

A POLITICAL ECONOMIC EXPLANATION OF THE CONTEMPORARY
TURKISH FOREIGN POLICY: THE CASE OF CONTEMPORARY
TURKISH- RUSSIAN RELATIONS

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ELIF SARI
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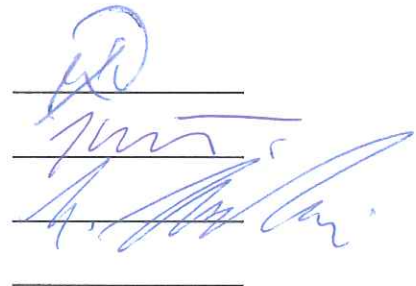
Ad, Soyad

İmza

Yrd. Doç. Dr. Mehmet Ali Taştan

Öğretim Görevlisi Cem Deniz Kurt

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Name, Last Name: Elif SARI

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ABSTRACT

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Sarı, Elif

M. Sc., Department of International Political Economy

Supervisor: Assoc. Prof. Dr. Mehmet Ali Tuğtan

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This thesis aims to study contemporary Turkish foreign policy transformation from a political economic perspective. In order to suggest a political economic explanation to contemporary foreign policy activism of Turkey, one needs to analyze the features of the recent activities in foreign affairs within a theoretical framework. For this reason, this thesis focuses on the complex interdependence theory, and aims to apply its analytic concept and characteristics for understanding the economic sources behind changing foreign policy behavior of Turkey. The contemporary Turkish-Russian economic relation is picked as a case of study. In order to project theoretical base to Turkey's recent foreign relation. In this sense, the contemporary Turkish-Russian economic relations, in particular bilateral trade relations, energy relations, investment and tourism sector are analyzed in the lights of economic interdependence with reference to the concept of vulnerability and sensitivity, the role of multiple channels and informal ties. It is concluded that Turkey's increasing relations with Russia as a non-Western country, are driven by economic consideration.

Keywords: Contemporary Turkish foreign policy, Turkish-Russian economic relations, economic interdependence, political economy of Turkish foreign policy.

ÖZ

ÇAĞDAŞ TÜRK DIŞ POLİTİKASI'NIN POLİTİK EKONOMİK DEĞERLENDİRMESİ:

ÇAĞDAŞ TÜRK-RUS EKONOMİK İLİŞKİLERİ ÖRNEĞİ

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Bu tez, Çağdaş Türk dış politikasındaki dönüşümü politik ekonomik açıdan incelemeyi amaçlamaktadır. Türkiye'nin son yıllarda dış ilişkilerinde izlediği aktif politika anlayışını analiz edebilmek için, son dönem dış ilişkilerin belli bir teorik çerçeveye dayandırılarak ele alınması gerekmektedir. Bu nedenle, bu çalışmada son dönem Türk dış politikasındaki dönüşümün arkasındaki ekonomik nedenleri değerlendirmek üzere karşılıklı bağımlılık teorisine, teorinin analitik konseptine ve karakteristik özelliklerine başvurulmuştur. Teorik arka planın oluşturulmasının ardından, teorinin önerdiği analitik konseptin ve özelliklerin Türkiye'nin dış ilişkilerine yansımaları değerlendirilebilmek üzere çağdaş Türk-Rus ilişkileri vaka çalışması olarak seçilmiş ve bu bağlamda iki ülke arasındaki ticaret ilişkileri, enerji ilişkileri, yatırım ve turizm alanındaki ikili ilişkiler incelenmiştir. Ortaya çıkan bilgiler ışığında, Türkiye'nin batılı kaplar arasında yer almayan Rusya Federasyonu ile her geçen gün hızla gelişen ilişkilerinin arkasında karar alıcıların göz önünde bulundurmaları zorunda oldukları ekonomik faktörlerin olduğu sonucuna ulaşılmıştır.

Anahtar Kelimeler: Son dönem Türk dış politikası, Türk-Rus ekonomik ilişkileri, ekonomik bağımlılık, Türk dış politikasının ekonomi politiği.

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CHAPTER ONE

INTRODUCTION

1. Introduction

Beginning in the 1970s, the world economy has been in the process of liberalization and globalization. Numerous definitions of globalization¹ have been made by scholars, however the most common understanding of globalization is the increasing integration and interdependence of national economies and the growing exchange of technologies, information, ideas and cultures across national borders.² By the 1970s, a series of developments in the world politics and economics had introduced major changes in the world economy in the way of liberalizing the economic system.

The revival of the European and Japanese economies in the post-war period caused inflationary pressure in US economy which was also faced with the economic burden of rising

¹Some definitions of Globalizations: Immanuel Wallerstein: "Globalization represents the triumph of a capitalist world economy tied together by a global division of labour." *The Modern World System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (New York: Academic Press, 1974), as cited in R. J. Holton, *Globalization and the Nation-State* (London: Macmillan Press, 1998), p. 11.; Robert Cox: "The characteristics of the globalization trend include the internationalizing of production, the new international division of labor, new migratory movements from South to North, the new competitive environment that accelerates these processes, and the internationalizing of the state...making states into agencies of the globalizing world.", *The Globalization of World Politics, An Introduction to International Relations* (New York: Oxford University Press, 1999), p. 15.; International Monetary Fund: "Globalization refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology", "World Economic Outlook, A Survey by the Staff of the International Monetary Fund", "Meeting the Challenges of Globalization in the Advanced Economies", in the *World Economic and Financial Surveys, 1997*, p. 45, Available [online]

<http://www.imf.org/external/pubs/WEOMAY/Weocon.htm>; OECD: "The term globalization describes the increasing internationalization of financial markets and of markets for goods and services. Globalization refers above all to a dynamic and multidimensional process of economic integration whereby national resources become more and more internationally mobile while national economies become increasingly interdependent." *OECD Handbook on Economic Globalization Indicators* (OECD, 2005), p. 11

²Ngairé Woods, "International Political Economy in an Age of Globalization", *Globalization of World Politics*. (Ed. John Baylis and Steve Smith, Oxford University Press, 2001, pp.277-298). p.1

military expenditure during the Vietnam War.³ The Bretton Woods system which was established in the post-war period for ensuring a stable world monetary system was broken in 1971 with the announcement that US government could no longer convert dollars to gold at \$35 per ounce, and thus, confidence in the US dollar plummeted.⁴ In addition to this, oil crises and the OPEC oil embargo of 1973-1974 plunged the world economy into stagnation and the regime constructed at the end of the 1940s in the world economy with US dominance collapsed.⁵ In the following years, western countries have started to transform their central planned economic regimes into the free market-oriented liberal economic regimes in. Market directed capitalism had become the dominant paradigm of the western world economy and paved the way for rising globalism.

Simultaneously, international relations and international political economy scholars have begun to pay more attention to economic affairs in the world politics around the 1970s. Economic relations between states became an issue in terms of each state's concern and priorities in both their foreign and domestic policy. Following the rise of economic perception in world politics, the growing economic interdependence between countries was placed in the center of discussions among theorist of international political economy and international relations, especially among schools, namely neorealists, neoliberals and marxists.

In this regard, "The Economics of Interdependence" by Richard Cooper, published in 1968, analyzed increasing cooperation between states and his work was developed by Keohane and Nye in their seminal book "Power and Interdependence" which became a core text in international relations on economic interdependence and its implications in terms of power relations between states. Both these studies suggested a new understanding of world

³ Peter J. Katzenstein, Robert O. Keohane and Stephen D. Karsner, "International Organization and the Study of World Politics" *International Organizations*, Vol. 52, No. 4, (Autumn, 1998), pp. 645

⁴ Woods, "International Political Economy in an Age of Globalization. p.1

⁵ Dunn Bill, *Global Political Economy: A Marxist Critique* (Pluto Press: New York, 2009). p.48

politics in the lights of globalization, which traditionally explains states relations in the webs of security-oriented realist perspective and neglecting the role of economic issues, channels of communication, and new patterns of cooperation. Therefore, with the rise of globalization since 1970s, its effects on states relations, international cooperation and institutions has become a one of the most significant issues to be studied under both the international political economy and international relations.

