A Delicate Sense of (Economic) Balance: Turkey, Russia and the Other Strategic Map

Horia Ciurtin*

I. Historical Prolegomena: A Pontic Tale of Hegemony

Gazing at each other across the Pontic steppes and, then, across the enclosed sea. With fear, with (repressed) admiration, with distrust or envy. But always preparing for the next conflagration. That was the tale of the two hegemons' since their encounter. The spatial position of both polities and the historical legacy of dismembered Byzantium exerted *ab initio* an unavoidable tendency for conflict or, in more peaceful times, for tense competition. The stage of the clash invariably moved southwards, closer to the Ottoman heartland, resembling a Russian race to first secure Crimea (as the ultimate power projection in the Black Sea), the Caucasus and the Balkans. And, then, finally move toward the grand prize of Constantinople. The Third Rome was bound to liberate the Second one.

Or so the symbolic narrative went. However, this soft-power discourse was grafted upon hard *geopolitical imperatives*: the Russian Empire was locked within the Black Sea with no access to the Mediterranean. In order to become the unstoppable continental powerhouse, it could not afford being isolated in its ivory – or icy – tower up in the North. Not the taiga, but the sandy shores of the Old World were its manifest destiny. For these reasons, the Ottoman control upon the Black Sea's only point of access towards the South – the much debated straits of Bosphorus and Dardanelles – was impossible to tolerate.[1]

The Russian strategy of gradual encroachment upon Turkish territories was halted once the collapse of both empires occurred. And the 1923 Treaty of Lausanne (demilitarising the straits under international supervision) further blocked any other pretentions for the time being. In 1936, the Montreux convention allowed Turkey to regain control of this vital chocking point and to militarise it accordingly.[2]

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[1] Some authors even argued that this quest was one of the causes that eventually led to the outbreak of the First World War – see Sean McMeekin, *The Russian Origins of the First World War* (Cambridge, MA: The Belknap Press, 2011).

[2] The treaty might indeed allow Russia to maintain its naval hegemony in the Pontic realm, but without the possibility to move an inch further without the consent of the Turkish guardian. In many senses, the Russian navy – although the most capable around – is a splendid *conditional captive* within the Black Sea. It can impose its superiority around, but cannot project its power outside. At least, not without Turkey's goodwill.

For a more detailed perspective, see the classical account of Barry Buzan, 'The Status and Future of the Montreux Convention', *Survival*, Volume 18, Issue 16 (1976), 242-247.

Geopolitically, the stage has been once again set. One actor – friendly as it may be at certain points in time – controls the other's access to the Mediterranean and to the strategic hotspots that occur around it.

II. Not Alone in the Neighbourhood: Putting Money to (Strategic) Work

And thus, perhaps, the Pontic quest for hegemony has not quite concluded. As none of the actors seems to have reached the 'end of history', their proximity and persistent narratives of cultural-religious clash, still provide reasons for mounting frictions. Not necessarily in a military sense – although minor incidents have occurred – but in a race to the bottom for winning the hearts and minds (or pockets) of polities from their *overlapping* spheres of influence. In a certain sense, this competition resembles a cat-and-mouse game across three seas, two mountain ranges and one desert. The enlarged neighbourhood is tackled economically by the two actors in a strategy of mutual containment and counter-containment, trying to ensure regional allegiances which would enforce each other's position in their bilateral dynamics.

Both Russia and Turkey deploy trade and investment in a strategic manner, in line with classical geoeconomic thinking[3], seeking to alter the fragile equilibrium in the area and – finally – to reach another asymmetric balance. While politically – and militarily – the two powers have reached a non-combat stalemate (and even announce greater collaboration), their mercantile tactics continue to be intensively used to weaken the influence of the other in various hotspots around the region. The confrontation is silent and covert, not reaching any level of turbulence and being part of a long-term engagement. With the neighbourhood and with each other.

And this is the main element that should be taken into consideration *before* analysing the relations among the two actors. As their competition around the region is not only a method to gain mere footholds in each other's 'backyard', it – eventually – serves to secure economic leverage in their mutual dynamics. For this reason, both Russia and Turkey are involved in establishing alternative trade and investment routes, aiming to obtain better negotiation positions when dealing among themselves. One must first look to the two actors' dynamics in the neighbourhood in order to understand how they interact among themselves. Seen in bilateral isolation, the image is far from complete or accurate, as Russo-Turkish relations can only be assessed against the background of the(silent) geoeconomic tug-of-war across Eurasia.

From a larger perspective, such a new 'great game' in the economic sphere permits the emergence *of mercantile allegiances* that are not identical to the entrenched pattern of military and political partnerships. This could either mean that the two facets of grand strategy are not aligned in a consistent manner *or* that the deployment of geoeconomics seeks exactly to disrupt the established strategic framework. Given the intention of Russia and Turkey to displace the existing spheres of influence and modify the equilibrium of the region, the latter option seems to be the right answer.

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[3] More precisely, one could turn to the definition of geoeconomics as "[t]he use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of other nations' economic actions on a country's geopolitical goals", offered by Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge, MA: The Belknap Press, 2016), 20.

Not really avoiding the military perspective, but rather using economic tools to change its facts on the ground, both actors strive to push the regional balance in their favour and, thus, be able to impose stronger conditions for ordering the common neighbourhood. Capital and production fluxes are deployed *exactly* where the entrenched allegiances need to be challenged. Money is put to work where old instruments proved blunt and mere political incentives could not change the situation. Acts of deeper public symbolism are perfected so that a *new map* gradually occurs in the region. And the final aim is not a perpetual enmity or complete defeat of the contender, but rather a deeper regional balance that asymmetrically bends toward the victor.

III. Across the Eurasian Chessboard: A Mercantile Great Game

As a starting point, it must be made clear that the Russia-Turkey competition for influence is not meant to be pursued in absolute terms – as, in reality, there are very few cases in which either of them can surpass the European Union and China – but only in relative ones, mostly competing with the each other and not with all players. At least not with the 'benign' and 'postmodern' newcomers that do not deploy military-strategic assets along trade and investment. There would be no stake – and no positive outcome – in trying to *systematically* outroot the EU and China from these markets, as neither Russia nor Turkey could act as 'main actors' across all of them. They rather concentrate in eliminating each other and – when it is absolutely needed in strategic terms (such as in the case of Moldova, Serbia, Cyprus or Azerbaijan) – they can act as episodic 'spoilers' that do not really displace EU or China, but frustrate their short- and medium-term plans.

