

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Economic analysis of Russian-Turkish relations

since the year 2000

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

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Business Administration

Thesis title

Economic analysis of Russian-Turkish relations since the year 2000

Objectives of thesis

The main aim of the thesis is to represent and to analyze economical Russian-Turkish relations starting 2000 year till nowadays. Moreover, the aim is to identify and to evaluate the problematic issues in countries' relations. Also, the thesis investigates Blue Stream which is the major trans-Black Sea gas pipeline that carries natural gas from Russia into Turkey. The study evaluates the profit from the stream between participating countries.

Methodology

The study analyzes the factors which have affected on the development of relations between two countries. The first part of the thesis is theoretical one which is conducted by using methods of induction, deduction and extraction.

The second part is analytical one which is represented by the results and comments of the analysis of trade and bilateral trade between Russia and Turkey. The section is performing SWOT analysis of Blue Stream as well. It is used basic analysis methods such as trend analysis methods and methods of quantitative evaluation of obtained results such as basic statistical methods. Also, it includes basic methods of comparison and description.

The proposed extent of the thesis

40 pages

Keywords

Economic Analysis, Russia, Turkey, Strategic partnership, Blue Stream, Turkish Stream, Trade

Recommended information sources

BAEV P.K., KIRIŞCI K. An ambiguous partnership: The serpentine trajectory of Turkish-Russian relations in the era of Erdoğan and Putin. (2017)

BOURGEOT R. Russia-Turkey: A Relationship Shaped by Energy. Ifri – Paris, 2013, ISBN: 978-2-36567-128-6

BUSYGINA I.M., FEDORCHENKO A.V. Rossijsko-tureckie otnoshenija: 2002–2012 gody. Tom 2. (2013), ISBN 978-5-9228-1034-0

IVANOV I.S., AVATKOV V.A. Rossijsko-tureckie jekonomicheskie otnoshenija na novom jetape. Doklad №28/2016, ISBN: 978-5-9909275-6-8

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Declaration

I declare that I have worked on my bachelor thesis titled "Economic analysis of Russian-Turkish relations since the year 2000" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 15 March 2018

Daria Agafonova

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Ekonomická analýza rusko-tureckých vztahů od roku 2000

Souhrn

Práce analyzuje současné ekonomické vztahy mezi Ruskem a Tureckem. Zvažuje problémy, s nimiž se obě strany potýkají navzdory rostoucímu objemu obchodu, investičním tokům a novým ziskovým mezinárodním projektům. Vybraná literatura popisuje stručný úvod do ekonomické situace obou zemí. Rovněž vysvětluje ekonomické vazby mezi Ruskem a Tureckem v oblastech cestovního ruchu, obchodu a investic, které se v posledních letech dramaticky rozvíjí. Dále práce zkoumá vzájemnou ekonomickou závislost států a jejich účast ve Světové obchodní organizaci.

Praktická část zkoumá objem obchodu a dvoustranný obchod mezi Ruskem a Tureckem. Poskytuje hodnocení spolupráce zemí v oblasti dodávek zemního plynu, jako je projekt Blue Stream, který byl navržen tak, aby byl Turecku dodáván ruský zemní plyn přes Černé moře a nikoli přes třetí země.

Závěr poskytne informace o zisku a dalších měřítcích, prokazující, že další rozvoj ekonomických vztahů mezi těmito strategickými partnery bude přínosem pro oba. Navíc obchodní vztahy budou mít pozitivní ekonomický vliv na obě země.

Klíčová slova: Ekonomická analýza, Rusko, Turecko, bilaterální obchod, strategické partnerství, Blue Steam, Turkish Steam.

Economic analysis of Russian-Turkish relations since the year 2000

Summary

The thesis analyses contemporary economic relations between Russia and Turkey. It considers the problems that two sides are faced with, despite the increasing bilateral trade volume, investment flows, and new profitable international projects.

The literature review describes a brief introduction to economic situation for both countries. Also, it explains economic connections between Russia and Turkey into tourism, trade and investments which have rapidly developed over last years. Moreover, the thesis investigates the economic dependence of the states from each other and their participation in the World Trade Organization.

The practical part examines the amount of trade and bilateral trade between Russia and Turkey. It is given an assessment of the countries' cooperation in the field of natural gas transfer such as the Blue Stream project which was designed to deliver Russian natural gas to Turkey across the Black Sea bypassing third countries.

The conclusion will provide information about the profit and other measures for showing that the further development of economic relations between these strategic partners will be beneficial for both ones. Moreover, trade relations will show positive effects on the economics and perspectives of the countries.

Keywords: Economic Analysis, Russia, Turkey, Bilateral Trade, Strategic Partnership, Blue Stream, Turkish Stream.

Table of content

1	Introduction	10
2	Objectives and Methodology	11
2.1	Objectives	11
2.2	Methodology	11
3	Literature Review	12
3.1	The Review of History of Relations	12
3.2	Economic Potential	14
3.2.1	The Economic Potential of Russia	14
3.2.2	The Economic Potential of Turkey	15
3.2.3	Investments	16
3.3	Economic Relations Between Russia and Turkey since 2000 till nowadays	17
3.3.1	Cooperation Agreements	17
3.3.2	Bilaterian Trade Relations between Two Countries	18
3.3.3	The Participation in the WTO	19
3.4	Conflicts of interests between Turkey and Russia	20
3.4.1	Annexation of Turkey to NATO Alliance and its consequences for Russian-Turkish Relations	20
3.4.2	Middle East Issues	22
3.4.3	Russian-Turkish Conflict in November 2015	23
3.5	Summary	24
4	Practical Part	26
4.1	Bilaterian Trade Indicators	26
4.2	Gas Pipelines Agreements	28
4.2.1	Turkish Stream	29
4.2.2	Blue Stream	30
4.3	Turkish Gas Consumption	32
4.4	Perspectives of Russian-Turkish Relations	34
5	Conclusion	35
6	References	37
7	Appendix	39

List of tables

- Table 1 Russian Federation: GDP per capita (money, \$) (pp.15)
- Table2 Turkey: GDP per capita (money, \$) (pp. 16)
- Table3. Russian-Turkish Relations Main Indicators (2015) (pp.18)
- Table 4. Bilateral Trade between Russia and Turkey (pp.26)
- Table 5. Turkey-Russia Bilateral Trade Volume and Growth (2000-2015) (pp.27)
- Table 6. Gas consumed by Turkey (pp.34)

- Graph 1: Sectoral Share of Turkey's Exports to the Russia (1992-2014, %) (pp. 28)
- Graph 2. Turkish gas import, 2015 (pp.33)

- Picture 1. Plan of the pipeline "Turkish Stream" (pp.30)

1 Introduction

The relevance of the research is explained by the significant activity during the last years of political, economic, cultural and trade relations between Russia and Turkey. These two major European powers have a long history of competitive interactions. The relationship has a strong economic foundation, and the flow of natural gas from Russia to Turkey has continued uninterrupted through recent crises. However, conflicting geopolitical ambitions prevail over the economic rationale. There is a similarity in the way of two countries' leaders V.V. Putin and R.T. Erdoğan conduct themselves, they share not fully trusting of Western policies and resentment for being excluded from European integration projects. At the same time, they are very different in their worldviews and political experiences and make pledges of friendly cooperation.