The new era of globalization in world politics, not surprisingly, caused crucial changes in the Turkish economy and foreign policy. By the 1980s, Turkey proceeded to liberalize its economy policies in the line of the so-called structural adjustment program led by the International Monetary Fund (IMF) and the World Bank. The primary aim of this program was reducing external deficit by expanding Turkey's exports.⁶ For this reason, Turkey enhanced her integration to world economy by engaging in trade relations with other states. As a result of global impact, commercial relations became one of the parameters of Turkish foreign policy.

Especially growth in manufacturing goods production contributed to expansion of Turkey's economic relations with neighboring countries. Meanwhile, the membership application to European Economic Community and establishment of Black Sea Economic Cooperation by the Özal government⁷ are considered other significant developments of term in order to prove Turkey's willingness to increase economic relations with the external world through regional integrations. Based on these initiatives, Turkey's economic relations with

⁶ Gülten Kazgan, "*Tanzimat'tan 21. Yüzyıla Türkiye Ekonomisi*" (İstanbul Bilgi Üniversitesi Yayınları: İstanbul, 2009). p.123

⁷ Talip Küçükcan and Müjde Küçükkeleş, "European Perceptions of the Turkish Foreign Policy" *SETA Policy Report*, No.10, April 2012. p.13

neighboring states as well as others have increased gradually, shaped by economic interdependence since the 1990s.

The collapse of the Soviet Union in 1991 and ending of the Cold War has resulted in numerous changes in world politics and economies in both the regional and the international level. Turkey as a country constituting the formal border of two blocks was highly affected by the new world order. With the end of Cold-War, Turkish political leaders in time tended to shape a new foreign policy which could provide them an opportunity to become the key regional actor by improving Turkey's relations with former Soviet countries and new Turkic republics. Under the leadership of Turgut Özal, Turkey proceeded a more assertive and multi-dimensional foreign policy in accordance with political and economic necessities in the post-cold war era. However, the early-1990s enthusiasm could not be sustained by state authorities due to fact that country had to overcome several internal and external instabilities.

Nonetheless, in the end of the 1990s, developments such as the arrest of Öcalan, who was the leader of Kurdistan Workers Party (PKK), and the gaining of candidate status for the European Union in 1999 at the Helsinki summit, paved the way for reestablishing Turkish Foreign Policy in accordance with then current international conjuncture. İsmail Cem as Minister of Foreign Affairs between 1999 and 2002 introduced Turkey as a country "...with centuries of a unique historical experience..."⁸ and that has the potential to effect changes in the global power balance with her cultural and geographical linkages that are provided by her past, particularly by Ottoman Empire.⁹ His effort in settling disputes between Turkey and Greece and initiatives to expand Turkey's influence in the Middle East were considered as

⁸ İsmail Cem, *Turkey in the New Century*, Rustem Publishing, 2000, Istanbul. p.20

⁹ Küçükcan and Küçükkeleş, "European Perceptions of the Turkish Foreign Policy", p.17.

first signals of the foreign policy shift of Turkey to a more assertive and active foreign policy.¹⁰

The elections of 2002 resulted with the victory of the Justice and Development Party (AKP) which has an Islamic and conservative background, and therefore received suspicion from the internally and externally. However, as a single party government, the AKP declared its commitment to EU membership, actively continued the reforms process and increased its economic and political relations with EU and other countries as well. As a result, the European Union negotiation process was opened in 2004.

Transformation and reforms applied during the process of achieving EU membership have had several impacts on interrelated areas such as economy, democratization and Europeanization. A remarkable amount of economic growth, which is about 6 percent on average annually between the years 2002 and 2012¹¹; and a persistent single digit inflation rate accompanied the progress of democratization in civil rights. Meanwhile, the foreign policy behavior of Turkey has changed in the way of using soft power¹² resources in her relations with other states and improving her relations in a peaceful ways with states which her relations traditionally considered bellicose such as Greece, Syria and Armenia. Also, Turkey introduced herself as a mediator in disputes related with regional issues and contributed to seeking peaceful solutions.¹³

On the other hand, recent foreign policy activism and the multi-dimensional approach to foreign policy under the AKP governments, based on the so-called “zero

¹⁰ Küçükkan and Küçükkeleş, “European Perceptions of the Turkish Foreign Policy”, p.18.

¹¹ Source: T.C Ekonomi Bakanlığı, Ekonomik Görünüm Eylül 2012 , Available [online] <http://www.ekonomi.gov.tr/index.cfm?sayfa=index&CFID=1933467&CFTOKEN=53015767> (15 Eylül 2012)

¹² Soft Power is the concept developed by Joseph Nye for the first time in his book “Bound to Lead” ,published in 1990. He defines “soft power” as a country's ability to influence events through persuasion and attraction, rather than military or financial coercion. For detail see: Joseph S. Nye, *Bound To Lead : The Changing Nature of American Power* (Basic Books: New York, 1990)p.182 and Joseph S. Nye, *Soft Power: Means to Success in the world Politics* (Public Affairs, United States, 2004) p.5

¹³ Ziya Öniş, “The Wave of Foreign Policy Activism in Turkey: Drifting away from Europeanization?” *DIIS Report*, No.5. January 2009. p.18

problems with neighbors” policy, drafted by Minister of Foreign Affairs, Ahmet Davutoğlu and inspired by his seminal book “Strategic Depth”, has attracted widespread attention from policy makers, journalist and academics, both domestically and internationally.

According to Foreign Minister Davutoğlu the vision of contemporary Turkish foreign policy is based on the establishment of multilateral relations rather than bilateral moves. According to him, in order to formulate a long term strategic perspective, it is vital to take into account both the historical and geographical depth in formulation relations between domestic, regional and international actors due to fact that these historical and geographical paradigms could be contributing to a country’s strategic depth only in the case of combination of geo-cultural, geo-politic and geo-economic factors.¹⁴ Moreover, he considers Turkey as a central country strategically located in the core of Afro-Euroasia, thus applying pro-active foreign policy implementations is necessary for achieving strategic goals as a regional power.

In this respect, Turkey’s expanding political influence in the surrounding region has become an item for intellectual discussion and one of the most popular subjects around Western academics and policy makers. Questions mostly focus on the directions of Turkey and outcomes of Turkey’s pro-active foreign policy implementations in the long run. Numerous analyses on the recent diversification of Turkish foreign policy would be classified under three main headings, which are mostly touched on in debates such as the “shift of axis”, “neo-Ottomanism” and the “the Turkish-model”.¹⁵

The shift of axis argument in considering Turkey’s foreign policy activism in the Middle East is a move away from the West and towards an Islamic ideological convergence

¹⁴ Ahmet Davutoğlu, “Turkey’s Foreign Policy Vision: An Assessment of 2007” *Insight Turkey*, Vol.10, No.1, 2008 pp.77-96. p.80

¹⁵ Küçükcan and Küçükkeleş, “European Perceptions of the Turkish Foreign Policy”, p.21

with Muslim countries under the Islamic conservative AKP government.¹⁶ Meanwhile, Neo-Ottomanism argument focuses on Turkey's multi-regional policy activism from Middle East to Balkans and Caucasus, all former territory of the Ottoman Empire. It is argued that policy activism within this region is inspired by neo-Ottomanism ideology.¹⁷ On the other hand, the Turkish-model debates, unlike previous ones, portray Turkey as a model country with its secular, democratic regime and developing economy, for the Muslim Middle East countries, where social movements, labeled the Arab Spring, rise.¹⁸

Nevertheless, none of these debates, paid real attention to the economic drives behind the new Turkish foreign policy activism and only gave passing thought, with little emphasis on gradually improving economic relations of Turkey with her neighbor countries since the early 1990s. However, attention to economic factors in the transformation of Turkish foreign policy is needed to reach a comprehensive explanation of recent Turkish foreign policy activism.