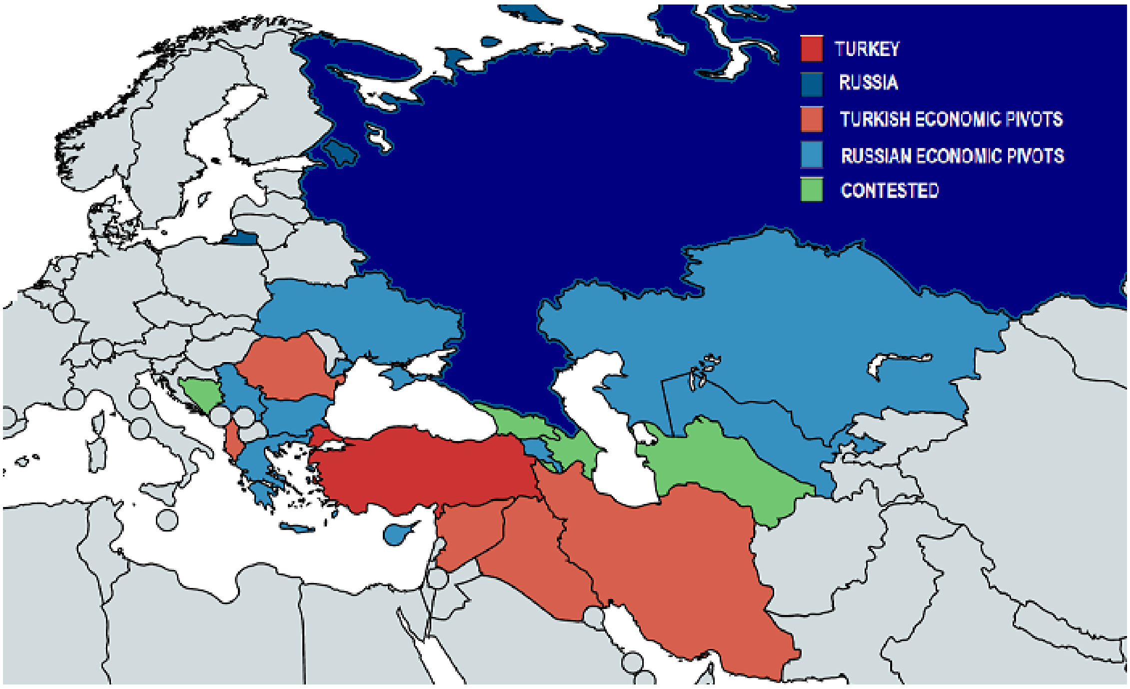

Figure 1 - Map of Mercantile Allegiances

Therefore, across the Black Sea and the Caspian (and with collisions into the Mediterranean as well), from the Balkans to the Caucasus and all over the Levant, Russia and Turkey appear engaged in an economic competition meant to ensure a greater influence in one state or another. Consolidating their own power-bases and ensuring their loyalty is a first step. However, once a crisis – or a simple fatigue – of trust emerges between a hegemon and its local allies, the other does not hesitate to fill up the empty 'partner' spot.[4]

Starting with the end of the Cold War and the dissolution of the Soviet Union, Turkey immediately moved to seize opportunities among Turkic peoples of Central Asia and the impatient Muslim communities from the Caucasus. While the Russian Federation was in economic – and political – disarray, the Bosphoran sovereign took an initial lead on the matter. Soon its act also moved to the Balkans after the breakdown of Yugoslavia and mostly intervened – through trade links and, then, investment – in Muslim polities such as Albania, Bosnia-Herzegovina or Kosovo. In this sense, Turkey benefitted from a head start in the geoeconomic race.

However, with the advent of president Putin to power and the transformation of Russia into a more expansive regional player, the Kremlin no longer simply watched such developments in what it considered a privileged sphere of interest. Although conciliatory toward Turkey in their bilateral relations, Russia moved back to regain its local allies and consolidate their allegiances through mercantile tools. On the other hand, it quickly started a trade-and-investment offensive to 'convert' reluctant actors such as Iran, Greece or Cyprus which were partly untouchable during the Cold War.

This contest shifted through different phases and each crisis modified the relative influence of either Russia or Turkey in the region. After Chechnya, the invasion of Georgia, the annexation of Crimea or the power-play in Syria, the smaller polities failed to move immediately along new lines. And this is the reason why – today – the map of mercantile allegiances appears somehow surprising when compared to that of military enmities. Some of these 'inertial allegiances' are truly nothing but economic captivities (such as in the case of Ukraine, Armenia or Northern Cyprus) of states who cannot break the geoeconomic yoke even if they wanted to. Sometimes, it is far easier to switch political sides and security blocks than to part ways with a major stakeholder in your own economy.

IV. Outbidding One Another: From Tashkent to Sarajevo (via Damascus)

Black Sea-Caucasus. At the same time, new points of intensified competition have emerged, along geopolitical fracture lines. The Black Sea-Caucasus region is a prime vector in this regard. Ukraine is at the forefront of the ideological struggle between Russia and the West, but it is also a place for mercantile interaction with Turkey. However, despite losing its political and military grip upon the country, Russia still remains a top trade partner and an immovable energy supplier, inferior only to the EU in terms of total exchanges. The previous complementarity of the two markets made any neat and immediate separation impossible. For now, Ukraine is still within Russia's mercantile grip.

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[4] In this sense, the official strategic doctrine of the Russian Federation explicitly endorses this manner of geoeconomic build-up, as Kremlin "provides governmental support to Russian organizations seeking to *tap new markets* and *gain a larger foothold* in traditional ones" – see *Foreign Policy Concept of the Russian Federation* (approved by President of the Russian Federation Vladimir Putin on November 30, 2016), available at http://www.mid.ru/en/foreign_policy/official_documents/-/asset_publisher/CptICkB6BZ29/content/id/2542248 (consulted on 15.01.2017).

At the same time, after the South Ossetia episode, Georgia has deepened its economic collaboration with Turkey and – at the moment – the Russian direct investment (in stocks) only marginally surpasses that stemming from Ankara, while the trade in goods presents a reversed situation.[5]In addition, the FDI flows (as opposed to stocks) have themselves turned in Turkey's favor, it being the second largest source of investors after Azerbaijan, with sums almost double to those originating from Russia.[6] Not only goods pass across the Turco-Georgian border, but also new railways and projected pipelines, emphasizing Ankara's strategic approach in its Caucasian investments: infrastructure, energy (even hydro-based)[7], doubled by an increasing exclusivity in trade that will ensure economic interdependence in the coming decade, despite no truly shared political vision.[8]

Therefore, it appears that Turkey seized the opportunity to gain an additional 'foothold' in the Caucasus, while declining in terms of dominance throughout Azerbaijan. In this latter polity, the recent tense relation with the Western powers encouraged a rapprochement with its larger northern neighbour.[9] While the FDI massively remains Turkish, the trade in goods has shifted to a slight (but significant) advantage in the favour of Russia, mainly due to imports. Despite being a resource-driven economy, Azerbaijan itself found it necessary to negotiate imports of gas from Russia in order to fuel up its industry.[10] And, as experience has shown elsewhere, where Gazprom manages to get a grasp, it will hardly leave the area soon. Or unchanged.

All this while Armenia remains unmoved from its military stalemate with Azerbaijan and locked in its historical trauma with Turkey. For it, despite looking towards the EU from time to time, it shall continue to be entirely dependent of Russian investment and trade, but with increasing doubts toward its partner that exploits the fear of Baku. However, the encirclement of Armenia (by Turkish friendly pivots) left Russia in the position to be the only supporter of its economy, situation which requires discounts for natural resources, investments in its decaying infrastructure and power plants.[11] As usually, mercantile captivities take their toll on both actors.