Energy, construction and tourism are the major investment economic fields between Turkey and Russia. At the same moment, these countries, together with Iran, are spearheading a controversial peace manipulation process in Syria.

The thesis starts by evaluating economic situation of both countries in the XXI century and continues by making attention to their foreign policy and cooperation in the different fields. Also, it covers crisis topic such as aircraft incident in November 2015, after it, Russian Government entered some sanction to import of products and services of Turkish origin. It brought a real financial loss for the economy of Turkey and the state offered an official "apology" to Russia in June 2016. President V.V. Putin found it opportune to accept in contrast to the U.S.A. hesitation.

In this context, it seems relevant to follow the development of bilateral political, economic and trade relations and to analyze their role and potential in the economy of these both countries, and their significance for Russian and Turkish mutual rapprochement.

2 Objectives and Methodology

2.1 Objectives

The main aim of the thesis is to represent and to analyse the reasons for a significant increase in economic and trade relations between Russia and Turkey starting 2000 year till nowadays. Moreover, the objective is to identify and to evaluate the problematic issues in countries' relations for the reason the different preferences in their foreign policies. The thesis considers the geopolitical situation in the field of energy for Russian Federation and the Republic of Turkey. Also, it investigates Blue Stream project which is the major trans-Black Sea gas pipeline that carries natural gas from Russia into Turkey. The study evaluates the profit from the stream between participating countries.

2.2 Methodology

The thesis identifies and analyzes the factors which have affected the development of relations between two countries.

The first part of the thesis is theoretical one which is conducted by using methods of induction, deduction and extraction. This part uses conceptual, theoretical approaches and conclusions as well. It is based on literature review which was relevant to reach the aim of the study.

The second part is analytical one which is represented by the results and comments of the analysis of trade and bilateral trade between Russia and Turkey. The main research method is the analysis, comparative studies. The section is performing SWOT analysis of Blue Stream as well. It is used basic statistical methods such as trend analysis method and methods of quantitative evaluation of obtained results. Also, it deals with the risks and perspectives for the development of both countries.

The chronological framework of the study is confined by 2000-2017 years.

3 Literature Review

3.1 The Review of History of Relations

Relations between Turkey and Russia have such a long history. Both of states, situated as Eurasian powers, adopted the cultural and political traditions of both Europe and Asia. Till the beginning of the 20th century, relations between them were determined by sharp rivalry in the Black Sea, the Caucasus and the Balkans and often led to military conflicts. Russia was absent from the European historical arena during the rise of the Ottoman Empire, but its defeat at Vienna in 1683 prompted Moscow to An ambiguous partnership. “Peter the Great captured Azov in 1696, during his first campaign, and ensured that confrontation with the Ottoman Empire was a key part of Russia’s newly-gained European identity. A series of defeats by Russia convinced the Ottomans of the need for modernization, which was understood as importing European organizational and technological achievements. The Crimean War (1853-56) marked a unique historical turn, in which the Ottoman Empire was allied with Britain and France against Russia, and the victory in the war of 1877-1878 gave a strong boost to Russian nationalism.”¹

The political situation changed at the turn of the 19th and 20th centuries. It was clearly visible in the First World War when Turkish politicians chose a bloc with Russia's main opponent - Germany. The internal political processes of that period led to the almost similar demise of both empires and to the formation of new states - Soviet Russia and the Republic of Turkey. Thus, new conditions occurred for a fundamentally new stage of Russian-Turkish relations, it happened a turn from confrontation to cooperation.

The first state officially recognized the Republic of Turkey was the RSFSR². The founders of the new states V. I. Lenin and Mustafa Kemal Ataturk became the "builders" of the new relations. They took a new approach for the changes of their countries and brought their nations to a new level of development. The choice of the different political systems did not prevent the growth of friendly relations between the two countries. “The success of the activities of Lenin and Ataturk was conditioned by the principles on which they were built:

¹ [https://howlingpixel.com/wiki/Russo-Turkish_War_\(1877%E2%80%931878\)](https://howlingpixel.com/wiki/Russo-Turkish_War_(1877%E2%80%931878))

² RSFSR - Russian Soviet Federative Socialist Republic, name of independent state from 1917 to 1922, the previous name of the USSR.

- ❖ the respect for the integrity of the two neighbouring territories;
- ❖ non-interference to the internal affairs of another country;
- ❖ the arrangement of disagreements of the international issues through negotiations and finding of compromise solutions.”³

In 1927, it was signed the first agreement about trade and navigation cooperation between the USSR and Turkey, that gave the development of trade and economic partnership. In 1934, Russia provided to Turkey interest-free loan of \$8 million for a period of 20 years with annual payments of Turkish goods. Four million dollars of this amount was allocated for military equipment and \$1493000 was used for the first Turkish textile factory in Kayseri City.

In 1938, there was a reduction of the foreign trade between two countries. The Second World War confirmed the aggravation of the Turkish policy to Russia. Turkey joined first to the Anglo-French bloc, then it began getting closer to Hitler's Germany, and a year later Turkey signed an agreement about the neutrality. The Turkish government, preserving it just only formally, in fact, provided strategic material support to Germany.

The strategic and geopolitical significance of Turkey, as a connection between the West and the East, made it an attractive political partner for the United States. Since 1956, Turkey entered to NATO⁴ and it provided pro-American policy.