To this end, this thesis suggests a political economic explanation of contemporary Turkish foreign policy [that is considered in this study as the period starts from 1999 to the present day] in the context of complex interdependence theory and tries to illustrate how bilateral economic relations are shaped by interdependence in the case of contemporary Turkish-Russian economic relations in post-Cold War era. Although the main aim of this thesis is the analysis of political economy of contemporary Turkish foreign policy with the

¹⁶ On the shift of axis debates see Mesul Özcan, Ali Resul Usul, Understanding the "New" Turkish Foreign Policy: Changes within Continuity is Turkey Departing from the West?, *Uluslararası Hukuk ve Politika* Vol.6 No.21, 2010, pp.101-123; Ziya Meral, Jonathan Paris, Decoding Turkish Foreign Policy Hyperactivity, *The Washington Quarterly*, Vol.33, No.4, 2010, pp.75-86; Mehmet Babacan, "Whither an Axis Shift: A Perspective from Turkey's Foreign Trade". *Insight Turkey*, Vol.13, No.1, 2011, pp.129-157.

¹⁷ On the neo-Ottomanism debates see; Nicholas Danforth, Ideology and Pragmatism in Turkish Foreign Policy: From Atatürk to the AKP, *Turkish Policy Quarterly*, Vol.7, No.3 pp. 83-95; Alexander Murinson, The strategic Depth Doctrine of Turkish Foreign Policy, *Middle Eastern Studies*, Vol.42, No.6 2006, pp.945-964, Nur Bilge Criss, Parameters of Turkish Foreign Policy Under the AKP Governments, *UNISCI Discussion Papers* No.23 2010.

¹⁸ On the Turkish Model debates see; Meliha Altunışık, 'The Turkish Model and Democratization in the Middle East,' *Arab Studies Quarterly*, Vol. 27, Nos. 1 and 2, Winter and Spring 2005, The Economics, The Turkish Model: A Hard Act to Follow, August 2011.

example of contemporary Turkish-Russian economic relations, it is necessary to analyze the two countries relations, beginning at the end of cold war, since bilateral economic relations during 90s played a significant role in shaping current economic relations through economic interdependence. Therefore, investigation of interdependence in contemporary Turkish-Russian economic relations must include relations during the post-Cold War era in this study.

1.1. Scope and Objective

This thesis aims to study the contemporary Turkish foreign policy transformation from a political economic perspective. In order to suggest a political economic explanation to contemporary foreign policy activism of Turkey, one needs to analyze the features of the recent activities in foreign affairs within a theoretical framework. For this reason, this thesis focuses on the complex interdependence theory, and aims to apply its analytic concept and characteristics to understand the economic sources behind changing foreign policy behavior of Turkey.

The arguments between neorealist and neoliberals, especially on absolute gain-relative gain and the role of international organizations are investigated due to fact that the difference between the realist security-oriented perspective and neoliberal mutli-dimensional perspective in interpreting world politics and power relations explains a divergence of the current foreign policy mindset from previous terms.

Contemporary Turkish-Russian economic relations are analyzed in the light of economic interdependence with reference to the analytic concept of vulnerability and sensitivity. As will be investigated in chapter two, Keohane and Nye define interdependence simply as a reciprocal effect among countries or among actors in different countries.¹⁹ In this

¹⁹ Keohane and Nye, *Power and Interdependence*, p.9

respect, sensitivity is defined as “the liability to costly effect imposed from outside before policies are altered to try to change the situation”, while vulnerability means “an actor’s liability to suffer cost imposed by external events after policies have been altered”.²⁰

Moreover, Keohane and Nye introduced three determining characteristic of complex interdependence which are considered as a useful road map in terms of analyzing contemporary Turkish Foreign Policy and its transformation process in the line of complex interdependence theory that is the main focus of this study. These characteristics are multiple channels, absence of hierarchy among issues and the minor role of military force.²¹ This road map they introduced is also examined in the political process of complex interdependence, and will be a guide for us to analyse the improving economic relations which are shaped by interdependence between Turkey and the Russian Federation in the post-Soviet era, within the framework of bilateral trade, energy relations, investment and tourism.

Indeed, the political processes of interdependence , the process of translating power resources into power as a control of outcomes by three main characteristics of complex interdependence ²², is quietly observable in contemporary economic relation between Turkey and the Russian Federation thought linkage strategies, agenda setting and effects of international organizations on bilateral relations.

In this regard, asymmetrical interdependence in contemporary Turkish-Russian relations, which is obviously observed in economic relations, especially in its two significant components, namely trade relations and energy relations are interpreted under the analytic concept of vulnerability and sensitivity in accordance with theoretical background of this study. Moreover, Investments of Turkish entrepreneurs in Russia, particularly in the construction sector, contributed to the establishment of informal ties and the creation of non-

²⁰ Keohane and Nye, *Power and Interdependence*, p.13

²¹ Keohane and Nye, *Power and Interdependence*,p.25-30

²² Keohane and Nye, *Power and Interdependence* p.30-36

governmental actors such as business elites and business associations who have the potential to influence decision-making process of countries' statesmen. Also, the Tourism sector has had an important role in strengthening the relations between post-Soviet Russian and Turkish people, in addition to its contributions to economic relations between Turkey and the Russian Federation (hereafter RF). For these reasons, this thesis aims analyze the investment and tourism sector in bilateral economic relations to illustrate the characteristics and political process of complex interdependence.

1.2. Literature Review

Recent Turkish Foreign Policy activism under AKP governments, based on the so called "zero problems with neighbors" policy has attracted widespread attention from policy makers, journalists, and academics in both domestic and international spheres. There are various approaches that investigate sources and the motivations of this transformation process in current Turkish Foreign Policy. Nevertheless, political economic perspectives and economic factors, which were played a significant role in transforming the traditional realist security-orientation of foreign policy to current foreign policy activism, has been paid little attention in literature about the contemporary Turkish foreign policy.²³

One of the earliest analyses of the impacts of economic factors in reformulating Turkish foreign policy was completed by Hale. He focused on Turkey's growing economic, commercial and trade activities in 1980s and 1990s and investigated such activities' effects on Turkish relations with other countries.²⁴ Also, Mine Eder criticized the political economic changes in Turkey and the liberalization of economic policies. She stresses that it is necessary

²³ Kirişçi, "The transformation of Turkish Foreign Policy", p.34

²⁴ William Hale, "Economic Issues in Turkish Foreign Policy," *Turkey's New World: Changing Dynamics in Turkish Foreign Policy*, (Ed. Alan Makovsky and Sabri Sayarı, The Washington Institute for Near East Policy: Washington, 2000)

for Turkey to apply proactive diplomacy in order to overcome difficulties generated by globalization.²⁵

Moreover, one of the most comprehensive studies on the effects of economic concerns in Turkish foreign policy has been conducted in Kemal Kirişci's article "The transformation of Turkish foreign Policy: The rise of the trading states".²⁶ In his paper, he made a significant contribution to political economic interpretation of contemporary Turkish foreign policy activism. He pointed out that, while previous analyses from different perspectives reflect some aspects of reality, none of them are comprehensive enough in explaining the economic factors behind the transformation of Turkish foreign policy. For this reason, he investigates Turkey's trade relation since the post-Cold War period, and refers to Turkey as a "trading state" with reference to Rosecrance's theory on the increasing role of interdependence in economic relations between states in the era of rising globalization and the liberalization of national economies. In this regard, he mentioned that "...Turkish foreign policy in the last couple of years has increasingly been shaped by economic considerations such as export markets, investment opportunities, tourism and energy supplies..."²⁷, and therefore, "...Turkey has become a trading state, yet foreign trade volume of country has been increasing gradually since the mid-1990s and economic interdependence has started to dominate her foreign policy concerns."²⁸

Kirişci's analysis of the political economy of recent Turkish foreign policy with regard to the trading state theory, with strong emphasis on the interdependence in the economic relations of Turkey, attracted the attention of academic circles. In 2011, a Turkish journal,

²⁵ Mine Eder, "The Challenge of Globalization and Turkey's Changing Political Economy", *Turkey in World Politics: An Emerging Multiregional Power*. (Ed. Barry Rubin and Kemal Kirişci ,Boulder: Lynee Reinner, 2001)

²⁶ Kemal Kirişci, "The transformation of Turkish Foreign Policy: The rise of the Trading State", *New Perspective on Turkey*, No.40, 2009.