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[5]All further data invoked throughout this document in relation to trade in goods with the 'economic pivots' around Eurasia stems from DG Trade (for more details see footnote 12).

[6]Methodologically, the stocks dimension has been primarily used in analyzing FDI throughout the area, as it reflects a rather long-term commitment (and its results over the years). Where it is necessary, the flows have also been taken into consideration in order to show the latest trends. All data regarding Russian and Turkish outward FDI have been compiled from their respective Central Banks (for more details see footnote 17).

[7] Boris Ajeganov, 'Real friends? Georgia-Turkey relations in the wake of the July 15 coup attempt', *Central Asia-Caucasus Analyst*, 10 August 2016, available at https://www.cacianalyst.org/publications/analytical-articles/item/13388-real-friends?-georgia-turkey-relations-in-the-wake-of-the-july-15-coup-attempt.html (consulted on 15.01.2017).

[8] Diba Nigar Göksel, 'Turkey and Georgia: Zero-Problems?', *Black Sea Trust for Regional Cooperation*, The German Marshall Fund of the United States (June 2013).

[9]Thomas de Waal, 'Azerbaijan at Twenty-Five: A New Era of Change and Turbulence', *Carnegie Europe*, September 23, 2016, available at http://carnegieendowment.org/files/de_Waal_Azerbaijan.pdf (consulted on 15.01.2017).

[10] For more details see Simon Pirani, 'Azerbaijan's gas supply squeeze and the consequences for the Southern Corridor', *Oxford Institute for Energy Studies*, OIES Paper NG 110 (July 2016), 6-7.

[11]See Vladimir Socor, 'Armenia's Economic Dependence on Russia Insurmountable by the European Union', *The Jamestown Foundation*, Global Research and Analysis, 13 December 2013, available at https://jamestown.org/program/armenias-economic-dependence-on-russia-insurmountable-by-the-european-union/ (consulted on 15.01.2017).

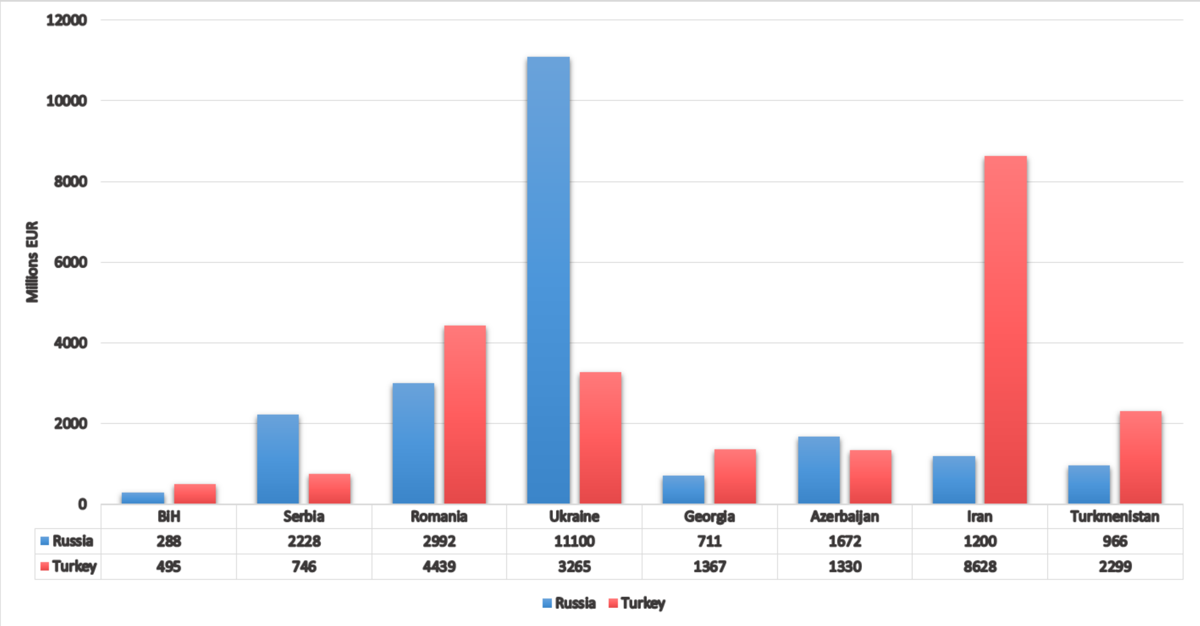

Figure 2 - Selected Trading Pivots (2015)
[Sources: DG Trade, IMF][12]

Central Asia. On the other hand, the Eastern part of the Caspian Sea was the first zone experiencing the competition among the two self-styled hegemons. Immediately after those republics gained their independence, Turkey appeared on the horizon, speaking of 'Turkic' unity and bearing (mercantile) gifts. Capitalizing on Russia's initial collapse and the revival of Pan-Turkism under Turgut Özal[13], Ankara quickly moved to action and initiated an intergovernmental format of economic cooperation, along with stimulating private businessman to investing in the 'brotherly' republics of Central Asia. By deploying the EximBank and TİKA (Turkish Cooperation and Coordination Agency), institutional-based (economic) cooperation was fostered from the beginning. In that decade, loans and aid were provided, capital flowed and Kazakhstan, Kyrgyzstan, Uzbekistan and Turkmenistan, received almost 1 billion USD from their Turkish partner, along with a steep increase in bilateral trade.[14]

However, Russia soon understood these moves as a 'trespassing' in its privileged sphere of influence. Along with a dissatisfaction in Turkey regarding the progresses made in its Turkic *oikumene* and the reluctance on the Central Asian states commit to such identitarian projects, domestic economic turbulences also affected Ankara. Therefore, it only took more assertiveness and a combined deployment of geopolitical

[12] For this graph, it was necessary to use data compiled by the European Commission (DG Trade) by accessing the detailed individual country factsheets, which themselves are based on data extracted from the IMF. The graph was restricted only to the value of trade with either Russia or Turkey from the total trade in goods (excluding trade in services) of the various 'pivots', representing a sum of their imports and exports from/to Russia or Turkey. The data for EU Member States was also taken from DG Trade, for consistency rationales.

[13] For more details about this initial period, see Sedat Laçiner, 'Turgut Özal Period in Turkish Foreign Policy: Özalism', *USAK Yearbook of International Politics and Law*, 2(2009), 153-205.

[14] See Turkish Ministry of Foreign Affairs, *Turkey's Relations with Central Asia*, available at http://www.mfa.gov.tr/turkey_s-relations-with-central-asian-republics.en.mfa (consulted on 15.01.2017).

and economic power in order for Russia to regain its privileged status in the region. Or – in the event that it never lost it – to consolidate it against the Turkish contender.