Starting from the 1975s it was getting a new level of relations between Russia and Turkey. It was signed an agreement of transferring Russian natural gas to Turkey. It began to transfer through a pipeline situated on the territory of Ukraine and Moldova which was part of the USSR. Soon, the natural gas became the main commodity of Soviet Union and then Russian export. Already in 1989, it provided 36% of the total Russian export to Turkey⁵. Also for Turkey that union was profitable due it started to export fur clothing, knitwear, shoes, soap cars and equipment.

After the dissolution of the Soviet Union Russian-Turkish relations had some negative processes. The obligations for gas had been stopped, bank loans for the purchase of Turkish goods and services had been frozen. However, after 1994 it was starting the process of increasing the amounts of trade and economic relations. Both states tried to

³ Hansen, Craig C. "Are We Doing Theory Ethnocentrically? A Comparison of Modernization Theory and Kemalism," *Journal of Developing Societies* ,1989.

⁴ North Atlantic Treaty Organization - military alliance between America and European countries.

⁵ <https://www.investopedia.com/university/commodities/commodities12.asp>

include new directions in their collaboration. It appeared in particular for military and technical cooperation started with a great success. Also, it happened previously unknown phenomenon of Russian-Turkish relations called “Shuttle trading”, unorganized trade based on individuals. For Turkey, shuttle trade has become an important element for increasing export and compensating a permanent trade deficit. At the same time, it played the important role for new Russian state provided employment to thousands of people and it brought to the local market a lot of cheap imported goods in the situation of the deficit.

3.2 Economic Potential

The economic term ‘potential’ has meaning like source, the possibility that can be used for achieving goals of socio-economic development. „At the macro level, the economic potential is understanding like the maximum possible ability of the national economy to produce goods and services in according to demand of domestic and external markets.”⁶

The main factors representing the economic potential of the country are the amount and structure, the technical level of production and consumption, the quality of goods and services into all spheres and sectors of the national economy, also labour and natural resources. Economic potential plays an important role in the system of organization the national economy, regional and industrial organization.

Then it’s possible to consider the economic potentials of Russia and Turkey more detailed.

3.2.1 The Economic Potential of Russia

The economic potential of the Russian Federation depends on many components: its natural resources, the level of development of infrastructure industries, scientific and technological potential, labour resources, etc. The most complex indicator of assessing the country's economic potential remains the Gross Domestic Product (GDP), which characterizes the level of economic development.

⁶ https://booksforstudy.com/20080215/ekonomika/spozhivchiy_rinok_tovariv_poslug.htm

Table 1. Russian Federation: GDP per capita (money, \$)



Source: <https://tradingeconomics.com> /World Bank

„GDP per capita is a measure of the total output of a country that takes the gross domestic product (GDP) and divides it by the number of people in the country”⁷. As it is possible to see average money per person into Russia, the index started to decrease since 2008 and then after crises of 2012 it was getting higher at a slow pace.

Russia occupies a huge territory, where is concentrated the significant level of resources. Russia's industrial potential is great, but in the last years, industrial production had structural changes. The scientific and technical potential of the country is growing up at a slow pace.

3.2.2 The Economic Potential of Turkey

One of the main achievement of the Turkish economy is the ability to minimize the negative consequences of the global economic crisis. In 2010, there was a rapid recovery of many sectors. The growth of the Turkish economy which in 2009 during the economic crisis could reach only 4.7%, in 2010 it reached to 6.8%. Foreign direct investment grew by \$ 28 billion in 2016.

⁷ <https://www.investopedia.com/terms/p/per-capita-gdp.asp>

As a result, the export of textile production has increased by 20.1% In 2018, the growth of the textile industry is expected to reach 25%. If the cost of raw materials does not rise, then this index will grow to 30%.

Table 2. Turkey: GDP per capita (money, \$)



Source: <https://tradingeconomics.com> /World Bank

In the table above it's visible that the index of GDP per capita has increased starting 2010, in the positive dynamic development it reached \$14071.17 per citizen by the year 2016.

3.2.3 Investments

With the growth of the Russian economy, rapidly developing from the beginning 2000s, the national capital was provided to Turkey. Direct foreign investments were directed to the production sector (metallurgy, energy, etc.), and in the sphere of services (tourism, banking etc.). According to the data for 2015, Turkey's balance of payments to Russia accounts for more than 6.2% of all foreign direct investment. Moreover, it was provided with a purchase by Magnitogorsk Iron Factory to Steel Turkish factory in Iskenderun. Russian "Sberbank" Bank bought Turkish "Denizbank", In the Russian banking market is appeared Turkish "Credit Europe Bank", the alliance of the companies "ENKA" and "Renaissance Construction" has implemented a lot of investment projects in Russia.

3.3 Economic Relations Between Russia and Turkey since 2000 till nowadays

3.3.1 Cooperation Agreements

At the start of the 2000s, the pattern of bilateral relations and mutual perceptions started to shift again, as “Putin’s era” began in Russia and “Erdoğan’s era” began in Turkey. Initially, both leaders sought rapprochement with the West but later the leaders decided to develop their power to the East.

After the collapse of the Soviet Union and the establishment of Russian Federation, a number of agreements were signed. “The Joint Action Plan for Cooperation in Eurasia” was signed between Turkey and Russia in 2001. This agreement has allowed both countries an opportunity to strengthen their relations by providing a channel for political consultations and economic cooperation in the Eurasian region. This agreement was useful for strengthening the diplomatic relations on the topics related to Eurasia continent.

In 2004 “Joint Declaration Between the Republic of Turkey and the Russian Federation on Deepening Friendship and Multi-Dimensional Partnership”⁸ has been signed. With this agreement, the cultural and humanitarian relation between the two countries has gained a momentum for further development. Moreover, in the cultural sphere, reciprocally declaration of culture years has allowed both nations to get familiar with the each other’s culture (Şimşek, Zhanaltay, 2017)

In 2007 declared as a Russian Culture Year in Turkey whereas 2008 was the Turkish Culture Year in Russia. This declaration has a positive effect on unifying the cultural connections between the peoples of Turkey and Russia (MFA, 2009; Cevikoz, 2016: 20).

Moreover, the cooperation in the regional bloc, namely, the Organization of the Black Sea Economic Cooperation (BSEC) and the joint projects in the energy sector such as Blue Stream have elevated the relations to a higher level. The developing economic relations also positively affected the political relations.

The establishment of Turkish-Russian High-Level Cooperation Council (HLCC) in 2010 created a platform to discuss the regional and international cooperation opportunities.