²⁷ Kirişci, "The transformation of Turkish Foreign Policy: The rise of the Trading State"p.39

²⁸ Kirişci, "The transformation of Turkish Foreign Policy: The rise of the Trading State" p.42

Insight Turkey published a special issue titled “Political Economy of Turkish Foreign Policy: Politics of Trade and Integration”²⁹ with articles on the role of economic inspiration in shaping recent foreign policy implementations. Among others, two of these articles suggest a theoretical basis in explaining the political economy of contemporary Turkish foreign policy.

Mustafa Kutlay investigates the role of changing economic dynamics in Turkey. He highlights the transformation of Turkish financial and industrial capital as a political tool in shaping the new Turkish foreign policy. The role of financial capital and the internationalization of the Anatolian tigers are explained by Kutlay in line with functionalist and interdependence approaches.³⁰

Similarly, Kadri Kaan Renda interprets Turkey’s relations with her neighbors in the light of complex interdependence theory. He underlines the recent developments in Turkish foreign policy, especially in terms of her intensifying economic relations with neighboring countries, in respect of the characteristics of complex interdependence theory. Moreover he asserts that “... the new activism in Turkish foreign policy facilitates international cooperation among regional actors and creates a complex interdependence.”³¹

The role of Business Associations in the new Turkish foreign policy as both a source and policy tool is examined by Altay Atlı. He aims to define the influence of Business associations in the foreign policy making process.³² In addition to this, current foreign trade

²⁹ Political Economy of Turkish Foreign Policy: Politics of Trade and Integration, *Insight Turkey*, Vol.13, No.1, 2011

³⁰ Mustafa Kutlay, “Economy as the Practical Hand of New Turkish Foreign Policy: A Political Economic Explanation.” *Insight Turkey*, Vol.13, No.1, 2011, pp.67-88

³¹ Kadri Kaan Renda, “Turkey’s Neighborhood Policy: An Emerging Complex Interdependence?” *Insight Turkey*, Vol.13, No.1, 2011, pp. 89-108.

³² Altay Atlı, “Businessmen as Diplomats: The role of Business Associations in Turkey’s Foreign Economic Policy” *Insight Turkey*, Vol.13, No.1, 2011, pp.109-128

relations of Turkey and increasing trade volume with Eastern world as well as EU member states are analyzed by Mehmet Babacan as a reasonable response to axis shift argument.³³

With respect to this literature background, this thesis suggests a political economic explanation for the transformation process in Turkish foreign policy at the beginning of the new century. Increasing economic relations within the region and engagements of multinational cooperation and international organization by Turkey lead us to the neoliberal understanding of international political economy, particularly to the complex interdependence theory. Indeed, Turkey has been adjusting liberal economy policies since the mid-1980s, and such an orientation has gradually affected her foreign policy behavior in the process of paying more attention to economic consideration in international affairs.

In this regard, the thesis introduces the complex interdependence theory which is postulated by Robert Keohane and Joseph Nye in their seminal book 'Power and Interdependence'³⁴ as a comprehensive framework in order to understand changes in traditional Turkish foreign policy on the one hand, and to assign the sources and outcome of new Turkish foreign policy on the other. The final endeavor of the thesis will be examining of the contemporary Turkish-Russian economic relations in accordance with the analytical concepts and characteristics of complex interdependence theory as a case of study.

1.3. Argument

This thesis aims to study the recent Turkish foreign policy transformation from a political economic perspective. As mentioned, Turkish foreign policy has been in a transformation process since 1999. Recent foreign policy activism and the multi-dimensional approach to foreign policy under the AKP governments based on so called "zero problems

³³ Mehmet Babacan, "Whither an Axis Shift: A Perspective from Turkey's Foreign Trade". *Insight Turkey*, Vol.13, No.1, 2011, pp.129-157

³⁴ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Little, Brown and Company: Canada, 1977)

with neighbors” has attracted widespread attention by policy makers, journalist and academics, both domestically and internationally. Arguments mostly focus on the directions of Turkey and outcomes of Turkey’s pro-active foreign policy implementations in the long run.

One of the most important arguments is that the shift of axis in Turkey’s foreign policy activism in Middle East is a move away from the West and towards an Islamic ideological convergence with Muslim countries under the Islamic conservative AKP government. In addition to this, the Neo-Ottoman argument discusses Turkey’s multi-regional policy activism from the Middle East to the Balkans and the Caucasus, all former territory of the Ottoman Empire. Both of these arguments highlight Islamic and conservative ideology as a source of this activism in foreign policy.

However, it is argued in this thesis that the recent pro-active foreign policy of Turkey and improving relations with the non-Western world is driven by economic considerations rather than ideology. As a result of increasing integration into the world economy, the appearance of the Anatolian businessman as a new actor in shaping international trade relations through business associations, and the disappearance of hierarchy among issues in the foreign policy agenda mean security issues are no longer primarily important, in fact Turkey has become a ‘trading state’ who has attached great importance to economic issues such as trade, export markets, foreign, direct investment, and energy relations.

When the economic issues become a matter of study, it is worth mentioning that Turkish economic relations with other states are mostly characterized by economic interdependence and portrays the characteristics of the complex interdependence theory.³⁵ For

³⁵As explained on p.3, by the mid-1980s Turkey had proceeded to liberalize her economy policy in line with the structural adjustment program which was aimed to reduce Turkey’s external deficit by expanding her exports. Increasing engagements in bilateral trade relations with other states contributed to interdependence.

this reason, the complex interdependence theory is introduced as a theoretical framework of this study. In addition to this, relations with Russian Federation are chosen for the case study as, if not the motivations behind active foreign policy represent economic factors, accelerating economic relations between Turkey and RF as a non-Western and non-Muslim country in 2000s would not be inexplicable. On the contrary, Turkey had been ruled by eleven governments from different ideological backgrounds since the end of the Cold War until the AKP government³⁶ and Turkish-Russian relations (that began in 1984, even before the end of Cold War) have been improving without remarkable interruption relevant to ideologies of political parties in this time. This process has been also maintained by the AKP government, which has been a subject of criticism for its improving relations with the Muslim world and shifting away from the West ideologically. However, transformation in contemporary Turkish foreign policy was first introduced by Cem who was the Minister of Foreign Affairs between the years 1997 and 2002.³⁷ This view is also taken by Meral and Paris with these words: "...Previous Turkish governments, especially under the late Foreign Minister Ismail Cem, had also envisioned a more proactive Turkey in the Middle East and the normalization of contentious relations with Armenia, Greece, and Syria..." and thus, "...the Turkish foreign policy transformation began not with the rise of AKP...".³⁸

The fact that changes in foreign policy under AKP government are extension of previous stances is further proof that an economic political economic explanation of the transformation in contemporary Turkish foreign policy is reasonable. Therefore, concern of policy makers in order to maximize Turkey's economic interest within the region is the

characteristics of Turkey's economic relations. Complex interdependence in Turkish economic relation will be explained in the third part of this study with the example of Contemporary Turkish-Russian Economic Relations.

³⁶ Baskın Oran, *Türk Dış Politikası*, cilt II:1980-2001, İletişim Yayınları, 2005 p.203-204

³⁷ Oran, *Türk Dış Politikası*, p.204

³⁸ Ziya Meral and Jonathan Paris, Decoding Turkish Foreign Policy Hyperactivity, *The Washington Quarterly*, Vol.33, No.4, 2010. p.78

driving factor behind the AKP's foreign policy implementation rather than conservative realignment.³⁹

Indeed, Turkey has improved her relations with the Muslim Middle East countries as much as other countries, which provide her larger market and sustainable energy resources. With regard to the political economy explanation of contemporary Turkish foreign policy, Turkey's main target, which is led by economic considerations, is enlarging her market for exports relations and to meet with her energy needs securely. As Kirişçi points, the growth of foreign trade entered the decision making matrix of governments and foreign policy makers. Therefore, the zero problem policy with neighbors can be considered as willingness to find new export markets, thus her foreign trade with neighboring countries increased more than six-fold between the years 1995 and 2007.⁴⁰

Moreover, Turkey is running a large trade deficit with the countries such as Iran and Russia who are at the same time energy supplier countries of Turkey. This fact shows Turkey's endeavor to expand its exports to these countries to be rational and pragmatic. Therefore, "...neither Turkish-Iranian relations nor the Turkish desire to have stronger links with Russia represent shifts away from the Western countries..."⁴¹ but demonstrate that "...Turkish foreign policy is increasingly the foreign policy of the trading state seeking markets and economic benefits..."⁴².