That is why after the 2000s and up until the present day, Turkey has rather been in retreat in front of Russia. Kazakhstan is unquestionably a symbol in this regard, with Russian FDI stocks and bilateral trade that surpassed almost 10 times that experienced in its relations with Turkey. Part of the Eurasian Customs Union, it operates in the 'single market' advanced by Russia and is its (junior) partner in various sectors, but mostly in oil and gas. At the same time, a recalcitrant Uzbekistan has also been impossible to really 'convert', as trade with Russia is almost 3 times larger than that with Ankara and with intensive investment in the oil-gas industry and in the production sector. As a sign of goodwill, Russia routinely 'forgives' the Uzbek republic of its debts.[15] Only Turkmenistan appears to be 'contested' among the two, as trade with Turkey largely surpassed that with Russia and with a high presence in the construction sector. However, the level of FDI is still classified on the Russian side, making it difficult to estimate the true size of each actor's economic footprint.

In essence, Turkey's economic stance in Central Asia has been rather modest, without rising to its emphatic expectations. A powerful Russia (in relative terms) and an all-pervasive China, make it hard for it to engage properly, remaining only a medium player in these economies (though not negligible). In this sense, although Turkish businesses do operate in these republics (and sometimes really flourish), they are not so persistent or widespread as rhetorically claimed by AKP[16], while Russian oil and gas companies lead the way.

Iran-Levant. On the other side, when turning down South towards Iran and the (larger) Levant, it can be clearly observed that the situation is reversed. Although Russia has a military and political influence that is hard to neglect (especially in Syria and Iran), its economic engagement with this area is less then modest. It is almost non-existent in terms of trade (with the exception of Iraq where – although present – is negligible in front of Turkey) and investment, leaving the businesses from Anatolia to fill up this troubled part of the world. The map of military alliances and that of mercantile allegiances are very different here. While Russia fairly dominates the first category of relations, Turkey is the economic 'champion'.

This can also be explained in terms of spatial proximity, as all these countries are right on Turkey's borders and need exactly the type of products that it has to offer and not the usual oil-gas business that Russia brings to the table. Neither Iran, nor Iraq or Syria are dependent on Russia hydrocarbons or on its transit routes. Moreover, Iraq and Syria – despite political frictions with Turkey – have held a long-term economic relation with their northern neighbour, being in a state of interdependence and on more equal footing than working along Russia. Also, the Iranian-Turkish trade is rather diversified, establishing patterns of that are durable on the long-term and make their markets interdependent. However, Iran is a same-calibre power with similar power claims in the region (both in Levant, Caucasus and Central Asia), situation which is

[15]See Paul Sorbello, 'Yes, Uzbekistan Is Putin's Friend: Russia's president offers a generous dose of debt forgiveness to keep Uzbekistan close', *The Diplomat*, 15 December 2015, available at http://thediplomat.com/2014/12/yes-uzbekistan-is-putins-friend/ (consulted on 15.01.2017).

[16] Ertan Efegil, 'Turkish AK Party's Central Asia and Caucasus Policies: Critiques and Suggestions', *Caucasian Review of International Affairs*, Vol. 2, Issue 3 (Summer 2008), 166-172.

translated into a smaller economic competition between themselves. Thus, Russia might find Turkey sufficiently balanced locally for it not to intervene economically as well. Its military footprint in the region seems sufficient. At least for now.

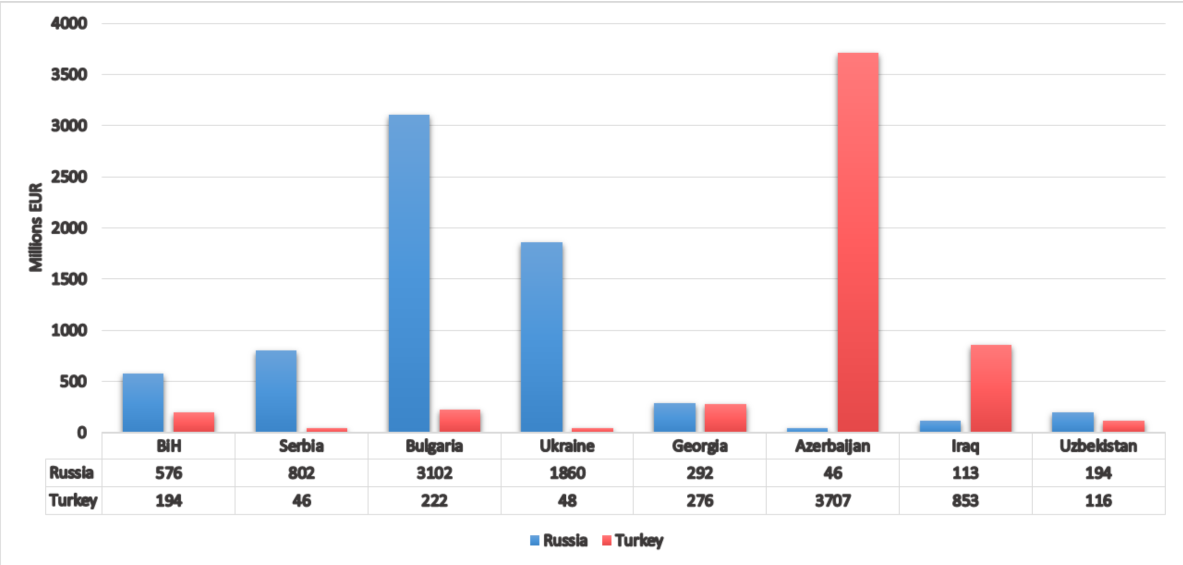

Figure 3 - Selected FDI Pivots – Investments by Russia/Turkey Abroad (Stocks, 2015)
[Sources: Central Banks of Russia and Turkey][17]

Balkans. The Balkan mercantile game is a more complicated affair than all the other. Here, both Russia and Turkey are completely overshadowed in trade terms by the EU. And China is closely following it. In such a context, although both actors perceive the entire area as their 'traditional' sphere of influence, they have rather approached it (and their competition within) as a *de facto* partition of interests. Thus, each of them deployed geoeconomic interests where a foothold was present and a strong cultural affinity existed.

In this sense, Russia rather cultivated its discourse of Slav protector in the Balkans and committed – in a mercantile manner – to Serbia, Montenegro and the Serbian-dominated division of Bosnia-Herzegovina. Outside the EU and with a deep historical distrust of Turkey (and the perceived Ottoman legacy), they were easier to reach out and maintain such a 'friendship'. For this reasons, the Russian investment pattern did not reflect simple PR stunts (such as in the case of Gulf States), but buying of strategic assets and the development of networks in sectors such as energy, media, real estate and heavy industry, doubled by recent sales of military hardware.[18]Most of

[17] Data source for Russia: The Central Bank of the Russian Federation, *Russian Federation: Outward Foreign Direct Investment Positions by Instruments and Geographical Allocation in 2013-2016*, data as of 31 December 2015, directional principle. Data Source for Turkey: The Central Bank of the Republic of Turkey, *Residents' Foreign Direct Investments Abroad-By Country (2001-2015)*, data as of 31 December 2015.