⁸ <http://russiancouncil.ru/upload/Russia-Turkey-Report28-ru.pdf>

HLCC serves an important platform to discuss political and economic events and cooperation prospects between the two countries in order to develop the bilateral relations.

Turkey and Russia like two strategic partners are planning to achieve similar long-term external goals:

- ❖ the development of trade and economic relations with the independent states of the region with the profitable terms for the state;
- ❖ the creation of bilateral and regional systems of economic cooperation;
- ❖ the formation of a system of political cooperation with the possibility of giving it the status of a military alliance;
- ❖ getting the status of the regional leaders and providing of conditions for effective influence on the situation in the region.

3.3.2 Bilateral Trade Relations between Two Countries

Continuous growth in economic relations between the countries has become the major component of the bilateral relations. In their bilateral trade relations, Russia's export to Turkey is almost 6 times larger than Turkish exports to Russia. "In terms of trade share, trade volume equals to 2.5% of Turkey's total trade in 2015 while this amount equals to 5.9% of Russia's total trade volume"⁹. In terms of FDI, Turkey invested \$62 million FDI in Russia while Turkey received \$747 million FDI from Russia which positions Russia as the 7th biggest country in top 10 FDI flow list (TCMB, Demir 2015). All this data is represented below in table 3.

Table 3. Russian-Turkish Relations Main Indicators (2015)

	<i>Turkey to Russia</i>	<i>Russia to Turkey</i>
Total Trade \$ million	23989,26	23989,26
<i>Export \$ million</i>	3589,46	20399,80
<i>Trade Share (%)</i>	2,5	5,93
Investments		
<i>Foreign Direct Investment \$ million</i>	62	747
<i>Visitors thousands person</i>	115,7	3649
<i>Residents person</i>	76812	25343

Source: Turkey Ministry of Interior. <http://comtrade.un.org/>, <http://www.mia.gov.tr/>

⁹ <http://www.economywatch.com/international-economic-relations/bilateral-economic-relations.html>

Turkey's bilateral trade relations with Russia has grown steadily during the last 23 years both at the time of Russian ruble crisis (1998-1999) and the global financial crisis (2008-2009). In each year, there was an unbalanced trade structure between these two countries in favour of Russia.

However, after 2001 trade volume between the countries continuously grown over the years due to complementarity structure of trade where Turkey heavily imports raw material goods especially petroleum products and exports manufactured products mostly labour intensive and capital intensive goods such as motor vehicles, fabrics, motor vehicle parts and food stuff (UN Comtrade 2016). In the following years, trade amount has fallen only twice due to 2008 global crises and aircraft incident in 2015. Trade dynamics between Turkey and Russia shows that if not interrupted by the international or bilateral crisis, trade tends to grow.

3.3.3 The Participation in the WTO

“The World Trade Organization (WTO) is the only international institution that oversees the global rules of trade between nations. The WTO is based on agreements signed by the majority of the world's trading nations. The main function of the organization is to help producers of goods and services, exporters and importers protect and manage their businesses.

Advocates of the WTO consider the stimulation of free trade and a decline in trade disputes as beneficial to the global economy. Critics of the WTO point to the decline in domestic industries and increasing foreign influence in some cases as negative impacts on the world economy.”¹⁰

Principles of the WTO:

- ❖ Trade without discrimination;
- ❖ Freer trade: gradually, through negotiation;
- ❖ Predictability: through binding and transparency;
- ❖ Promoting fair competition;

¹⁰ Online source: <https://www.investopedia.com/terms/w/wto.asp>

- ❖ Encouraging development and economic reform.

Turkey first joined the WTO at the beginning of its forming in 1995. Then Turkey became one of the main supporters of the entering of Russia to the union. It has finally happened in 2012. It started a new period of Russian-Turkish relations.

First, Russia became a more comfortable partner in the economic geopolitics of Turkey. Also, this situation can positively influence for energy cooperation and solving the problems of the Middle East. Both countries got more stable and balanced trade relations with each other.

3.4 Conflicts of interests between Turkey and Russia

3.4.1 Annexation of Turkey to NATO Alliance and its consequences for Russian-Turkish Relations

Turkey joined to NATO on February 18, 1952, in three years after the foundation of this alliance. This step of Ankara is dictated by its historic choice in favour of cooperation with the West and the desire to oppose the spread of communist ideas to other countries in the region. Turkey's annexation to the alliance gave chance to NATO to make stronger its "southern flank", and also it was a step for making Ankara free from Soviet pressure because of access to strategic sea routes.

Turkey was occupying an important strategic position in the Mediterranean and the Middle East and became a loyal member of the alliance. It has made a significant contribution to NATO security, especially during the Cold War¹¹, it secured the longest border by the sea with the Soviet Union. Turkey provided the bloc with large contingents of its armed forces. Thus, Ankara had a lot of steps to reduce tensions between the West and the East.

The territory of Turkey is being a place of concentration of large foreign military facilities for NATO. It is increasing the number of bilateral agreements with the USA, also it was built more than 60 different military facilities in Turkey, such as airfields, naval

¹¹ Tension after World War II between powers in the Eastern Bloc (the Soviet Union and its satellite states) and powers in the Western Bloc (the United States, its NATO allies and others).

bases. All that steps of Turkey are keeping Russia in suspense and making relations between two countries discreet and considerate.