In this respect, another reason for choosing the contemporary Turkish-Russian economic relation as a case of study within the framework of complex interdependence is that it deals with the best illustrations of economic concern in contemporary Turkish foreign policy due to several reasons: First, Russia as a non-Western and non-Muslim country, is one

³⁹ Meral and Paris, *Decoding Turkish Foreign Policy Hyperactivity*, p.85

⁴⁰ Kirişçi, "The transformation of Turkish Foreign Policy: The rise of the Trading State" p.49

⁴¹ Meral and Paris, *Decoding Turkish Foreign Policy Hyperactivity*, p.85

⁴² Kemal Kirişçi and Neslihan Kaplanoğlu, *The politics of Trade and Turkish Foreign Policy*, *Middle Eastern Studies*, Vol.47, No.5, 2011. p.706

of the greatest trade partners of Turkey, and the bilateral trade relations between the two suffered from an imbalance in trade volume in favour of Russia. Second, Turkey's high level of dependence on Russian Natural gas has been increasingly moved her to a vulnerable position in terms of energy security. In addition, there is also competition between two in providing alternative routes for oil and gas transfer to Europe.⁴³ Thus, Turkey's geo-political position provides her with a political card in dealing with RF in terms of transportation of energy resources to Western markets that might show the sensitivity of RF to Turkey. These features of relations would best be explained in accordance with the concept of vulnerability and sensitivity. Therefore, asserting that the Turkish-Russian rapprochement improved over the years and expanded in a manner involving every aspect of relations during the 1990s, and finally reached a high level of interdependence by the 2000s would not be wrong as it will be explained in the case study.

1.4. Research Method

In order to explain the political economy of recent Turkish foreign policy, in the light of complex interdependence theory, the definition, analytic concept and characteristics of the complex interdependence theory will be investigated. Afterwards, a subject of case study is selected for exemplifying how the concepts of vulnerability and sensitivity, and the characteristics of complex interdependency are occurred in foreign relations of Turkey. Therefore, the contemporary Turkish-Russian economic relations will be analyzed in accordance within the theoretical background of the thesis.

In this respect, in order to explain the complex interdependence theory and analyze contemporary Turkish-Russian economic relations library resources, academic studies,

⁴³Bülent Aras, "Turkey and the Russian Federation: An Emerging Multidimensional Partnership", SETA Policy Brief, No.35, 2009.

governmental data, newspapers, organizational researches, reports and statistics are used for research.

1.5. Organization of Thesis

The thesis is composed of four chapters. In chapter one of the thesis, after an introduction, scope and objective, the literature review, the argument, the research method and the organization of thesis is explained.

In the second chapter, the definition and analytic concept of complex interdependence theory will be presented comprehensively. The wide range of intellectual discussions which were raised among international relations and international political economy theorists, particularly between neorealist and neoliberals, in the last decade will be discussed under the 'effects of international organizations' and 'relative gains-absolute gain problem'.

Following sections of the chapter will introduce three determining characteristics of complex interdependence, which are considered as a useful road map in terms of analyzing recent Turkish Foreign Policy and its transformation process in the light of complex interdependence theory, that is the main endeavor of this study.

The third chapter will be a case study which focuses on contemporary Turkish-Russian economic relation within the framework of complex interdependence. Bilateral trade relations will be investigated, highlighting the imbalance in trade volume. Energy relations also will emphasize the energy dependence of Turkey on Russian natural gas. The Investment and Tourism sector between two countries will be taken into consideration in terms of the business elite's role in contributing to relations and informal ties between two countries.

The fourth and last chapter will suggest concluding remarks. The reasons suggested by previous chapters in terms of the need to read contemporary Turkish foreign policy

transformation from a political economic perspective will be highlighted with strong emphasis on the complex interdependence theory and contemporary Turkish-Russian economic relations which are shaped by economic interdependence.

CHAPTER TWO

THE COMPLEX INTERDEPENDENCE THEORY

In their book *Power and Interdependence*, Robert O. Keohane and Joseph S. Nye aim to develop a coherent theoretical framework for the political analysis of interdependence. Their task mainly seeks an explanation of major aspects of world politics when interdependence exists.⁴⁴ According to the authors; world politics are impossible to understand with respect to the security-base realist understanding of inter-state relations and also their emphasis is on states which are the only actors in world politics. Changes in the resources of power and interest relations domestically and internationally are needed to be included in the analysis of economic and ecological problems under the interdependency of global environment.⁴⁵ That is why; Keohane and Nye attempt to compose an analytic concept of Interdependence in order to provide intellectual tools for proving the reality of interdependence in contemporary world politics.⁴⁶

Therefore, their works involve critiques of realist assumptions that are investigating states behaviors, power and interest relation in world politics. These critiques of realism, also provide an opportunity for comparing both theories, and build an analytic concept of interdependence. The authors emphasize that the realist assumptions of world politics are a paradigm and their work seeks to develop another paradigm which is called complex

⁴⁴ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Little, Brown and Company: Canada, 1977), p.4-5

⁴⁵ Keohane and Nye, *Power and Interdependence*, p.8

⁴⁶ Keohane and Nye, *Power and Interdependence*, p.4

interdependence, considered as the counter of realism. Their main drive to do so is having sight that complex interdependence sometimes more complies with reality of world politics.⁴⁷ With respect to Keohane and Nye, in order to understand world politics, Realism should be considered as an initial step, nonetheless it's perspective does not involve institutions, transnational relations, domestic politics and the role of ideas. So, its vision is far from illustrating a comprehensive doctrine.⁴⁸ Indeed, Realism and its assumptions seem to be able to explain further developments in world politics, such as European Integration and the collapse of the Soviet Union in the early 90s.

The standpoint of Keohane and Nye is reviewing three realist assumptions which comprise the ideal type of world politics in the realist perspective. First, realists argue that states are dominant actors in world politics and using or threatening military force is the most effective source of power that means; military security issues are dominant in world politics in comparison with the other issues such as economic and social affairs. The authors point out that such an image of the world leads us to consider states relations as characterized by potential conflict. In the sense of such characterization, Keohane and Nye claimed that according to realists, political integration occurs only if it serves the national interest of the most powerful states in the system and transnational actors have not been taken into account as an efficient agent.⁴⁹

In the introduction of their book, *Transnational Relations and World Politics*, Keohane and Nye argue that, even though some writers have emphasizes the rising of multilateralism and significant role of transnational relations in international affairs, the impact of these entities in world politics are mostly ignored.⁵⁰ However, rising multilateralism in inter-state

⁴⁷ Keohane and Nye, *Power and Interdependence*, p.23

⁴⁸ Robert O. Keohane, *Power and Governance in a Partially Globalized World* (Routledge: London, 2002), p.6

⁴⁹ Keohane and Nye, *Power and Interdependence*, p.24

⁵⁰ Joseph S. Nye, and Robert O. Keohane "Transnational Relations and World Politics: An Introduction" *International Organization*, Vol. 25, No. 3, (Summer, 1971), pp. 329-349, p. 330

relations and the existence of nongovernmental actors pave the way for the emergence of new interaction channels which Keohane and Nye investigate as one characteristic of complex interdependence in multiple channels. The definition of Interdependence theory, its analytic concept related to power and the discussion between neorealists and neoliberals on the role of international organization and absolute-relative gain will be examined in next section. Following sections analyze the characteristics of complex interdependence and its political processes.