However, given the different methodologies and – usually – conflicting data available internationally, this is only an estimate subject to major improvements, meant to show a trend, rather than a perfect image of the two countries' investment abroad.

[18] Francisco de Borja Lasheras, Vessela Tcherneva and Fredrik Wesslau, 'Return to Instability: How Migration and Great Power Politics Threaten the Western Balkans', *European Council on Foreign Relations* (March 2016), 4-9.

them involved (partially) state-owned companies that operated in tandem with the Kremlin. Russia also managed to gain steady positions in the European Union through Bulgaria (subject to a high level of FDI) and Greece, maintaining a courteous and onerous relation with both, seemingly as 'equal' and not as 'patron'.

On the other hand, Turkey's act in the Balkans concentrated upon other Muslim entities such as Albania, Kosovo or Bosnia-Herzegovina. Its direct investment is rather modest and – in the case of Bosnia, it is below that of Russia – but the trade patterns are much more diversified, stretching from telecom, transport, constructions to banking. In addition, it is an enduring presence in infrastructure development even outside its 'allegiance' zones.[19]In commercial exchanges, it also increased its presence by largely surpassing Russia in Romania and nearly equalling it in Greece and Bulgaria.

At the same time, when also considering Cyprus as part of this extended area, a special situation is encountered. In essence, it is an over-extended Balkan story. The Russian-Turkish competition is all the more present in the context of the island's division. While northern Cyprus remains unrecognized and on 'life-support' from Ankara, the EU part of the country is largely prosperous and a veritable hub for Russian investment, being dependent on its influxes of cash. FDI indicators are out of the chart in this regard, transforming Cyprus in the foremost destination of Russian direct investment abroad (more than one third of all its outward FDI). This appears not because of the business attractiveness of Cyprus, but rather due to the offshore component that allows Russia to obtain an *investment proxy* in the EU[20] and move to other economies without being blocked or attract too much attention.

While United Kingdom has its overseas military bases on the island for projecting power in the Middle East, Russia has the geoeconomic equivalent for projecting trade-and-investment influence within the EU. And this is another example of how the 'other' map (of mercantile relations) differs from the traditional map of 'hard' political allegiances. And how one 'map' seeks to erode the other on the long-term.

V. In an Open (Economic) Relationship: Moving towards Interdependence

After analysing such an economic competition around the neighbourhood, one can properly address the issue of bilateral interaction. What nature does it have? Still adversarial, still on the run to catch the other off-guard and buy it out? Or – in reality – when directly dealing with one another, Turkey and Russia have a more deferent relation? The truth is that the great Eurasian chess-game is nothing but an external reflection of power readjustments *among* the two actors. The geoeconomic game across the overlapping sphere of interests is primarily meant to order the region by including the other and not by excluding it.

And that is why cooperation and interdependence are the proper mercantile descriptors. Increasingly asymmetric, but still unescapable. The larger Eurasian

[19]Ronald H. Linden and Yasemin İrepoğlu, 'Turkey and the Balkans: New Forms of Political Community?', *Turkish Studies* 14, No. 2 (2013), 245-246.

[20]One report even stated that – in reality – when analyzing the sources of FDI throughout the world, one might "use FDI from Cyprus as a more or less acceptable proxy for transhipped FDI from Russia" – see Kálmán Kalotay, Andrea Éltető, Magdolna Sass, Csaba Weiner, 'Russian capital in the Visegrád countries', *Centre for Economic and Regional Studies*, Hungarian Academy of Sciences, Working Paper No. 210 (2014), 8.

competition is just another step, another 'battle' in the long economic 'war' for an entrenched 'peace' among Russia and Turkey. Their bilateral relations have gradually tilted the power-ratio in Kremlin's advantage, as it gradually bought off (or – rather – regained) most of Ankara's initial mercantile allegiances. On the other hand, this was translated in a more steady mercantile flow among themselves. Investment, trade and tourism cemented their economic ties which could not be cut off even in episodes of deep political (and military) adversity, such as the downing of the SU-24. There were break-ups, but not durable.

In essence, this mercantile 'romance' of Russia and Turkey is nothing but a love-and-hate relationship. Open, but with little chances to avoid captivity. At least on the short- and medium-term. And it all started in the mid-80s (rather than the '90s as most analysts would argue) with the 1984 Natural Gas Agreement between Ankara and Moscow. This deal opened up the way for energy cooperation and envisioned a 25 year duration term. However, the real boost in trade emerged in the post-Cold War period, once informal trade patterns emerged among the two countries' residents and – symmetrically – the intergovernmental formats of economic cooperation were institutionalised.

A first relevant step in this latter direction was the establishment of the BSEC in 1992, aiming "to achieve cooperation rather than conflict, to support regionalism as well as globalization, and to avoid new divisions in Europe".[21] Its emphasis on economy as a fundament of pacifying the area reflected the desire of the two main drivers of BSEC (Russia and Turkey) to obtain a win-win situation through their interaction within a multilateral framework.

On the other hand, their dynamics in Central Asia and Caucasus proved to be more conflictual, as Turanism – and the need to diversify energy sources – generated a more assertive Turkish policy, viewed by Russia with deep distrust. The 1998 decision to construct the Baku-Tbilisi-Ceyhan oil pipeline (with American support) added supplementary reasons for Kremlin to doubt the intentions of Ankara and its obvious trespasses into its privileged sphere of influence. Such a bypass was strongly opposed by Russia, as it saw this project as strategic in nature, rather than economically viable.[22]

In order to ease these tensions, Turkey also agreed a massive influx of Russian gas through the projected Blue Stream pipe underneath the Black Sea and – thus – making unviable the proposed alternative gas pipe from Turkmenistan. Its Central Asian endeavours were sacrificed for a better relation with Russia, even if imperilling its own diversification of gas supply.[23] And this was an initial decision that would gradually translate into a higher and higher energy dependence. However, in strategic and economic terms, it made sense at that moment to soften up an embittered Russia while backing down the rhetoric of a pan-Turkic collaboration that never rose to the initial expectations.

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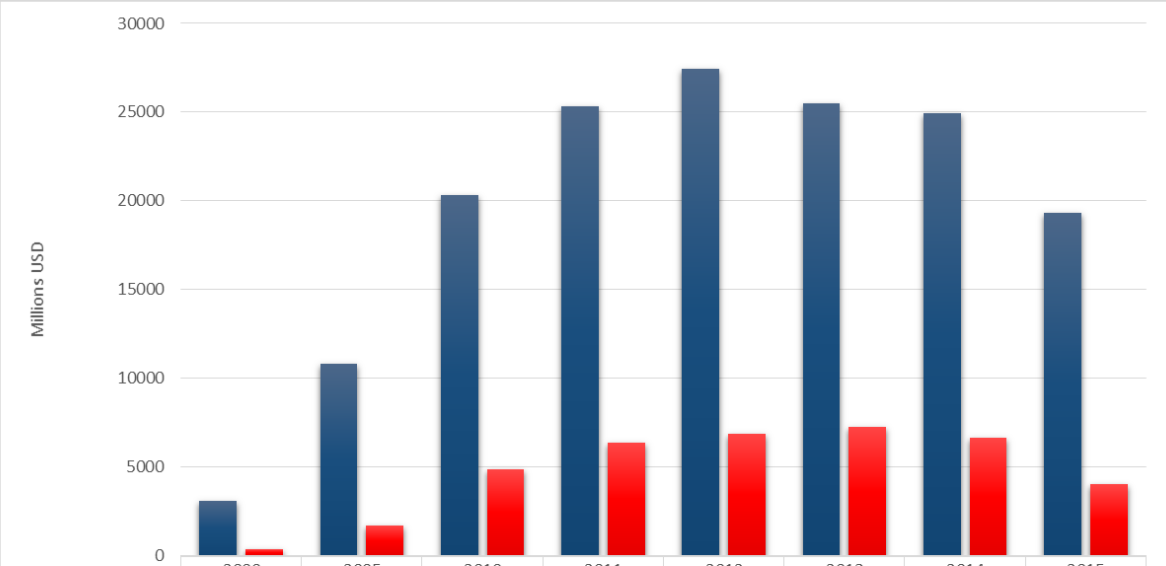
[21] Mustafa Aydin, 'Regional Cooperation in the Black Sea and the Role of Institutions', *Perceptions* (Autumn 2005), 62.

[22] Svante E. Cornell and Fariz Ismailzade, 'The Baku-Tbilisi-Ceyhan Pipeline: Implications for Azerbaijan', in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West* (Central Asia-Caucasus Institute and Silk Road Studies Program, 2005), 77-78.

[23] Zeyno Baran, 'The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey', in S. Frederick Starr and Svante E. Cornell (eds.), *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, cit. supra, 116.

With the advent of Vladimir Putin to power and the veritable resurgence of Russian diplomacy, hard power and geoeconomic manoeuvers, the relation between the two actors entered a new phase. While Turkey was gradually restrained in its assertiveness towards Central Asia and Caucasus, the bilateral relations moved to a pattern of collaboration and – in certain cases – to doing business on win-win terms for both sides. The personal leadership of the Putin-Erdogan era also contributed to the deepening of existing ties, as the political model professed by both of them gradually singularized them as (counter)examples lying at the borders of the EU.

As a well-known American diplomat argued, it soon appeared that Kremlin was "engaged in a little-noticed charm offensive to woo our all-important (but deeply alienated) ally Turkey into a new special relationship that would extend Russia's influence in that volatile region".[24] With their back against the neoliberal wall, they needed – at times – to turn to each other for support. A first goodwill sign was Turkey's backing for Russia to join the World Trade Organisation, as well as gain observer status in the Organisation of the Islamic Cooperation.



	2000	2005	2010	2011	2012	2013	2014	2015
Russian Exports	3098	10841	20317	25350	27426	25476	24954	19332
Turkish Exports	349	1732	4867	6360	6859	7273	6655	4033

Figure 4 - Asymmetric Bilateral Trade
Russian Exports to Turkey vs. Turkish Exports to Russia[25]

In the economic realm, it has been pertinently argued that the dynamics between Russia and Turkey moved along three main lines: trade, investment and tourism.[26] Thus, bilateral trade increased exponentially from approximately 3.5 billion USD in 2000 to more than 34 billion USD in 2012. However, a closer look at this trend (as seen above in

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[24] Richard Holbrooke, 'The End of the Romance', Washington Post, 16 February 2005, available at http://www.washingtonpost.com/wp-dyn/articles/A27622-2005Feb15.html (consulted on 15.01.2017).
[25] The data was compiled from the report 'External Trade of the Russian Federation with Other Countries' issued by the Federal State Statistics Service. At the same time, for consistency reasons, the corresponding data from the Turkish Statistical Institute were checked. Although slightly different (perhaps due to differences in methodology), they portrayed the same asymmetry in trade.
[26] Ziya Öniş and Şuhnaz Yılmaz, 'Turkey and Russia in a Shifting Global Order: Co-operation, Conflict and Asymmetric Interdependence in a Turbulent Region', *Third World Quarterly*, Volume 37, Issue 1 (November 2015), 8.

Figure 4), reveals a growing asymmetry between the two partners and the slip into economic (energy) dependence of Turkey upon its larger contender. Russian exports are – through the entire recorded decade (2005-2015) – 4 times higher than the corresponding Turkish exports toward the Federation. The proportion is even more troubling in matters of foreign direct investment (stocks): for example, in 2015 the total cumulated investments of Turkey into Russia rose to a mere 747 million USD, while the corresponding Russian investments in Turkey were of 6.013million USD, i.e. almost ten times higher.[27] The number of Russian tourists to the Mediterranean resorts of southern Turkey increased from 667.287 in 2000 to an all-time high of 4.482.388 in2014.

All these three indicators, on a steady and continuous rise over the last decade, lead to a picture of economic dependence – almost a captivity – that allows little space of action on Turkey's part if it does not want to further cripple its economy. While Russia could well manage the (temporary) loss of Ankara as a mercantile partner, the opposite situation is hard to argue without substantial damages. Moreover, given the details of the trading relation (see Figure 5 below), it appears clearly that Russia's greater part of exports toward Turkey is concentrated in the resources sector (gas, oil, metals) and the derived products, making it impossible to change the supply chain on a short notice.

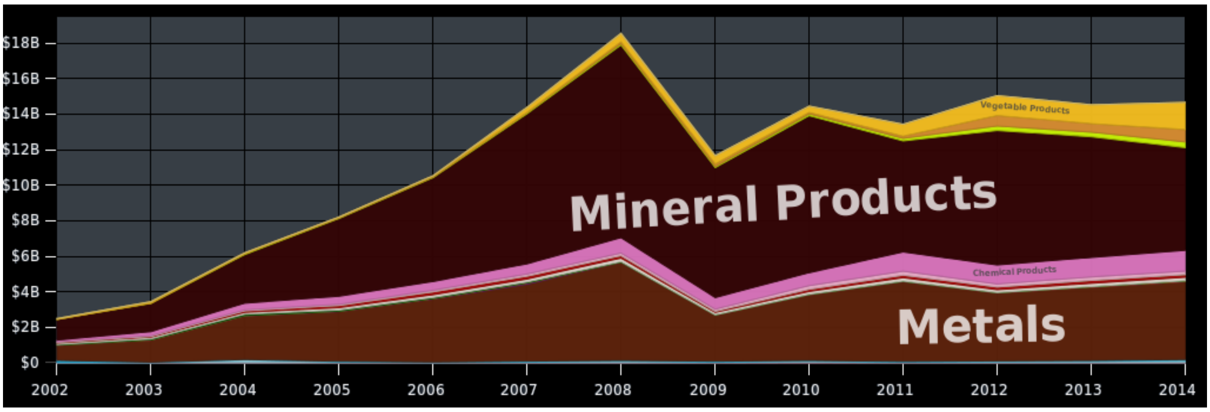

Figure 5 - Russian Exports to Turkey[28]

Pipes, oil-fields and dedicated mines cannot be swapped for other ones in the same manner as Russia can swap its imports of textiles, vegetables and machinery from Turkey. For these reason, the relation between the two countries has also been institutionalised, as in 2010 a High Level Russian-Turkish Cooperation Council was established meant to provide a necessary semi-permanent framework for bilateral negotiations and projects.[29] A first landmark of this 'logistic' fundament appeared later that same year when the Turkish Parliament gave its consent for the commencement of

[27]Data extracted from the the The Central Bank of the Russian Federation, *Russian Federation: Outward Foreign Direct Investment Positions by Instruments and Geographical Allocation in 2013-2016*, as well as *Russian Federation: Inward Foreign Direct Investment Positions by Instruments and Geographical Allocation in 2013-2016*, data as of 31 December 2015, directional principle.

[28] Data and chart generated by using the precise instrument at MIT, The Observatory of Economic Complexity – see Alexander Simoes, Cesar Hidalgo, 'The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development', Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence (2011), with updated data until 2014, available online at http://atlas.media.mit.edu/en/ (consulted on 15.01.2017).

[29] Memduh Karakullukçu and Dmitri Trenin (eds.), 'Exploring the Prospects for Russian-Turkish Cooperation in a Turbulent Neighborhood', *Carnegie Moscow Center* (September 2014), 5.

work by Rosatom on constructing and operating a nuclear power-plant in Akkuyu[30]. Such a possibility also reflected the deepening of the energy dependence in the electrical production sector.

In this context, it can be explained why Turkey – silently aligned with its Western partners on the issue of Crimea and the Donbas insurgency – never proceeded to impose a similar set of sanctions upon the Russian economy. As Mevlüt Çavuşoğlu then emphasised, Russia is a major trade partner for Turkey and its policy stands apart from that of US and the EU. Quite the other way round, Ankara rapidly capitalized on the existing sanctions and increased its exports to Russia, allowing it to bypass the economic 'blockade' imposed by the West.[31]

VI. Trouble in Paradise: The Challenges of Asymmetric 'Romance'

However, there are ways in which the parallel strategic maps can influence each other in the opposite direction. And where geoeconomics is deployed once more to bring the other back to the negotiation table. Such a case can be observed in the downing of the SU-24 in November 2015. The escalation of the tensions up to this level was possible only on the existing adversity within the Syrian conflict. Both actors picked sides and both wanted to increase their power-base around the region by establishing a durable allegiance of either Assad or of the rebels, depending on who prevailed in the conflict. In the worst case, a 'freezing' of the front would allow them both to maintain a direct military presence in the area and project their influence further South and East.

In badly-calculated posturing – or a trigger-happy impulsive mood of lower-rank officers – the Turkish air force downed the SU-24 warplane. While it might have easily dealt with the military threat (otherwise low) from Russia in that area, as well as with the political backlash, the economic effect was unexpected. Kremlin quickly moved to action and imposed its own set of sanctions in key domains: tourism, agriculture, construction and the suspension of free-movement (or employment). The toll taken could be seen one year later: while in 2015 (January-October), the number of Russian tourists on the Mediterranean coasts has been of 3.527.258, in the corresponding period of 2016 (after sanctions have come into effect) the number of such tourists declined to 734.625.[32]

The overall impact upon the Turkish GDP was estimated to range from 0.6 to 1.0 pp, i.e. from 4.4 billion USD to 7.3 billion USD.[33] Not enormous, but neither negligible either. However, in the context of an already problematic situation, it might have proved to be the straw that broke the (Turkish) camel's macroeconomic back. While interest rates rose since 2014, the also lira plunged constantly. The credit rating by Standard and Poor's and Moody's was downgraded to 'junk' status in the period after the coup. On top of all this, the Kremlin announced the suspension of the High Level Cooperation Council's activity, a (temporary) halt to the plans for the Turkish Stream and put into question the possibility of building the Akkuyu reactor. However, *strategically*, there

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[30]Markos Troulis, 'Beyond the Gas Trade: The Structural Determinants of Russo-Turkish Relations', *İnsan ve Toplum*, 5 (10), 2016, 116-117.

[31] Ziya Öniş and Şuhnaz Yılmaz, 'Turkey and Russia in a Shifting Global Order', *cit. supra*, 16.

[32]According to official data from the Republic of Turkey's Ministry of Culture and Tourism.

[33] Eren Demir, 'Possible Implications of Russia's Sanctions on Turkish Economy', Türkiye İş Bankası, Economic Research Division (December 2015).

was no mention of energy supplies or any sanctions in this area. The door of cooperation was not slammed. Only closed defiantly in the face of what Russia as a "stab in the back", as Vladimir Putin openly qualified Turkey's act.

Although the Turkish leaders eased their tone gradually, it was only after the 15 July attempted coup that a reconciliation became possible. More and more isolated after the purge of the entire society in search of Gülenist foes, Ankara leaned back to Russia's 'embrace' and (semi)apologised publicly for the downing of the warplane. In a typical Eurasian twist, it appeared that the Kazakh and Azeri 'fraternal countries' mediated this conflict and helped the two parties to arrive at an economic armistice.[34] In the last part of the year, the sanctions have been lifted and the relation – seemingly better than ever – was taken to a new level of cooperation. At least rhetorically.

In a diplomatic *tour de force* Putin and Erdoğan have re-launched and re-branded their initial 'axis of the excluded'[35], promising to boost mutual trade and investment beyond all previous standards. A first set of three mega-deals has been announced. First of all, maybe the most relevant from a norm-consensus perspective is the plan to have a comprehensive Free Trade Agreement finalized in 2017. This would further integrate the two markets and reduce most of the hurdles encountered when goods, services and capitals cross the border. Or, as Nihat Zeybekci (the Economy Minister of Turkey) argued, the aim of the agreement is "to create a reality where there will no obstacles between Turkey and Russia in trade and economy".[36] Inspired – more than probably – by the European experience in this area, the FTA is envisioned to create an alternative regional market comprising on the shores of the Black Sea.

The second proposed measure of the rapprochement is – in a rather curious manner – the establishment of a joint investment fund, with an initial capitalization of 1 billion USD. The contributions should be equal, but there are no suggestions how this state-subsidized and state-run (rather modest) fund should operate. Given the disproportion of FDI flows and stocks between the two partners, it is debatable if the declared target of "boost[ing] relations in the tourism, energy, agriculture, and transport sectors"[37] shall really work both ways or it is simply a fund for partially paying off the infrastructure needed by Russian investors (in the energy field) and by its mega-tourism companies.

Last, but definitely not least, the so-called Turkish Stream gasoduct from Russia to Turkey was also given a green light. Carrying much-needed gas beneath the Black Sea (but also serious discounts for Turkish consumers), this pipe would act in a dual manner: both deepening Ankara's reliance on Russian energy *and* transform it into an alternative transit route towards Europe if Ukraine poses problems (or needs to be forced into submission). As always, one should really beware of Gazprom bearing gifts.

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[34]See Catherine Putz, 'Kazakhstan Gets Thanks for Russia-Turkey Rapprochement', The Diplomat, July 6, 2016, available at http://thediplomat.com/2016/07/kazakhstan-gets-thanks-for-russia-turkey-rapprochement/ (consulted on 15.01.2017).

[35] Fiona Hill and Omer Taspinar, 'Turkey and Russia: Axis of the Excluded', *Survival*, Vol. 48 (1), Spring 2006, 81-92.

[36] 'Turkey, Russia aim to complete free trade agreement in 2017', *Daily Sabah*, October 12, 2016, available at http://www.dailysabah.com/economy/2016/10/13/turkey-russia-aim-to-complete-free-trade-agreement-in-2017 (consulted on 15.01.2017).

[37] 'Turkey signs joint investment fund with Russia', *Daily Sabah*, October 10, 2016, available at http://www.dailysabah.com/economy/2016/10/10/turkey-signs-joint-investment-fund-with-russia (consulted on 15.01.2017).

All these measures – doubled by the trilateral ceasefire in Syria (which eased the tensions even more) – seem to reflect a veritable rapprochement between the two Pontic actors. However, the entire crisis and its aftermath point out to a troubling issue for the Turkish side: asymmetry. It has gained 'peace', but not really on its terms. A temporary new balance has been reached, but with hidden long-term costs. Mending (economic) fences would have been a good idea, but erasing them will only lean in one direction. That of Moscow. Free trade and more Russian gas (even if cheaper) rather leads to a gilded cage.

And the existing disequilibrium will not be mellowed by interdependence, but deepened. As realists have long argued, the asymmetry in trade – and the fear to be relieved of the needed goods – increases the potential for conflict even more when dealing with 'vital goods' such as energy. The captivity (even if beneficial from a cost perspective) in another actor's irreplaceable supply line tends to increase tensions (from a security perspective), as it becomes more vulnerable to 'blackmail' and the risk to be 'cut-off' from critical goods.[38] While interdependence might ideally foster cooperation and soften up confrontational postures in case of predictable states that have steady expectations of each other – knowing that in no event would the partner stop the mercantile flux[39] – such a scenario is not possible in Russian-Turkish relations.

In this context, given the increasing asymmetry between the two partners one might expect the détente to be temporary. On the short- and medium-term, there is a need for closer cooperation as international isolation needs to be mitigated. However, with each day, Turkey becomes more and more dependent on Russia as a provider of hydrocarbons, metals and tourists. The Akkuyu nuclear plant is another commitment (and encroachment) upon Ankara's space of manoeuver in the energy sector. At the same time, Russia itself partially relies on the Anatolian bypass in order to reach the European gas market. Turkey will appear as a transit corridor for hydrocarbons that come from the Caspian region, also making Moscow keen to see it content with the *status quo*: cheaper gas for transit rights.

And this is how the Eurasian great geoeconomic game also reflects upon their bilateral relations. By competing in Azerbaijan and the Central Asian republics, each actor seeks to alter this balance and to gain better negotiation terms. Should Turkey manage to get direct access to sufficient resources from that area, it could have a leverage upon Russia's unescapable grasp. On the other hand, if Kremlin also exerts a (distant) control upon those supply sources and routes, it can always threaten to 'suffocate' its partner from an energy perspective.

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[38] John Mearsheimer,'Disorder Restored', in Graham Allison and Gregory F. Treverton (eds.), *Rethinking America's Security*, (New York: W. W. Norton, 1992), 223. Also see Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), 220 – "Trade has not always proved to be a force for peace. On the contrary, with increasing interdependence, nations have become more apprehensive over the loss of autonomy and such matters as access to foreign markets, security for sources of raw materials, and the associated costs of interdependence".

[39]As Copeland has influentially argued, "interdependence can foster peace [...], but this will only be so when states expect that trade levels willbe high into the foreseeable future. If highly interdependent states expect that trade will be severely restricted [...] : the most highly dependent states will be the ones most likely to initiate war, for fear of losing the economic wealth that supports their long-term security." – see Dale Copeland, 'Economic Interdependence and War: A Theory of Trade Expectations', *International Security*, 20 (4), Spring 1996, 7.

Nonetheless, neither Moscow, nor Ankara want the other 'down' or 'defeated', but only more complacent. They need each other to be part of the balance, but on their own terms. Interdependence is definitory in seeking to arrange the neighbourhood anew and – at the same time – keep newcomers out. Despite inconvenient geopolitical positions (and an unavoidable adversarial dynamics), both Russia and Turkey would rather accommodate a stalemate among themselves, than to allow Washington, Brussels or Beijing to economically penetrate the region even more.

Within such a complicated arrangement comprising bilateral interdependence *and* – simultaneously – competition in the neighbourhood, the two actors once again gaze at each other. The multi-tiered dynamic of Moscow and Ankara – turbo-charged by the personal leaderships of Putin and Erdoğan – has so far led to a stalemate. Without many friends around, the two actors turn to each other. But they are, indeed, friends with benefits. And exactly such benefits (and their virtual cut-off) creates anxiety and mistrust, despite rhetoric emphasis on a larger-than-life new cooperation. What remains to be seen if such a delicate balance is sufficient to confine the tides of the next SU-24 or Karlov incident, as this increasingly appears to turn not into a game of chess, but one of poker.

Or, even worse, a geopolitical Russian roulette.

Annex
Compared FDI – Trade in Goods

Russian/Turkish FDI (Stocks) in Selected Countries (Value, millions USD, 2015)[40]		
	Russia	Turkey
BiH	576	194
Serbia	802	46
Albania	5	55
Romania	29	97
Bulgaria	3102	222
Greece	622	25
Cyprus	104446	N/A
Ukraine	1860	48
Georgia	292	276
Armenia	1220	N/A
Azerbaijan	46	3707
Syria	-1	14
Iraq	113	853
Iran	N/A	457
Kazakhstan	2464	-42
Uzbekistan	194	116
Turkmenistan	N/A	341

Russian/Turkish Total Trade (in Goods) with Selected Countries (Value, millions EUR, 2015)[41]		
	Russia	Turkey
BiH	288	495
Serbia	2228	746
Albania	76	326
Romania	2992	4439
Bulgaria	3572	3469
Greece	3612	3042
Cyprus	130	15
Ukraine	11100	3265
Georgia	711	1367
Armenia	1058	125
Azerbaijan	1672	1330
Syria	-	1551
Iraq	1792	8720
Iran	-	8628
Kazakhstan	14501	1653
Uzbekistan	2709	1067
Turkmenistan	966	2299

[40] Data sources: Central Bank of the Russian Federation and Central Bank of the Republic of Turkey, data as of 31 December 2015 – see *supra* footnote 17.
[41] Data source: European Commission (DG Trade) – see *supra* footnote 12.

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