The outbreak of the Ukraine conflict in spring 2014 intensified Russian-Turkish geopolitical interplay and widened its scope. Its main scene of conflict is the Black Sea region, which has been joined by Russia's annexation of Crimea. Moscow has quickly modernized several old Soviet airbases: the Black Sea Fleet was strengthened with four new diesel submarines, allowing Russia to dominate most of this space. As a countermeasure, NATO has also committed to strengthening its deterrence capabilities in Romania and Bulgaria, but Turkey shows no interest in playing a significant role in this plan. Russia is determined to counter and overtakes NATO activities—focusing particularly on the U.S. missile defence base in Romania, that started operations in 2016—but has indicated that its confrontation against NATO should not be interpreted as being against Turkey. Only in the aftermath of the November 2015 incident, when Ankara requested support from NATO allies, was Turkey confronted in its capacity as a NATO member. Ankara shows readiness to play along, the discussions about Turkey's purchase of S-400 surface-to-air missile systems from Russia are politically convenient for both parties, even if NATO explicitly disapproves of this deal. In terms of security considerations around the Black Sea, Turkey insists on its strict adherence to the Montreux convention (1936), even if the high intensity of Russian naval traffic through the Turkish Straits involves a serious risk of accidents. Against the background of tensions in the wider Black Sea region, it is remarkable that the conflict-rich Caucasus remains relatively stable and causes little friction in Russia-Turkey relations. Another region where Russia and Turkey are involved in dynamic geopolitical manoeuvring is the Eastern Mediterranean, where Russia has some strategic reach, but cannot project power on a scale that could constitute a direct challenge to NATO. Moreover, Moscow is actively trying to sabotage any progress in negotiations on resolving the long-deadlocked conflict in Cyprus, seeing a change in the status quo—reunification of the island—as a threat to its influence on policymaking in Nicosia. Turkey is certainly a major player in this complex conflict management, but Ankara's position in the recent and predictably unsuccessful diplomatic rounds has been rather passive, perhaps reflecting Erdoğan's lack of interest in, and enthusiasm for, a solution.

3.4.2 Middle East Issues

In the wider Middle East, Russian and Turkish geopolitical aspirations are rarely in sync, and the developing crisis in the Persian Gulf brings this poor compatibility into focus. Turkey has built close security ties with Qatar—which is why Saudi Arabia insisted that its neighbour ensure the withdrawal of Turkish troops in the first list of demands that Riyadh submitted to Qatari authorities. Ankara and Doha rejected that demand and worked together on a compromise in order to de-escalate tensions without abandoning their support for the Muslim Brotherhood. There is no doubt in Moscow that the real cause of the crisis is Qatar’s ties with Iran, which leaves Russian Foreign Minister Sergei Lavrov limited space for mediation since he cannot be on board with the anti-Iranian stance in Riyadh. Iran is not only a valued partner for Russia but also guarantees that Russia can sustain its intervention in Syria.

Overall, competition—not quite reaching the level of rivalry—has been the prevalent trend in Turkey-Russia geopolitical interactions, even if political leadership on both sides seek to gloss over this reality by repeating their commitment to cooperation. Russia has a significant advantage in this power play: this is not due to its sheer size or the strength of its military (which is under-reformed and over-committed), but because its leadership has successfully mobilized all elements of state machinery under central control. In Turkey, to the contrary, state bureaucracy and the military have been weakened through severe purges and are now disorganized, so the resources needed to execute policy are significantly depleted.⁵² This geopolitical discord and ambiguity hamper economic ties and increase Turkey’s energy dependency, locking Ankara into a deeply asymmetric partnership.

Syria is the focal point of Turkish-Russian political and strategic interactions. Moscow and Ankara have significantly diverging interests in the region and pursue goals that are barely compatible. From Turkey’s point of view, this protracted war across from its southern border not only poses a direct security threat but also generates a massive humanitarian problem to manage. “For Russia, the military intervention launched in late September 2015 has become not only the prime vehicle of its policy in the Middle East but also a key lever in its struggle against the so-called “colour revolutions.” Furthermore, although Turkey is a member of the U.S.-led coalition against the Islamic State, it has

serious reservations about U.S. operations in this space; and while Russia speaks of its readiness to cooperate with Washington, its chief objective is to counter U.S. efforts and influence „¹²

3.4.3 Russian-Turkish Conflict in November 2015

On November 24, 2015, Turkey shot down a Russian attack jet near the Turkish-Syrian border. One of the Russian pilots died and a Russian commando was killed trying to save another. Ankara alleges the jet had been within Turkish airspace, in keeping with a pattern of similar Russian violations of Turkish territory. Russia described the incident as “a stab in the back delivered by the accomplices of terrorists”. President Erdogan refused to apologise for the collision. “According to the incident, Moscow imposed comprehensive economic sanctions on Turkey. These included suspending visa-free travel for Turkish citizens, limiting the activities of Turkish construction firms in Russia, and placing restrictions on imports of Turkish agricultural goods. Russian tourists were discouraged from visiting Turkey and the Russian Government passed a law making the denial of the Armenian Genocide – a historical event long rejected by Turkey – a criminal offence. Turkish economists estimated the short-term impact on Turkey’s economy at \$10 billion.”¹³

Starting from June 2016 it’s getting changing into relations of both countries. Turkish President Erdogan sent a letter where the Turkish leader expressed his interest in regulating the situation related to the death of a Russian military aircraft. Furthermore, after a phone call between V.V. Putin and R.T. Erdogan, Russia resumed the sale of tours to Turkey. Since that time till nowadays it’s appearing positive dynamics in Russian-Turkish economic relations.

¹² Online source: <https://themarketmogul.com/nature-turkey-russia-relations/>

¹³ <https://www.foreignbrief.com/former-soviet-union/russia-turkey-cooperation-conflict/>

3.5 Summary

Russia and Turkey have a common geographical location in Europe and Asia and similar stages of development, from empires through revolutions and civil wars to their sovereign states. Moreover, Russian and Turkish relations for its five-hundred-year history had significant changes with internal transformations of these states, and with changes international situation as a whole. At the same time, geopolitical components and regional competition were part of their development bilateral relations.

Two-sided relations have become particularly dynamic, after the disintegration of bipolar systems in conditions of global and regional instability. With the dissolution of the Soviet Union relations between Russia and Turkey took a completely different character. Attempts by Turkey to make stronger its influence on the newly independent states led to a confrontation in the post-Soviet space, which lasted until the end of the 21st century. Thus, the analysis of history Russian-Turkish relations showed that it developed in a lack of stability and progress.

Starting the 21st century the Russian-Turkish relations has begun close cooperation in the trade, economic, energy, humanitarian spheres, and security issues, which showed the ability of Russia and Turkey to find common ground in those areas with the common interest. The presence of a lot of agreements between Russia and Turkey helped to identify priority areas for cooperation and problem areas. However, the problems in trade and economic ties and the threat of freezing such large energy projects like Turkish Stream after tragic events in November 2015 with the Russian aircraft Su-24, showed the inability of the existence of agreements in the economic sphere to resist political upheavals. It was with lack of mutual trust. Thus, geopolitical disagreements had a negative impact on the development of cooperation in these areas.

Since 2011, the main region of Russian-Turkish relations became the Middle East. The desire of Turkey to establish regional leadership in the territories of the historically Ottoman empire, also as the involvement of Russia in regional processes led to a new transformation of bilateral relations. The emergence of concepts of Turkish president's policy "Strategic depth" and "Zero problems with neighbours" showed that the new regional one of Turkey has a deep ideological foundation, which is based on increased military-economic and demographic opportunities. This ideology started the process of

changing the role of Turkey in the world. At the same time, these concepts have become the basis of the external policy of Turkey after 2002.

As a result of the research of the regional cooperation between Russia and Turkey was found the actual geopolitical differences that have historical roots. These disagreements concern the situation around Ukraine and the Crimea. At nowadays, Russia and Turkey have a different point of view in the Middle East, in the in particular in Syria. These disagreements also, defending other regional interests became the causes of a negative transformation of Russian-Turkish relations.

4 Practical Part

This chapter describes the practical part of the study. For this research, the author used as a method for monitoring and statistical approaches to making a conclusion.

4.1 Bilateral Trade Indicators

Analysis of foreign trade between Russia and Turkey revealed a stable growth in trade and despite some changes in the crisis 2008-2009, the volumes of trade were restored. Already in 2015, Russia had 2.5% of the Turkish export and almost 10% of total import, in other words, almost 7% of Turkey's commodity turnover -24 billion dollars. Turkey had 6% of Russia's exports and 3% of import, in other words, almost 4% of commodity turnover. The data is performed in the table below.

Table 4. Bilateral Trade between Russia and Turkey

year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Billion \$	21,0	28,2	37,9	22,6	26,2	30,0	33,3	32,0	31,2	24,0

Source is available online: <http://www.turkstat.gov.tr/>

The commodity structure of Russian export to Turkey is dominated by oil, oil products, natural gas, coal, metals their products, accounting for more than 70% of all exports. At the same time, Russia imports from Turkey the products of the textile industry (about 20%), food (about 22%), machinery, equipment, (23%) and household equipment. However, in November 2015 due to temporary restrictions, it decreased the import of Turkish products mostly agricultural products, 15% of Turkish export to Russia was frozen.

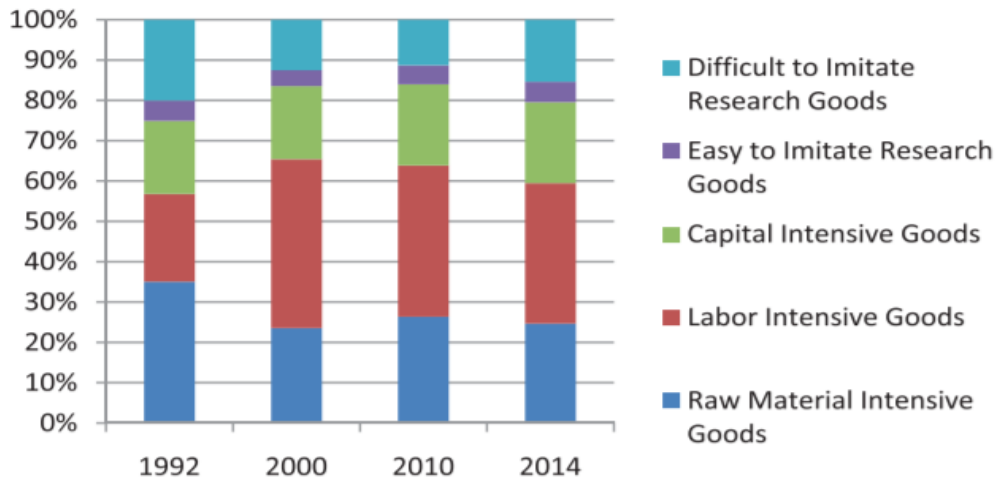
Overall trade trend shows that if not interrupted by internal economic factors or external political events, the trade volume has increased between Turkey and Russia and this increase would continue without affected by political or international events. Therefore, bilateral trade relations can show constructive positive effects on the economies of both countries.

Table 5. Turkey-Russia Bilateral Trade Volume and Growth (2000-2015)

Year	Turkey's Export to Russia (millions \$)	Growth Rate (%)	Turkey's Import from Russia (millions \$)	Growth Rate (%)
2000	639,08	8,57	3879,86	63,42
2001	924,10	44,50	3435,67	-11,44
2002	1168,30	26,42	3863,17	12,44
2003	1367,59	17,05	5451,31	41,10
2004	1859,18	35,94	9033,13	65,70
2005	2377,04	27,85	12905,61	42,86
2006	3237,61	36,20	17806,23	37,97
2007	4726,85	46,00	23508,49	33,41
2008	6481,48	37,12	31364,47	33,43
2009	3202,37	-50,60	19718,96	-37,12
2010	4631,49	44,62	21599,56	9,53
2011	5992,71	29,39	23952,93	10,89
2012	6682,98	11,51	26625,02	11,15
2013	6964,20	4,20	25064,21	-5,86
2014	5945,71	-14,62	25293,39	0,91
2015	3589,46	-39,60	20399,80	-19,34

Source: available online at <http://comtrade.un.org/>

Graph 1: Sectoral Share of Turkey's Exports to the Russia (1992-2014, %)



Source: Constructed according to <http://comtrade.un.org/>. Graph indicators are lined from top to bottom

As it's visible at graph 1 for years 1992 and 2010 (35% and 25%) it was relevant Raw material Intensive Goods, in Turkish Export to Russia. Also for 2000 and 2010 (40% and 35%), it was important Labour Intensive goods for exporting from Turkey. Regarding the structure of trade between Turkey and Russia, sectoral shares indicate that there is a shift from raw material intensive goods to labour-intensive goods. There was an increase in capital-intensive goods and easy to imitate research goods. Graph 1 shows that the structure of Turkish exports to Russia rapidly transforms from low value-added products to high value-added products. (Comtrade. com 2015)

4.2 Gas Pipelines Agreements

Energy cooperation between Russia and Turkey has a strong basis: tankers transport oil from Russian ports in the Black Sea to foreign markets by the Bosphorus and

Dardanelles channels. Turkey is a major consumer of Russian gas, which is delivered to the country through two gas pipelines - "Blue Stream" and Trans-Balkan gas pipeline.

4.2.1 Turkish Stream

Despite the short-term degradation of relations, as it was spoken before at the World Energy Congress in October 2016, Russia and Turkey signed an agreement for the construction of a gas pipeline "Turkish stream". It was one of the first steps on the way to normalization of relations between two states. For Russia, it was necessary to diversify the routes of supply and receipt of gas for having stable profit from the gas export of to European and Turkish markets.

It is expected to provide around 16 billion cubic meters of natural gas for Turkey's own consumption. In the next step, the pipeline would bring 47 billion cubic meters of gas to Turkish-Greek border. (TurkishPress, 2016)

“The TurkStream pipeline will start on the Russian coast near Anapa and runs through the Black Sea for nearly 230 km in Russian waters before crossing over into the Exclusive Economic Zone of Turkey.”¹⁴ TurkStream will directly connect the large gas reserves in Russia to the Turkish gas transportation network, to provide reliable energy supplies for Turkey, south and south-east Europe.

The offshore component of the system will be constructed by PAO Gazprom. The offshore pipeline will consist of two parallel pipelines running through the Black Sea. The first pipeline, designed to pump 15.75 billion cubic meters of gas per year. Finishing off the construction is planned for the end of 2018. This pipe will become an alternative system for the delivery of Russian gas, which is currently supplied through the Ukrainian gas transmission system and the Trans-Balkan pipeline running through Moldova, Romania and Bulgaria.

Turkish Stream Project will play an important role for delivering to Turkey natural gas, amount of what will reach 71.8 billion cubic meters in 2035, moreover it will create 13.5 thousand of new job places, and it will increase the household incomes for \$ 100 million and national revenue for \$546 million.

¹⁴ Online source : <http://turkstream.info/environment/eia-in-russia/>

Picture 1. Plan of the pipeline “Turkish Stream”



Source: available online <http://turkstream.info/project/>

4.2.2 Blue Stream

Blue Stream Project is a major trans-Black Sea gas pipeline that carries natural gas from Russia into Turkey. The pipeline has been constructed by the Blue Stream Pipeline B.V., the Netherlands based joint venture of Russian Gazprom and Italian Eni. The Blue Stream Pipeline B.V. is an owner of the subsea section of the pipeline, including Beregovaya compressor station, while Gazprom owns and operates the Russian land section of the pipeline and the Turkish land section is owned and operated by the Turkish energy company BOTAŞ. According to Gazprom, the pipeline was built with the intent of diversifying Russian gas delivery routes to Turkey and avoiding third countries.

“Blue Stream was designed with a capacity of 16 billion cubic meters of gas per year. Gas flows from Russia to Turkey started in February 2003. The terms of the contract

was extended until 2025. The total cost of the Blue Stream pipeline is US \$3.2 billion, including US\$1.7 billion for its submarine segment.¹⁵ „

By the end of 2017, a record volume of gas was delivered via the pipeline - 15.8 billion cubic meters. In all years of exploitation (15 years), over 158 billion cubic meters of gas has been transported via the pipeline in general.

SWOT Analysis of Blue Stream

Strength	Weaknesses
<ul style="list-style-type: none"> • Can reach the big amount of delivery possibility (15.8 billion cubic meters per year) • The secure pipeline, which is protected from loss of gas due to the strong material of the pipe 	<ul style="list-style-type: none"> • Resource limitation • High cost for pipeline service • High price for selling gas (because of monopoly in this sphere) • Expensive costs for the project realization
Opportunities	Threats
<ul style="list-style-type: none"> • The unique pipeline which is carrying gas under the sea • No competitors in this kind of transfer 	<ul style="list-style-type: none"> • Damage to the pipeline • After opening Turkish Stream can be a lower level of the amount of natural gas

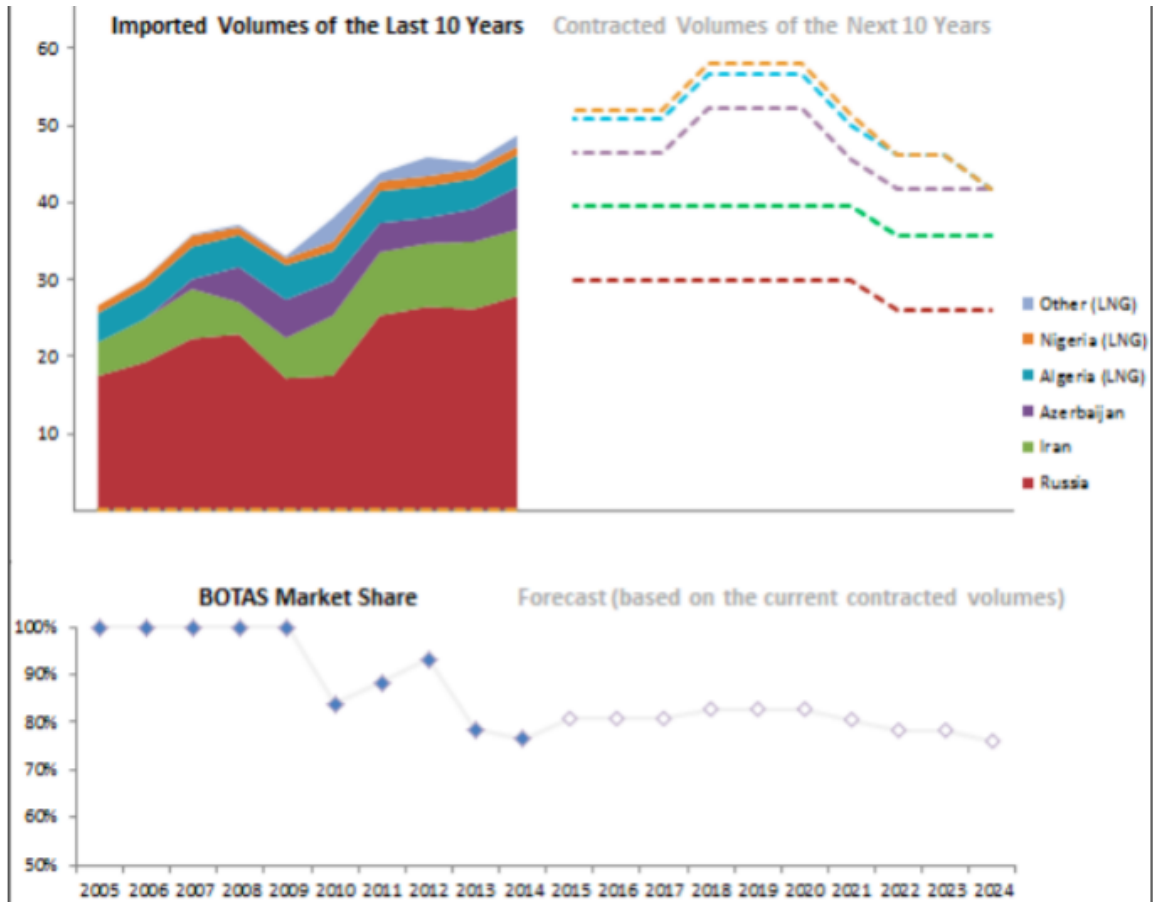
¹⁵ online source:
https://web.archive.org/web/20070702221045/http://www.pinr.com/report.php?ac=view_report&report_id=403&language_id=1