2.1. Definition of Interdependence

Keohane and Nye define interdependence simply as a reciprocal effect among countries or among actors in different countries. To reach a broader definition of interdependence, they first exhibit the separation of interdependence from interconnectedness. In order to observe interdependence in world politics, there must be reciprocal, costly effects reflected in international transactions, such as flows of money, goods, people and messages across international boundaries. On the contrary, if such interactions do not result in any remarkable costly effect, it is asserted that there is interconnectedness. Authors emphasize that the distinction between these terms has to be appreciated for understanding the politics of interdependence.⁵¹

McMillan pointed out the similarities of Keohane and Nye's definition with Baldwin's definition of interdependence, that is international relationships that would be costly to break.⁵² However, McMillan stressed that the type of international ties in an interdependent relationships are not clear in either definition. She claims that the definition by Keohane and Nye cover economic, diplomatic and military relation among states comprehensively. In addition to this, according to her interpretation, Baldwin does not mean

⁵¹ Keohane and Nye, *Power and Interdependence*, p.9

⁵² Susan McMillan, "Interdependence and Conflict", *Mershon International Studies Review*, Vol. 41, No. 1, pp. 33-58; p.34

only economic ties in his definition of interdependence even he uses the term 'costly'. Thus, she mentioned that theoretical links between types of interdependence are not explained well enough even though the term of interdependence is broadly defined.⁵³

Meanwhile, Keohane and Nye seek to avoid limiting the scope of interdependence as a term which occurs when mutual benefits are involved. Indeed, to define interdependence only in terms of mutual benefits would be to exclude other situations from the concept in contrast to the view of a world shaped by few military force threats and low level of conflict. According to their perspective, interdependent relationships always involve costs. However, they stressed that there is no specific way to determine whether the benefits of a relationship will be higher than its cost or vice versa. In fact, benefits and costs of relationships basically rely not only on the values of actors but also the nature of the relationships.⁵⁴

The objection of Keohane and Nye to defining interdependence relations as a mutual benefit is investigated by Baldwin, and he seeks an answer to the question of why parties maintain the relationships they would both prefer to end. His explanation for such a situation is that "the benefits of interdependence are another way of stating the opportunity costs of severing relationships; no matter how bad an interdependent relationship may be, it is preferable to the most likely alternative."⁵⁵ Thus, in contrast to Keohane and Nye's view of mutual benefits, Baldwin asserts that benefits arising from interdependence are well defined by values of the parties and the impact of those values on breaking such relationships. He mentioned that relationships should not be described as interdependence since there is no effect or the parties would be better off in the case of breaking the relationship. That is why,

⁵³ McMillan, "Interdependence and Conflict" p.35

⁵⁴ Keohane and Nye, *Power and Interdependence*, p.10

⁵⁵ David A. Baldwin, "Interdependence and Power: A Conceptual Analysis", *International Organization*, Vol. 34, No. 4, pp. 471-506, p.482

Baldwin claimed that interdependence involves mutual benefits only in the sense of there being no cost of breaking the relationship.⁵⁶

Another significant emphasize of the authors is that interdependence is not a situation of evenly balanced mutual dependence. Asymmetries in interdependence have to be considered. They define asymmetric relations as sources of power which provide less the dependent actors an advantage to use in the bargaining process and in dealing with the other actors.⁵⁷

Keohane and Nye's approach to power is interpreted by Renda in these words; "for them, power has evolved from brutal military force to soft power."⁵⁸ Indeed, Nye explained this view in his book 'Bound to Lead' and mentioned that the changes in the instruments of power have obstructed the usage of traditional power sources by most powerful states in order to achieve their goals. The existence of new power sources such as; economic interdependence, transnational actors, nationalism in weak states, the spread of technology and changing political issues have led to a diffusion of power away from all the great powers⁵⁹.

They differ with the traditional view that military power dominates other forms of power, and point out that the resources have become more complex in producing power capabilities⁶⁰. Therefore, the perception of world politics as shaped by the states with the most military power is overridden. Moreover, what they mean by asymmetrical interdependence can be applied as a source of power is that power as a control over outcomes or the potential to affect outcomes.

⁵⁶ Baldwin, "Interdependence and Power" p.483

⁵⁷ Keohane and Nye, *Power and Interdependence*, p.11

⁵⁸ Renda, "Turkey's Neighborhood Policy", p.91

⁵⁹ Joseph S. Nye, *Bound To Lead : The Changing Nature of American Power* (Basic Books: New York, 1990), p.181-182, p.179

⁶⁰Keohane and Nye, *Power and Interdependence*, p.11

Nonetheless it is hard to measure such potential power; it is basically reflected by the changes in the relationships which probably will be less costly for the less dependent actor. The partner who has advantages of asymmetries in interdependence can control the outcomes as well. At this point, political bargaining process comes into play in the process of the translation of potential into effect over outcomes.⁶¹

On the other hand, Waltz asserts that, the effects of interdependence is that some parties to relations are gaining more, while others are gaining less implicitly in the term “asymmetric interdependence” used by Keohane and Nye for pointing out dependence and independence among states. He stresses that in such a relationship relatively independent states have the power to coerce the dependent ones. Thus, according to Waltz, avoiding usage of the word “dependence” by Keohane and Nye blunts the fact that interdependent relations provide advantages in favor of stronger states over dependent ones, but make them all seem to be in a state of roughly equal dependence.⁶²

While the distinctions among theorists on the definition of interdependence are quite obvious, investigation of analytical concept of complex interdependence help us both to understand the theory and illustrate the differentiation of neorealist and neoliberal approaches to contemporary world politics and its actors and features, to be focused on in the next section.

2.2. Analytic concept of Complex Interdependence

Keohane and Nye emphasize two dimensions, namely, sensitivity and vulnerability, in order to set an analytic concept of Complex Interdependence. They assert that identifying the differences between these two concepts is clearly needed for understanding the role of

⁶¹ Keohane and Nye, *Power and Interdependence*, p.11

⁶² Kenneth N. Waltz, “Structural Realism after the Cold War”, *International Security*, Vol. 25, No. 1, pp. 5-41, p.15-16

interdependence and how power relations configure between mutually dependent states. In this respect, sensitivity is defined as “the liability to costly effects imposed from outside before policies are altered to try to change the situation”, while vulnerability means “an actor’s liability to suffer cost imposed by external events after policies have been altered”. In the case of the immediate effects of external changes, these lead to sensitivity dependence since it is difficult to adjust policies accordingly. On the other hand, vulnerability dependence can be measured by the cost of adjustment to the external changes over a period of time.⁶³

Baldwin defines ‘sensitivity interdependence’ as mutual effects, while ‘vulnerability interdependence’ is the opportunity cost of breaking the relationship. He stresses that even though the distinction between two terms is questionable for different aspects of social science, international relations and economics disciplines attribute a superior importance to the vulnerability interdependence.⁶⁴ For this reason, Keohane and Nye, not surprisingly, mention that vulnerability interdependence is relatively important in the terms of providing power resources. However, it does not mean that sensitivity interdependence is politically unimportant, since it is also an effective tool in the bargaining process, especially when asymmetrical relations occur.⁶⁵

If asymmetrical relations reflected in complex interdependency in world politics are significant, it is worth adding the following: in the last three decades, a wide range of intellectual discussion has been engendered among international relations and international political economy theorists. Since it might be too ambitious to cover every aspect of arguments in this study, disputes between neorealist and neoliberals on ‘effects of international organizations’ and ‘relative gains-absolute gain problem’ will be analyzed. They require detailed investigation to provide a clear explanation of interdependence theory,

⁶³ Keohane and Nye, *Power and Interdependence*, p.13

⁶⁴ Baldwin, “Interdependence and Power” p.489

⁶⁵ Keohane and Nye, *Power and Interdependence*, p.15

understanding of the main driven behind political economy of recent Turkish Foreign Policy as a further and primary purpose of this study.

2.2.1. Effects of International Organizations

Keohane noted in his book 'After Hegemony' that beginning with the decline of US dominance in world politics after the mid-1960s as a result of serial developments such as European Integration and economic recovery and rapid economic growth of Japan, economic interdependence developed remarkably and paved the way for US high level involvement in the world economy, especially after the 1970s.⁶⁶

International relations theorists, observing such changes in world politics, attempt to analyse new structures of international politics and the importance of cooperation, how and when cooperation occurs between states and how these units impact to the international political and economic relations. Realism as a dominant theory in international politics since World War II has been strongly challenged by the neoliberals and institutionalists, especially in terms of cooperation and the role of institutions.

The disagreement between realists and neoliberals, in term of international organizations, particularly focuses on whether institutions promote world stability and peace. As Grieco stresses, with respect to the core realist assumptions, international anarchy accelerates competition and conflict among states and therefore obstructs the willingness of players to cooperate, even if they have common interests.⁶⁷ Thus, the realist presentation of international cooperation and the capabilities of international institutions produce, not surprisingly, a pessimistic analysis. According to realists, institutions basically rely on the

⁶⁶ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton University Press: New Jersey, 1984), p.9

⁶⁷ Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism", *International Organization*, Vol. 42, No. 3, pp. 485-507, p.485

distribution of power and serve the interests of great powers in world politics. Thus, they are not significant instruments of peace and stability.⁶⁸

In contrast with Realists, Neoliberals assert that international organizations help states to cooperate. They criticize realists for overemphasizing conflicts between states. Moreover, they underestimate the effects of international organizations in promoting cooperation.⁶⁹

Liberal institutionalists claim that cooperation can only occur when states have significant common interests. When states' decision makers expect self-interest benefits from cooperation, the liberals' assets, institutions, facilitate cooperation.⁷⁰ Keohane noted that international institutions provide states with the capability to cooperate in mutually beneficial ways. They decrease the transaction cost and provide information and in doing so, reduce uncertainty. Following the rules of well-established international organizations enable negotiations between states in transparency rather than conflict. Therefore, international organizations help states achieve their collective gain while cooperating by reducing uncertainty and the transaction cost thus promoting peace.⁷¹ More importantly, institutionalists underline the problem of cheating as a significant problem between states, that lead to them not cooperating. That is why the cheating problem has to be solved. Therefore, they suggest that international institutions can help states to overcome this barrier to joint action.⁷²

Grieco observes that even neoliberals accept the realist argument that anarchy frustrates states attempt to cooperate; they nevertheless assert that, states can work together with the assistance of international institutions. On the contrary he claimed that neoliberalism

⁶⁸ John J. Mearsheimer, "The False Promise of International Institutions", *International Security*, Vol. 19, No. 3, pp. 5-49, p.7

⁶⁹ Grieco, "Anarchy and the Limits of Cooperation" p.487

⁷⁰ Robert O. Keohane and Lisa L. Martin "The Promise of Institutional Theory", *International Security*, Vol. 20, No. 1, pp. 39-51, p.42

⁷¹ Keohane, *Power and Governance*, p.30

⁷² Keohane and Martin "The Promise of Institutional Theory" p.44

understates the range of the uncertainties and risks states have to overcome to cooperate with others. That is why he believes that realism provides a more comprehensive theory of cooperation than neoliberal institutionalism.⁷³

Meanwhile, Mearsheimer interprets neoliberal's arguments on institutions with these words: "Institutions can alter state preferences and therefore change state behavior."⁷⁴ However he claimed that institutions have minimal impact on state behavior and that is why he opposes the view of them promoting stability in world politics. According to Mearsheimer, liberal institutionalist theory mostly ignores security issues and focuses on mostly economic issues. In addition to this, cheating which is generally illustrated with "prisoner's dilemma" is investigated as the most significant impediment that hinders states from cooperating in neoliberal institutional theory and the importance of military issues is underestimated.⁷⁵ He asserts that the assumption of neoliberals about states' concerns about absolute gain and seeking to maximize their gain without worrying about relative gain of other parties is another weakness of the theory.

Keohane and Martin's paper is written as a response to Mearsheimer's critics. It aims to prove wrong his view on institutions only having a slight impact on states' behavior, and the promotion of stability. They suggest extension as evidence the survival of NATO since realists expected it to finish along with Cold War.⁷⁶ According to Keohane and Martin states would not continue to incredibly high level of arms expenditure for NATO if it was ineffective.⁷⁷

On the other hand, Waltz considers NATO's survival not as an invalidation of realist theory. It is evidence that how international organizations serve the national interest of the

⁷³ Grieco, "Anarchy and the Limits of Cooperation" p.488

⁷⁴ Mearsheimer, "The False Promise of International Institutions", p.7

⁷⁵ Mearsheimer, "The False Promise of International Institutions" p.15-16

⁷⁶ Keohane and Martin "The Promise of Institutional Theory", p.40

⁷⁷ Keohane and Martin "The Promise of Institutional Theory", p.41

most powerful state. This supports the realist position on international organizations. Waltz asserts that their prediction on NATO's future was not faulty but that realists were just underestimating the capability of US to rule international politics according to its self-interest.⁷⁸

He notes that the aim of the establishment of NATO, a security treaty against threats from the Soviet Block is no longer relevant, since the Soviet Union has collapsed. Therefore, Waltz stresses that NATO has lost its major function. It has become a platform for US to maintain and extend its foreign policy purposes. That is why, he claims, that the survival and expansion of NATO is proof only American power and influence. It is not evidence of the power of institutions and multilateral entities in world politics.⁷⁹ He also responds to Keohane and Martin's question regarding states' willingness to engage with International organization despite their lack of importance and posits that the best explanation for the expansion of NATO that it defends what powerful states believe to be in their interest.⁸⁰

Moreover, Keohane and Martin reject Mearsheimer's assertion about institutionalists ignore security matters and pay more attention to political economic issues. They note that one of their main arguments in theory regarding institutional doctrine could be applied to both philosophies.⁸¹ They emphasized that even though there is no clear line between economic and security issues, institutionalist theory is highly applicable to security issues as well since they assist states for reducing uncertainty as an information provider in their decision making process. They reinforce realist assumptions on states' behavior in an uncertain, anarchic world where it is necessary to assume the worst. They continue that is why

⁷⁸ Waltz, "Structural Realism after the Cold War", p.19

⁷⁹ Waltz, "Structural Realism after the Cold War", p.20

⁸⁰ Waltz, "Structural Realism after the Cold War", p.21

⁸¹ Keohane and Martin "The Promise of Institutional Theory", p.43

institutionalist theory is directly applicable to security issues in way of providing information to states and reducing uncertainty according to realist own definition.⁸²

Finally, international organizations' significance in promoting peace and stability in world politics, as neoliberals maintain, is questioned by realists. According to Mearsheimer, the view of institutions as promoting international peace is overstated. Actually, he explains this widespread belief among academics and policy makers about the pursuit of an alternative to realism in US foreign policy, in order to diversify its policy option accordingly national interests.⁸³ In addition to this, Waltz asserts that liberal institutionalism was never an alternative to realism. Its core assumption is based on structural realism. He points out that intuitionist theory applies structural theory's assumption to the operations of institutions and reaches to the same conclusions as those of realists.⁸⁴ On the other hand, Keohane and Martin emphasize that, in a short period of time, liberal institutionalism contributed greatly to international relations literature. In comparison with its alternative, therefore they, in contrast with Waltz and Mearsheimer, see the promise of institutionalist theory as quite bright.⁸⁵

2.2.2. Relative Gain-Absolute Gain Problem

Neoliberalism and Realism discuss the problem of absolute gain and relative gain. Discussion is mostly focused on how cooperation occurs in the anarchical context of international relations. Neoliberals argue that states face mixed interest in an anarchical system. They are reluctant to cooperate because of fear being cheated by others. The solution Neoliberals suggest in order to solve this problem, is creating international institutions that set basic regulations and obligations for members and by doing so they prevent cheating.

⁸² Keohane and Martin "The Promise of Institutional Theory", p.44

⁸³ Mearsheimer, "The False Promise of International Institutions" p.47-49

⁸⁴ Waltz, "Structural Realism after the Cold War", p.25

⁸⁵ Keohane and Martin "The Promise of Institutional Theory", p.51

On the other hand, Realists argue in contrast to the Neoliberals, that even though cooperation is possible in the international system, it is hard to achieve and maintain. According to realists, anarchy impedes cooperation not only because of cheating problem but also due to states' concerns about relative gain. In other words, states worry about other parties to the cooperation achieving more than they do and becoming relatively stronger and dominant in the system.

Rousseau compares and contrasts both approaches in terms of relative gain-absolute gain. He stresses that power is defined by Realists in relative concepts which is reflected from anarchical nature of the international system. Any gain in power by one state is considered as a threat to others. Thus, realists assume that any potential exchange between states an imbalance of power is produced. His interpretation of liberal theory, on the other hand, is that liberals consider states' leader as rational decision makers who accept any agreement which makes the states better off.⁸⁶ To sum up, he points to two approaches to states leaders and about relative gain and absolute gain: Realists claim that states leaders' primarily are concerned about relative gain, while liberals agree that states leaders' concern focuses on absolute gain, not under all, but many, circumstances.⁸⁷

To understand realist assumption about states concern on relative gain, Waltz's explanation in this debate needs to be considered. He believes that states, under the international anarchical system, seek security. For this reason, they pay more attention to relative gain than absolute gain. Since other states in the system might be relative gain maximizers, all states need to act as relative gain maximizers.⁸⁸ Conversely, Keohane assumes that states are trying to maximize their absolute gain claiming "the preferences of

⁸⁶ David L. Rousseau, "Relative or Absolute Gains: Beliefs and Behavior in International Politics", Unpublished Manuscript, University of Pennsylvania, July 1999, <http://www.albany.edu/~dr967231/papers/absrel5.pdf>, p.3

⁸⁷ Rousseau, "Relative or Absolute Gains" p.5

⁸⁸ Kenneth N. Waltz, "Realist Thought and Neorealist Theory", *Journal of International Affairs*, Volume: 44, Issue: 1, pp. 21-37, p.30

actors in world politics are based on their assessment of their own welfare, not of the others.”⁸⁹

However, Powell, in his analysis of the relative gain versus absolute gain discourse, argue that the debate surrounding absolute and relative gains generally ‘mistakes effects for causes’. For this reason, he believes that the contribution of this debate to the analysis of the international cooperation problem is insignificant.⁹⁰ His critique on the discussion is that neorealists’ and neoliberals’ assumption on this particular issue are not fundamentally different. He suggests that states’ concern for relative versus absolute gain is “linked not to different assumptions about the states’ preferences but to change in constraints facing states”⁹¹. Therefore he emphasizes that the degree of concern about relative gain depends on the strategic environment in which the state finds itself.⁹²

Grieco investigates both approaches’ assumptions about relatives and absolute gains. He points out that neoliberal theory generally ignores security issues in terms of offering absolute gain as a main concern of states. He stresses that the realist understanding of state behavior is exemplified by having scenarios regarding attacks on and from current allies.. Thus, joint gain from cooperation might produce a potential treat in the future. That is why Grieco asserts that a state must give serious attention to the gains of its partners.⁹³

In this respect, Grieco criticizes neoliberals for failing to consider the threat of war possibly arising because of international anarchy. He asserts that this ignorance leads them to pay less attention to matter of relative gain and assume that states only desire absolute gain.

⁸⁹ Keohane, *After Hegemony*, p.66

⁹⁰ Robert Powell, “Anarchy in International Relations Theory: The Neorealist-Neoliberal Debate”, *International Organization*, Vol. 48, No. 2, pp. 313-344, p.335

⁹¹ Robert Powell, “Absolute and Relative Gains in International Relations Theory”, *The American Political Science Review*, Vol. 85, No. 4, pp. 1303-1320, p.1307

⁹² Powell, “Anarchy in International Relations Theory” p.355

⁹³ Grieco, “Anarchy and the Limits of Cooperation” p.487

Therefore, according to Grieco, a major source of state inhibitions about international cooperation is not taken into account by neoliberals.⁹⁴

This argument by Grieco, supported by Mearsheimer, underlines an important theoretical failing of the neoliberals' logic, though it applies only to economics issues instead of security issues. He asserts that neoliberal theory cannot ignore relative gain considerations since they accept the realism's core assumption, that states are self-interested actors in an anarchic system and military power matters to states. That is why; relative gain concern by states must be investigated in order to explain the cooperation of states.⁹⁵

In addition to this Mearsheimer argues that even in a condition, where neoliberals suggest that absolute gain logic applies, or restricted to the economic and environmental issues, and ignoring the security issues, there is still a logical mistake in the neoliberal approach. Since security issues closely relate with and depend on the economic issues, relative gain concern needs to be covered by the theory, even with regard to economic relations.⁹⁶

Another emphasis of Mearsheimer is that neoliberal arguments about solving the cheating problem in order to render relative-gain problem irrelevant, are not well developed. He stresses that even if the cheating problem is solved, states still maintain a concern about relative gain, since gaining by the others has a potential to be transformed into military advantage in the case of violence.

He concludes his counter arguments with the suggestion that if neoliberal theorists desire to repair a theory of cooperation among states, they needed to answer two questions: do

⁹⁴ Grieco, "Anarchy and the Limits of Cooperation" p.487

⁹⁵ Mearsheimer, "The False Promise of International Institutions" p.20

⁹⁶ Mearsheimer, "The False Promise of International Institutions" p.20

institutions facilitate cooperation even among states concerned about relative gain; and equally when states do not really worry about relative gain.⁹⁷

Keohane clarifies these questions in his further work and points out that if there are only two major players in cooperation a problem can arise. If one party's gain from cooperation sharply affects the power relationships and causes extreme changes in power asymmetries in favor of one party relatively to others, such as an arm race and monopolistic competition, relative gains concern take an important role in the decision on engaging in cooperation or not. However, in the cases of potential cooperation on issues such as trade liberalization, climate change or multilateral negotiations, relative gains is not seem to be quietly calculated by states. The risk of a decisive power shift from one party to one another is low.⁹⁸ That is why he asserts that states mostly seek to maximize their own welfare instead of worrying about relative gain. Finally, he concludes the argument with these words: "The relative gains argument merely highlights the difficulties of cooperation where there is tough bilateral completion; it does not by any means undermine prospects for cooperation in general."⁹⁹

2.3. The Characteristics of Complex Interdependence

Keohane and Nye introduce three determining characteristic of complex interdependence, which are considered as useful in terms of analyzing recent Turkish Foreign Policy. Its transformation process in line with complex interdependence theory that is the main focus of this study. These characteristics will be explained below. They are multiple channels, absence of hierarchy among issues and minor role of military force. They are also important in order appreciating the political process of complex interdependence which also will be interpreted in following section.

⁹⁷Mearsheimer, "The False Promise of International Institutions", p.21-22

⁹⁸ Keohane, *Power and Governance*, p. 31

⁹⁹ Keohane, *Power and Governance*, p.32

2.3.1. Multiple Channels

Keohane and Nye stressed that the increase of interaction between states by using multiple channels has become easily observable. They conclude that these channels are interstate, trans-governmental and transnational relations.¹⁰⁰ Indeed, leaders from different countries connect with one another to deal with international issues at diplomatic meetings, summit conferences and other platforms. Moreover, nongovernmental elites, multinational firms and banks have become important actors in the world politics. These actors have the ability to affect both domestic and interstates relations.

According to Keohane and Nye's evaluation on the role of these actors, their act can be considered as a transmission belt what make government's policies in various countries more sensitive.. In addition to this; the domestic policies of different countries interfere with each other as a result of governments' enlarging domestic activities, and the influence of decisions made by corporations and trade unions. Thus, they observe that the scope of the foreign policy has increased, while domestic economic activities have become more relevant than the foreign economic policies in contemporary world affairs.¹⁰¹

2.3.2. