals. These cooperation signals have been followed immediately by an Action Plan signed in 2001 at the United Nations. That is to say, from very first days to the end of the Putin's presidency the signals of Turkish-Russian cooperation were given with the wonder about it is a sincere action or the fact of diplomacy.

As a president who has taken a post-crisis and problematic transitional state, "Putin came to power determined to stop the rot, to

rebuild the Russian state, and to regain Russia's standing in the world."¹⁴⁴ After he came to power, his first resolution to the economic problems became liberal implementations. "In his first year at the Kremlin, Putin initiated very liberal tax reform legislations. Land reform bills have passed in the Duma, and legal reform is also high on Putin's agenda."¹⁴⁵ These liberalization steps had the purpose of attracting the investors in order to invest in Russia and internationalizing the economy and industry of Russia. However, that enthusiasm on liberalization has not gone lonely on its way. Power of the state was another component of Putin's new balance-purposed foreign policy.

According to Trenin also, steps taken "have been accompanied by Putin's drive to reassert the power of the state: some of it necessary...; some clearly excessive."¹⁴⁶ In this regard, Putin did not accept to follow harsh capitalism and liberalism, but inserted the realist side of the story into the foreign policy. In other words, as also stated by Shevtsova "[h]aving made a pro-Western shift in the foreign arena, on the domestic front he continued his policy of contradictory principles. He was liberal, statist, populist at the same time."¹⁴⁷ That can be assessed that, like in economic interdependence, the liberal policies in economic sphere have potential political impacts.

In terms of economy, "He [Putin] appointed a largely liberal team to pursue the policy of economic reform, and the reform policy was set out in

¹⁴⁴ Graham, Thomas; "Fragmentation of Russia", in *Russia After the Fall* (ed.by Kuchins, Andrew C.), Washington: The Brookings Institution Press, 2002, p.54.

¹⁴⁵ Trenin, Dmitri; "From Pragmatism to Strategic Choice: Is Russia's Security Policy Finally Becoming Realistic?" in *Russia After the Fall* (ed.by Kuchins, Andrew C.), Washington: The Brookings Institution Press, 2002, p.187.

¹⁴⁶ *Ibid.*

¹⁴⁷ Shevtsova, Lilia; *Putin's Russia*, Washington DC: The Brookings Institution Press, 2003, p.188.

the first two annual presidential messages to the Federal Assembly.”¹⁴⁸ In short, as Trenin suggests, “[t]he main tenets of the Kremlin’s economic policy under Putin –liberal reform at home plus integration into the world economy-are essentially sound.”¹⁴⁹ In that liberal context, pragmatism was the top point on Putin’s agenda. Within his first two years at office, his enthusiasm towards pragmatism with harsh cutbacks was appreciated.¹⁵⁰ Moreover, he achieved “a broad consensus on the basis of pragmatism and economic effectiveness.”¹⁵¹ as argued by Bobo Lo. However, that kind of policy has shaped only gradually by the difficulties stemmed from bringing together two contradictory commitments to liberalization and increased state oversight.¹⁵²

Besides the routine liberalization and new pragmatism fact, another very important improvement for the Russian Federation, Middle East, East and the world was the September 11 attack that realized in 2001 in the United States of America. This was the third time after Cold War and the dissolution of the Soviet Union that the states have to determine their places in that so called multipolar world. In that respect, “[t]he Russian president made the choice in favor of the West within two weeks after the terrorist attack of September 11, 2001.”¹⁵³ By this fact, the transitional state of the

¹⁴⁸ Trenin, Dmitri; “From Pragmatism to Strategic Choice: Is Russia’s Security Policy Finally Becoming Realistic?” in *Russia After the Fall* (ed.by Kuchins, Andrew C.), Washington: The Brookings Institution Press, 2002, p.187.

¹⁴⁹ *Ibid.*

¹⁵⁰ *Ibid.*

¹⁵¹ Lo, Bobo; *Russian Foreign Policy Making in the Post Soviet Era; Reality, Illusion and Mythmaking*, NewYork: Palgrave Macmillan, 2002,p.164.

¹⁵² Sakwa, Richard; *Putin: Russia’s Choice*, London: Routledge, 2004, p. 201.

¹⁵³ Trenin, Dmitri; “From Pragmatism to Strategic Choice: Is Russia’s Security Policy Finally Becoming Realistic?” in *Russia After the Fall* (ed.by Kuchins, Andrew C.), Washington: The Brookings Institution Press, 2002, p.187.

Russian Federation in 1990s left its place to a more determined, interest seeking, Western oriented foreign and economic policy.

In terms of the bilateral relations with Turkey, Putin era opened a new phase that has been acting on long-term relationship. With the roles and attitudes changed, Turkey and Russia's attitude towards each other has gained various perspectives basing on interdependence and strategic partnership. Initially, “[b]y October 2000, Putin declared Turkey to be a “traditional and important partner” and expressed the desire “to upgrade the relations between Turkey and Russia to the level of a strategic partnership.”¹⁵⁴ With these intensified relations starting by 2000, the economic crisis of 2001 in Turkey has brought the level of relations to another scope and unexpectedly the relations especially the economic ones continued to be deepened.

However, that time “[a] slide to political radicalism in Russia as a result of continuing economic instability presents the most frightening risk to future bilateral relations.”¹⁵⁵ With that regard, in order not to bring the relations into a phase of political radicalism, firstly the economic relations should have been stabled. In this respect, Putin's priority was to establish stable economic relations with Turkey. Looking from economic interdependence perspective, in case of any problem, the problem brought political costs to the states.

¹⁵⁴ Aktürk, Şener; “Turkish-Russian Relations after the Cold War (1992–2002)”, *Turkish Studies*, 2006, Vol. 7, No. 3, p.344. See also Suat Kınıklioğlu; “Turkish–Russian Relations: The Anatomy of Kasyanov’s Visit” , *Avrasya Dosyasi*, 2001, Vol.6, No.4 p.155.

¹⁵⁵ Sezer, Duygu Bazoğlu; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No. 1, p.77.

When it comes to 2005, these evolving relations have come to peak. As Suat Kiniklioğlu argues, “[f]rom a bilateral political perspective, 2005 was an *annus mirabilis* as President Putin and Prime Minister Erdoğan met four times, including a seven hour private meeting on the Black Sea.”¹⁵⁶ In these meetings both the Prime Minister of Turkey and the President Vladimir Putin have emphasized the increasing relationship in economic sphere. Moreover, Vladimir Putin has focused on political stability between Turkey and the Russian Federation and has added that the “favourable political climate is an essential condition for developing trade and economic ties and investment activity.”¹⁵⁷ In that regard, he also added that, “all of these activities require favourable conditions – favourable political conditions, good security guarantees.”¹⁵⁸ By this speech, Putin has given the message that, if further relations in energy, trade, tourism and investment sectors are demanded, political instabilities should be eliminated.

In sum, Putin period is the period of progress on the positive direction in terms of bilateral relations and normalization of the post-Soviet state. A neoliberal type of economic policy has been implemented in Turkey and the Russian Federation between 2001-2009. In that respect, Putin did not prefer to implement liberal policies in terms of state interests. He accepted the role of NGOs, other actors and economy; however he did not deny the main role of state on domestic and foreign policy. Moreover,

¹⁵⁶ Kiniklioğlu, Suat; *The Anatomy of Turkish-Russian Relations*, German Marshall Fund of the United States, Ankara, Turkey, 2006, accessed on http://www.brookings.edu/comm/events/20060523sabanci_3a.pdf

¹⁵⁷ *The Meeting of the Russian President V.V.Putin with Prime Minister of the Republic of Turkey Recep Tayyip Erdogan*, The Embassy of the RF in Turkey, 17 July 2005, accessed on http://www.turkey.mid.ru/text_t99.html

¹⁵⁸ *The Meeting of the Russian President V.V.Putin with Prime Minister of the Republic of Turkey Recep Tayyip Erdogan*, The Embassy of the RF in Turkey, 17 July 2005, accessed on http://www.turkey.mid.ru/text_t99.html

thanks to the economic crisis of 1998, positive improvements of the post-crisis period made him the hero of the Russian Federation and attracted the attention of the region and international arena. In line with the relations between Turkey and the Russian Federation, accordingly with the neoliberal policies implemented, there has been interdependence in trade, energy, investment and tourism sectors. These specific relations will be identified in the next section of the chapter.

4.2. Trade

In this part of the thesis, trade relations between Turkey and the Russian Federation in Putin period is assessed within the limits of economic interdependence. In general look, economy under Putin administration was a prosperous economy. “The economy was growing, inflation was down, investment was up, and there was trade and budget surplus.”¹⁵⁹ Thanks to the record oil prices, the stability and prosperity led to economic and political relaxation that was absent for decades.¹⁶⁰

Within that prosperous economic context and nearly stabilized energy and trade relations that would be multiplied by the assets generated by tourism and investments, Turkey and the Russian Federation has become regional and strategic partners which have stated themselves on the similar side in many issues. Besides the cooperation and partnership sought between Turkey and the Russian Federation, Turkey and Russia’s interdependence to each other have had reciprocal costs for each other.

¹⁵⁹ Sakwa, Richard; *Putin: Russia’s Choice*, London: Routledge, 2004, p.186.

¹⁶⁰ Grace, John D.; *Russian Oil Supply: Performance and Prospects*, Oxford:Oxford University Press, 2005, p. 222.

Table 4. Turkish-Russian Trade by Years (Million \$)

Year	Export	Import	Balance	Volume
2000	644	3.887	-3.243	4.531
2001	923	3.436	-2.513	4.359
2002	1.168	3.863	-2.695	5.031
2003	1.363	5.420	-4.057	6.783
2004	1.851	9.009	-7.158	10.860
2005	2.371	12.818	-10.447	15.189
2006	3.227	17.494	-14.267	20.720
2007	4.727	23.506	-18.779	28.233
2008	6.481	31.317	-24.836	37.798

Source: Undersecretariat of Foreign Trade¹⁶¹

In terms of trade between Turkey and the Russian Federation, the volume of trade has started to be increased again after 1998 economic crisis in the Russian Federation. In Putin's period, Turkey's export to Russian Federation has approximately reached to a level 8 times more than that was in 1999. For the last three years, as can be evaluated from the table, while the level of export in 2006 was 3.2 billion dollars, in 2007 it has increased to 4,7 billion dollars and has become 6,4 billion dollars in 2008 (Table 4).

Motor vehicles, tractor, bicycle, motorcycle and other vehicles have formed the biggest pie within Turkey's exported goods to the Russian Federation. As an important agriculture country, the above mentioned vehicles are followed by the export of agriculture and food with 816 million

¹⁶¹ *Rusya Ülke Bülteni*, T.C. Başbakanlık Dış Ticaret Müsteşarlığı Anlaşmalar Genel Müdürlüğü, 2009, p.5. accessed on <http://www.dtm.gov.tr/dtmadmin/upload/ANL/TurkCumhuriyetDb/Rusya.doc>

dollars in 2008. If it is categorized as industrial goods, it takes the lion's share as 4 billion dollars in 2007 and 5,6 billion dollars in 2008.¹⁶²

When it comes to the import of Turkey from the Russian federation, in last few years it has increased approximately 100 %. While the level of import in 2006 was 17,8 billion dollars, it has increased up to 31,3 billion dollars in 2008. As can be easily guessed in Putin's period also, the mineral fuels and oils have dominated the other goods' shares with a steady increase within the table of imported goods from the Russian federation.

At first sight it may be guessed that between Turkey and the Russian Federation there is a smooth picture of trade relations in a good balance. However, because of the fact that Turkey's dependence on Russian Federation through energy, the balance of trade is negative. It is especially apparent after 1998 crisis in the Russian Federation when the imports from Turkey to Russia have been diminished to very low levels.

Although the level of trade has been increased after the crisis period, following the crisis years in Russia and Central Asia, this time the evil smiled to the face of Turkey. In 2001 a financial crisis hit Turkish economy from the heart which's dashes are seen today. This period has not lessened the total volume of trade between Turkey and the Russian Federation, but Turkey has been affected negatively from this crisis. After two successive economic crises -especially after 2002- trade relations came to a state that's size can not be denied and can not be underestimated. "The sharp increase in bilateral trade and the growing energy relationship naturally facilitated

¹⁶² TÜİK, *Diş Ticaret Verileri*, accessed on http://tuikrapor.tuik.gov.tr/reports/rwservlet?disticaretdb2&report=TYtablo03.RDF&desformat=html&p_kod=1&p_yil1=1999&p_yil2=1998&p_yil3=1997&p_yil4=1996&p_yil5=1995&p_ulke1=75&ENVID=disticaretEnv

the deepening of political relations.”¹⁶³ Indeed, Putin’s visit to Turkey in 2004 has had a catalyzing impact on these relations by reflecting the picture of mutual friendship and trust. Furthermore, increased level of tourism and investments have borne that result.

At that stage however, one aspect of bilateral economic relations should not be ignored. As also stated by Kazgan, the given [official] data are just limited due to the fact that being not able to display the true importance of Russia in Turkey’s exports.¹⁶⁴ Because it is clearly known that the figures related to the trade between Turkey and Russia should also include the informal side of the story, namely the unrecorded trade.

Table 5. Incomes Generated from Shuttle Trade in Putin Period (Million \$)

2000	2,944
2001	3,040
2002	4,068
2003	3,953
2004	3,880
2005	3,473
2006	6,408
2007	6,002
2008	6,200

Source: Turkish Central Bank¹⁶⁵

¹⁶³ Kınıklıoğlu, Suat; “The Anatomy of Turkish-Russian Relations”, German *Marshall Fund of the United States*, 2006, accessed on http://www.brookings.edu/comm/events/20060523sabanci_3a.pdf

¹⁶⁴ Kazgan, Gülten, “The Political Economy of Relations between Turkey and Russia” in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed.by Rittenberg, Libby), Connecticut: Praeger, 1998, p.150.

¹⁶⁵ The data is extracted from the tables of balance of payments detailed presentations accessed on <http://www.tcmb.gov.tr>

Although Putin has had considerable attempts to lower and end the unrecorded trade between two countries, especially after 2005 when the tourism numbers have also increased the level of trade has increased. Despite the fact that it has not reached to the level of 1996 again, it has reached to 6, 2 billion dollars in 2008 that becomes the peak of Putin period (Table 5).

To sum, in Putin period, the level of bilateral trade has increased to enormous numbers. Although the balance has occurred as negative for Turkey, the energy dependency of Turkey changed the picture as positive for the Russian Federation. Due to the fact that, bilateral trade between two countries has been based on strategic goods such as energy, arms and agriculture and food, both of the countries have had the economic interdependence with each other that requires states to be more prudential in political relations.

4.3. Energy

The intense energy dependency starting from Yeltsin period has increased by deepening in Putin's era. High oil prices after the crisis, Turkey's increased dependency and the signed agreements between two countries have had many economic and political impacts on bilateral relations between Turkey and Russia. Putin's understanding that is more different than Yeltsin have reshaped the atmosphere of energy relations. As different from Yeltsin, "[t]he Putin government's vision of state-steered development explains much of the political marginalia surrounding (and increasingly overprinting) the oil and gas industries."¹⁶⁶

¹⁶⁶ Grace, John D.; *Russian Oil Supply: Performance and Prospects*, Oxford: Oxford University Press, 2005, p. 217.

In terms of energy policy of Russia, Gazprom is the number one player in this strategic arena of the interests. It is the 7th biggest company of the world and after Exxon Mobil, Royal Dutch Shell and BP 4th biggest among the energy companies.¹⁶⁷ Its swift growth in such a short time period may bring out some questions into the minds. In this respect, the role of governmental assistance to buy all small energy companies and increase in energy prices can not be denied.¹⁶⁸ Because the quasi-monopoly is the matter under the private company picture of a liberal market.

“The higher oil prices that have prevailed since 1999 and the aftermath of the August 1998 financial crisis have been good for Russia’s oil industry.”¹⁶⁹ By increasing oil prices, state’s backyard Gazprom kept the country afloat with its exports of natural gas, earning almost a quarter of budget revenues. In order to raise the dependency to the Russian gas, Gazprom has been establishing partnerships with many energy companies in Europe and have commercial operations in many different sectors.¹⁷⁰ So, that “made Russia’s economic progress dependent at present on a high price for oil.”¹⁷¹ Moreover, besides direct positive effect of higher oil prices for Russia, “[h]igher oil prices have made previously unattractive fields profitable, resulting in an upturn in production, some new exploration and

¹⁶⁷ Kamalov, İlyas; “Gazprom’un Avrupa’ya Fethi”, *Stratejik Analiz*, Ocak 2007,p.91.

¹⁶⁸ *Ibid.*

¹⁶⁹ Johnson, Debrah;*EU-Russian Energy Links: A Marriage or Convenience?*, USA:Blackwell Publishing, 2005,p. 269.

¹⁷⁰ Kamalov, İlyas; “Gazprom’un Avrupa’ya Fethi”, *Stratejik Analiz*, Ocak 2007,p.91.

¹⁷¹ Waller, Michael; “*Russian Politics Today*”, Manchester: Manchester University Press, 2005, p. 198.

greater interest by foreign oil companies in the Russian oil industry.”¹⁷² However, on the other side of the coin, “despite the fact that in 2002, energy accounted for 55 % of Russia’s export revenues, almost 20 percent of GDP and approximately 40 per cent of tax revenues, Russia’s energy sector is encountering severe problems.”¹⁷³ According to Johnson Debrah, the main reason lying behind this has been the continuing legacy of the former economic system and incomplete and ineffective transition to the new.¹⁷⁴

In terms of Turkish-Russian relations on energy issue, Turkey as an important growing energy market and Russia as the nearly unlimited energy provider as a neighbour for Turkey scope of that relationship has had many aspects accompanied with increasing political relationship. Through the signed natural gas agreements and projects like Blue Stream the amount of oil traded has created huge volume that has been signed in 2005 in Samsun. However, on the other hand, the existence of the Caspian oil as an alternative that would decrease dependency to Russian oil has made Putin and the Russian administration anxious about the issue.

Although Turkey has an important need for Russian gas, due to the alternatives came to the agenda such as Baku – Tbilisi – Ceyhan and related projects on the Caspian gas, Russia and Turkey’s bargains behind the doors have not been so friendly as economic interdependence theory suggests. In case of such a situation, Turkey’s cost would be further limitations in supply of natural gas, and Russia’s cost would be loss of the huge income

¹⁷² Johnson, Debrah; *EU-Russian Energy Links: A Marriage or Convenience?*, USA:Blackwell Publishing, 2005, p. 269.

¹⁷³ *Ibid.*, p.266.

¹⁷⁴ *Ibid.*

generated from Turkey and losing a secure transit partner for exporting energy not only to Turkey but also to the West.

Table 6. Amounts of Natural Gas and LNG Imported(Million Cm³)

Year	Natural Gas	LNG	Total
2000	10.080,00	4.742,00	14.822,00
2001	11.046,00	5.322,00	16.368,00
2002	12.272,00	5.352,00	17.624,00
2003	16.195,00	4.993,00	21.188,00
2004	17.903,00	4.271,00	22.174,00
2005	22.147,00	4.881,00	27.028,00
2006	25.339,00	5.402,00	30.741,00
2007	30.583,00	5.867,00	36.450,00
2008	32.200,00	5.593,00	37.793,00

Source: BOTAŞ¹⁷⁵

Looking at Turkey's another role important for Russia other than an important energy buyer, Turkey has become an intermediary – to an extent-between the European Union and Turkey. As primary energy supplier to the European energy market¹⁷⁶, Russia should have determine a safe and economic route for transiting the natural gas and oil to the European Union. As asserted by Debrah Johnson, their energy dependency occurs in various ways.¹⁷⁷ “The EU needs to import increasing quantities of energy , as the arlier section on energy security demonstrates, and Russia needs markets for its natural resources and European capital to modernize and expand its

¹⁷⁵ Natural Gas Trade Figures, accessed on <http://www.botas.gov.tr/index.asp>

¹⁷⁶ Hill, Fiona; “Seismic shifts in Eurasia: the changing relationship between Turkey and Russia and its implications for the South Caucasus”, *Southeast European and Black Sea Studies*, 2003, Vol. 3, No. 3, p.58.

¹⁷⁷ Johnson, Debrah; *EU-Russian Energy Links: A Marriage or Convenience?*, USA: Blackwell Publishing, 2005, p. 272.

energy sector.”¹⁷⁸ On the other hand, as mentioned by Cutler, Turkey’s strategic location for the transfer of the resources to the European markets makes it an important actor in energy policies of the West and the East.¹⁷⁹ Turkey’s relatively new status as a candidate for EU membership and its key role in the Great Game by virtue of the possibilities it affords for pipeline transit could bring the EU more into such debates in the longer term.¹⁸⁰ So, Turkey’s dependency has come to a situation not only one sided but bisided in between the West and the East.

To conclude, by the fact that “[t]he construction of an East –West energy bridge has been a European strategic goal since Russian gas first entered Western Europe amid great Cold War – and transatlantic-controversy over twenty years ago”¹⁸¹, Turkey’s strategic position and economic benefit generated from that kind of partnership has had considerable significance for both the European Union and the Russian Federation. Regarding such an important role of Turkey in the energy web between the Russian Federation and the West, that kind of interdependence increases the sensitivities across the other two states.

4.4. Investment

¹⁷⁸ Johnson, Debrah; *EU-Russian Energy Links: A Marriage or Convenience?*, USA: Blackwell Publishing, 2005, p. 272.

¹⁷⁹ Cutler Robert M.; “The Caspian Energy Conundrum”, *Journal of Intenational Affairs*, 2003, Vol. 56, No. 2, p.115.

¹⁸⁰ Johnson, Debrah; *EU-Russian Energy Links: A Marriage or Convenience?*, USA: Blackwell Publishing, 2005, p. 276.

¹⁸¹ *Ibid.*, p. 272

In this section, the level of relations in terms of reciprocal investments done by Turkish and Russian businessmen is assessed and their state of interdependence is displayed.

Although there were investments in Yeltsin's period to the country, the number and volume of investments in Russia has raised in considerable amounts. After 2001 Turkish direct investments in Russia has increased really in big amounts. In 2009, the level of investments made by Turkish businessmen have reached to 5,6 billion \$ while the level of construction projects have reached to 29 billion \$.¹⁸²

Looking at the biggest investments in Russia made by Turkish firms; among ENKA, Ramenka, Efes Beverages Group, Şişecam, Colin's Jeans, Vestel, TEBA, Ütüsan, Netaş, Binmeksan, Turkish Trade Centre in Moscow; Binmeksan, Vestel and Şişecam have initiated for investment in Putin's period.¹⁸³ On the other hand looking at the investments in contracting services sector, share of Turkish contractors in Russia is a great deal to the rebuilding of Post Soviet Russia.

Turkey has used the advantage of early taking the action in the construction sector of the Russian Federation with the fact of quality image and the responsibility taken in there. In the immediate post-Soviet period, Turkish firms have evaluated the situation as an opportunity and made important amount of initiatives to the country. Due to the quality of service and new foreign policy facts that has been directed to the fact of friendship

¹⁸² *Rusya Ülke Bülteni*, T.C. Başbakanlık Dış Ticaret Müsteşarlığı Anlaşmalar Genel Müdürlüğü, 2009, p.1, accessed on <http://www.dtm.gov.tr/dtmadmin/upload/ANL/TurkCumhuriyetDb/Rusya.doc>

¹⁸³ DEİK; "*Turkish Business in the BSEC Region, Direct Investments, Contracting Services, Prospects for Cooperation*", İstanbul: DEİK, 2005, pp.15, 16, 17.

the number of Turkish investments has steadily increased. Just after 2001, 405 projects have been concluded by Turkish constructors in the Russian Federation.¹⁸⁴

In terms of Russian investments in Turkey, Alfa Group and Gazprom has 3,5 billion \$ investments. In comparative analysis of the investments, it can be obviously seen that, Turkish businessmen have constituted an important part of the investments made in the Russian Federation.

Moreover, from Turkish point of view, firstly an important market for the investments and cheaper labor than any other European market have been the advantage for Turkish investors. In case of the opportunities of investments for Turkey would be substituted, Turkey would make a loss. In this respect, the relations in other fields would be affected, and in political and general economic terms conflict would be the potential.

So, in terms of construction and investment sector, Turkey has put the dominance to the sector in post-Soviet Russia. Although the level of investments can not be denied in the Yeltsin period, with open policies towards foreign investments, both the volume and number of investments and investors has increased in considerable amounts. However, when it is considered from the framework of the economic interdependence, the lion's share in terms of investment and construction sector has constituted a significant advantage for Turkish firms in the Russian Federation. In this respect, in case of an alternative is used, there would be a decrease in considerable amounts in the income of Turkish firms. On the other hand, due to the professionalized services of Turkish firms in the Russian

¹⁸⁴ DEİK; *Rusya Ülke Bülteni*, İstanbul: DEİK, 2008, p.44.

Federation and high employment capacities of the firms, that may create a sensitivity in the Russian Federation.

To sum, although there is some level of interdependence in terms of investment and construction sectors, it would not have high political results as much as trade and energy would result in. However, due to the interdependence in energy and trade sectors, the interdependence spill over to the other areas of interactions. In this respect, conflict will be the case for various type of transactions due to the interdependence in economic sphere.

4.5. Tourism

Tourism is another important economic transaction factor for bilateral economic relations. “Turkey has a well developed tourism industry and Turkish companies are interested in entering the Russian market.”¹⁸⁵ In that regard, “Turkey [has become] the favorite overseas holiday destination for Russians and the third largest source of incoming tourists to Turkey.”¹⁸⁶ However, saying the same for Turkish tourists in Russia does not become a correct assessment.

By the fact that the currency left by the tourists to Turkey at hotels are so high, also through the shuttle trade tourism has had a considerable input in Turkey. Although the number of tourists visited Turkey has increased with respect to the Yeltsin period, in Putin’s period the number has been affected by the crisis. Russian economic crisis that has had a devastating impact for the Russian Federation has reflected its results since

¹⁸⁵ DEİK; “*Turkish Business in the BSEC Region, Direct Investments, Contracting Services, Prospects for Cooperation*”, İstanbul: DEİK, 2005, p.19.

¹⁸⁶ DEİK; “*Turkish Business in the BSEC Region, Direct Investments, Contracting Services, Prospects for Cooperation*”, İstanbul: DEİK, 2005. p.19.

the end of 2000. In that regard, the decreasing number of Russian tourists due to Russian crisis has increased with the Turkish financial crisis in Turkey. Due to the devaluation of Turkish Lira after the crisis period, tourists have found the opportunity of having cheaper holiday in Turkey.¹⁸⁷ When it is accompanied with the, recovered economic situation of Russia, it can be said that they have floated to Turkey's warm seas that they have inspired in Yeltsin period.

With the moulding and increasing relationship between Russia and Turkey, and Russia's increasing opening up towards the West and Turkey, the number of Russian tourists coming to Turkey has steadily increased from 2000 to 2007. While the number of tourists coming to Turkey in 2000 from Russia was 677152, in 2007 that number has risen up to 2.465.336.¹⁸⁸ That increasing relationship in all levels will have important economic outputs. In total between 2000 and 2007, 11.425.158 tourists have come to Turkey.¹⁸⁹

In terms of Turkish tourists going to Russia, the number is not like that high. Russia for Turkey is no more than an economic and diplomatic ally, a neighbor. It is not a tourism castle for Turkey. On the other hand, although "Russia offers a large untapped market for tourism investors because it possesses several areas of natural, historical and cultural value that can be attractive for tourists, so few tourism facilities, which are below international standards" has been active.¹⁹⁰ In that regard, no majority of Turkish tourists have not preferred Russia for holiday.

¹⁸⁷ DEİK; *Rusya Ülke Bülteni*, İstanbul: DEİK, 2008, p.45.

¹⁸⁸ *Ibid.*

¹⁸⁹ *Ibid.*

¹⁹⁰ DEİK; "*Turkish Business in the BSEC Region, Direct Investments, Contracting Services, Prospects for Cooperation*", İstanbul: DEİK, 2005, p.19.

In sum, although tourism have not so important impact on bilateral economic relations in volume besides trade, energy and investment, it can be counted as forth most high volumed area of economic transaction between Turkey and the Russian Federation. By more ameliorated bilateral relations in Putin period, and by the lessened impact of shock theraphy, and Turkey's easy visa implementations and by Turkish financial crisis in 2001, the number of Russian tourists has highly increased with respect to the Yeltsin period.

4.6. Limits of Economic Interdependence during Putin Period

In this section, the economic relations between Turkey and the Russian Federation in Putin period is analysed within the limits of economic interdependence.

As compared to Yeltsin period, the economic and political interaction between Turkey and the Russian Federation has been higher in Putin period. In terms of the relations in trade, energy, investment and tourism sector, the uncertainty of 1990s have left its place to deepened economic interdependence between these two countries.

In terms of trade in Putin period, the highly increasing relations as a priority of Putin's foreign policy, increasing need of natural gas in Turkey, the huge Russian market for Turkish goods, geographical proximity and regional cooperation initiatives resulted in economic interdependence. By the fact that, economic interdependence as a theory base on the benefits and the costs, in line with trade relations in Putin period between 2000-2008 Turkey and the Russian Federation have had both benefits and sometimes the costs paid. Firstly, because of the fact that trade between Turkey and the

Russian Federation base on trade of natural gas, the energy hub in Turkey have created a sensitivity for Turkey. In case of any political reaction that have been put by Turkey, the Russian Federation have chance to withdraw the natural gas sold to Turkey. On the other hand, through that withdrawal, by the declaration of the agreements void, a diplomatical conflict have had the potential of come into agenda. In that respect, the Russian Federation had sensitivity. Moreover, Russia has had also sensitivity in terms of trade of natural gas with Turkey.

In terms of other goods traded, through the decrease in export of food from Turkey, Russia's economic dependence to Turkey have lessened and alternatives that have been created would not result in conflict. Furthermore, as one of the most important traded matter, the arms trade have created more interdependence. Its close relation with the politics and security have an important impact on sensitivity of Turkey towards the Russian Federation.

From energy point of view, the dominance of energy in economic transactions has increased in Putin period. Having an important source of value, the Russian Federation has taken the advantage of using it as a political tool towards Turkey. Turkey's need on the one hand and Russia's huge resources have increased the economic interdependence at potential of conflict due to huge costs that would be paid in case of any clash of interests.

In investment and tourism sector also, different from Yeltsin period, economic interdependence have become the matter. Trade, energy, tourism and investment sector have started to be implemented side by side. The mutually increasing recognition in economic sectors have an effect of spreading to each other. Within that framework, in tourism and investment

sectors -as different from Yeltsin period- the interdependence between Turkey and the Russian Federation has been increased. Tourism has created a sensitivity for Turkey due to the increasing number of tourists come and investment sector has created sensitivity for both Turkey and the Russian Federation through the huge investments made in strategic sectors like energy and communication.

To conclude, Putin period has both increased the level of relations in economic sector and the level of interdependence due to the sectors in which the relations have been improved. The foreign policy priority of Putin in terms of economy and energy, and Turkey's priority to act as regional power have brought them into that level of interdependence. As different from Yeltsin period, Putin's neoliberal policies regarding the state's important role have had a crucial impact on increasing economic interdependence.

CHAPTER 5

CONCLUSION

The aim of the thesis was to indicate the potential of conflict in case of Turkish Russian relations within the framework of the limits of economic interdependence after the dissolution of the Soviet Union. As explained in the first chapter of the thesis, contrary to the classical international relations theory, instead of hard politics regarding economics as lower issue, new theories of international relations have begun to be discussed among the scholars and the politicians with the end of the Soviet Union. These new theories have regarded economics as an important policy matter with spreading free market economy and the liberal policies. However, because of the role of the state have not been undermined, neoliberal policies have started to be more spread among the states.

As discussed by neoliberal theory, the imbalance between cooperation and conflict led by economic interdependence accepts the conflict as a remaining basic feature of world politics.¹⁹¹ As the basis of economic interdependence theory, through the costs paid with regard to the relations, the conflict becomes the nature of the interdependence through the sensitivity and vulnerability.

¹⁹¹ Proedrou, Filippos; ‘The EU-Russia Energy Approach Under the Prism of Interdependence’, *European Security*, 2007, Vol. 16, No 3, p.329.

The case of the thesis, Turkey and the Russian Federation, as two important regional powers after the dissolution of the Soviet Union, have also have that potential of conflict through the economic interdependence in trade, energy, investment and tourism sectors. Especially after the 1984 Natural Gas Sales Agreement, the economic interdependence between Turkey and the Russian Federation has been raised.

As focused in chapters three and four, in Yeltsin and Putin periods, the relations between these two countries have displayed the characteristic of economic interdependence. Looking at the matter from the perspective of relations in trade, energy, investment and tourism sectors, the increasing interdependence in time have brought Turkey and the Russian Federation in sensitive and sometimes in vulnerable positions. While in Yeltsin period, due to the more limited relations and more liberal policies implemented by Yeltsin, the level of economic interdependence was less, by the increasing trade and energy relations in Putin period the economic interdependence has become the base of the relations between two countries.

Between 2000 and 2008, as the foreign policy priority of Putin, the economic relations and especially the energy issue have been very important for Turkey and the Russian Federation. Because, in this line of economic transactions, the possibility of conflict have become more prominent. In line with Turkey's energy need in the region and the geostrategic location between the Russian Federation and the West have put Turkey in an important place both in political and security terms. On the other hand, the huge energy market in Turkey and in the West that can be reached via Turkey have been the sensitivities of the Russian Federation. Considering the attitude of Putin towards Turkey's engagement in alternative routes and pipeline projects such as Baku-Tbilisi-Ceyhan, it clearly indicates that, this kind of interdependence would have significant costs for the countries

involved. Vice versa, in case of a negative attitude towards Russia, Turkey has also had the card of restricting the transition of energy and natural gas from its territories. This kind of action would not only affects the relations between Turkey and the Russian Federation, but also the EU would also involve in the issue. In that regard, in two sides of the coin, the costs wait to be paid in case of any kind of action that would not benefit any side involve in economic interdependence.

In terms of trade on the other hand, trade of natural gas, arms trade and natural resources have had the potential of bringing Turkey to very sensitive position in economic terms on the one hand and political and security matters on the other hand. In this respect, the most prominent example that would create the conflict can be that kind of trade of high importance. Despite Turkey's economic dependency is high towards the Russian goods because of the feature of the goods traded, besides food products traded, the goods have almost no potential to create interdependence. When investment and tourism sectors are taken into consideration, in Putin period, the high volume of investments and banks in the Russian Federation have had the potential of creating costs for each. However, the economic interdependence in energy and trade sectors have had considerable impact on other spheres.

In conclusion, the relations between Turkey and the Russian Federation have been improved in the post-Soviet period. Especially the increase in economic relations has been reflected in political matters. Turkey and the Russian Federation which have been newly liberalizing states have not chosen undermining the role of the state. In this respect, a neoliberal type of policy has shaped the relations between Turkey and the Russian Federation. In this respect, economic interdependence has become the main driving force and in this line of explanation, the relations between

these two countries have been based on reciprocal benefit or costs. That have tendency towards improving relations between Turkey and the Russian Federation presents many cases as an example for the economic interdependence as explained by the neoliberal school. However, by increasing economic relations and cooperation in economic areas, especially in Putin period, the economic interdependence has become the base of relations between two countries. In terms of energy relations, from one perspective while Turkey is looked like vulnerable due to the need for energy, there is sensitivity in that case for both by Turkey's geo-strategical place as a transit route for West's energy import from the Russian Federation. On the other hand, in terms of highly increasing trade relations that has a significant place in improving relations between Turkey and the Russian Federation, while in the immediate aftermath of the dissolution of the Soviet Union, it may have seemed like vulnerability of the Russian Federation, the huge newly emerging market and the new area of interaction for Turkish economy on the one hand and cheaper goods for their new market for the Russian economy created an economic interdependence between these countries. As an important powers of the new world in the East and for the West, the improving relations between Turkey and the Russian Federation are highly bound to economic relations and the power is used economically in case of any political reaction on other issues. In terms of that economic interdependence, the relations are shaped through the sensitivi and vulnerability of the states in front of each other.

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