4.3 Turkish Gas Consumption

The most important fuel in Turkey's energy mix is natural gas. Its share of total energy demand is around 35 %. Natural gas is also one of the most important strategic industrial segments due to its direct and indirect impact on economic development, growth and imports. The energy sector and the energy-intensive industries remain under government control and/or regulation According to estimates from state-owned BOTAŞ (Boru Hatları ile Petrol Taşıma A.Ş. BOTAŞ), demand for natural gas is projected to increase on average by 2.3 percent/year from 2014 till 2030 implying that demand will grow from some 48 billion cubic meters (BCM) in 2015 to 70 BCM by 2030, down from 80 BCM estimated by BOTAŞ in 2012 (Rzayeva 2014). This is driven mainly by industrial consumption, but also by domestic and commercial sectors, as well as by gas-fired electricity generation.

Currently, Turkey is consuming the natural gas from Russia (67% in total), from Iran (20%) and from Algeria (13%). It's possible to see the data in the graph 2 below.

Graph 2. Turkish gas import , 2015



Source: Constructed according to Energy Market Regulatory Authority (EMRA) of Turkey

In 2011, Russia accounted for 55% of all gas supplied to Turkey, and this percentage was lower than the historical high of 60% registered only a few years earlier. For this reason, the Turkish side has made strenuous efforts to diversify the sources of its gas imports.

Here is the data of Russian gas consumed by Turkey (2005-2017)

Table 6. Gas consumed by Turkey

year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
billion cubic m	6,0	8,0	9,0	9,5	10,0	12,0	13,0	14,5	15,7	16,3	14,0	17,5	17,8

The source is available online: <http://www.turkstat.gov.tr/>

The mean is equal to 12.3 billion cubic meters, the median is equal to 13 billion cubic meters.

As it's possible to see the demand for Russian gas in Turkey is increasing year by year. Turkey is interested in the extension of the purchase and sales agreements after their expiry dates, for a number of reasons. It is deeply concerned to be able to provide a secure supply of natural gas given a possible supply squeeze that could occur in five years when contracts will expire.

4.4 Perspectives of Russian-Turkish Relations

In the long-term period, Turkey will have high growth rates of demand for primary energy resources. Consumption of energy resources in 2016-2040 will grow at an average rate of 2.2% and by 2040 will be 212 million tons. It is to two aspects of the Russian side:

- The rapid development of non-traditional and renewable energy sources in Turkey, as well as the expected inclusion in the energy balance of the country nuclear power;
- Potential growth in the energy efficiency of the Turkish economy will also lead to a decrease or slowdown in the growth rate of gas, which already happened in 2015 (see above). Thus, the electricity and gas markets in Turkey can be quite limited, and competition will almost disappear. It will lead to the fact that Turkish companies - buyers of Russian gas will have increasing of demand.

5 Conclusion

Economic relations between Russia and Turkey from the 2000s developed progressively. In 2000-2008 trade between the states in 2000-2008 grew up from almost \$ 5 billion to the maximum in \$38 billion dollars. The global financial crisis affected the economic relations between the two countries, and the volume of trade in 2009 decreased to 22.7 billion USD. In 2015 this indicator increased to 24 billion dollars. Under these conditions, economic cooperation develops rapidly. Despite the difference in the origin development, the structures of the Russian and Turkish economies are similar.

A serious test for Russian and Turkish relations was a crisis at a new decade of the 21st century. As a result, the incident with the Russian aircraft which participated in the antiterrorist operation in Syria led to the freezing of political relations between Moscow and Ankara. Russia put economic sanctions that have established a ban or restrictions on organizations working in the Russian state like Turkish origin firms and factories. For the period of their validity on the Russian market in some industries, the goods of Turkish companies were replaced by the products of their competitors. The recent internal political developments in Turkey show that the current government, headed by president Erdoğan, is enhancing and strengthening the institutions of the Presidency and centralizing power to unify the ruling team in the country, bolstering civilian control over the military forces and boosting vibrant industrial and economic development.

Looking at the trade intensity between Turkey and Russia, it's possible to say that there is a strong import relationship for Turkey with Russia while its export intensity is a little higher than expected. Moreover, Turkey's labour-intensive industries are the major industry group which continuously increased its comparative advantages both in world and Russian market. It's difficult to imitate industries have increased their share in Russian market especially after 2010. It shows that if not interrupted by internal economic factors or external political events, the trade volume has increased between Turkey and Russia and this increase would continue without affected by political or international events. Therefore, bilateral trade relations can show constructive positive effects on the economies of both countries.

The thesis showed the dynamics and structure of economic relations between Russia and Turkey in trade and energy there. Energy cooperation, especially gas trading, is being a leader in the development of bilateral ties. The influence on the political forces of the two

countries is also exerted by the public opinion. The achievement of tangible progress in bilateral relations requires updating their strategy. It is required to establish and strengthen the institutional links between the two countries in order to reduce the impact of crises. At the same time, it is necessary to solve problems of geopolitics, the legal base, for arranging good political and business climate, to develop of related markets in different spheres for both countries.

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7 Appendix

SOME ECONOMIC INDICATORS OF COUNTRIES FOR 2015

Indicators	Russia	Turkey
Population (million)	143,8	75,93
GDP (billion \$)	1 860,6	799,5
Agriculture (% GDP)	3,9	8,0
Industry (% GDP)	36,3	27,5
Services (% GDP)	59,8	64,5
Export (billions \$)	433,4	157,6
Import (billions \$)	254,0	242,2
Trade (billions \$)	687,4	399,8
Competitiveness Index (place)	45	51

Source: World Bank Data, 2015. www.worldbank.org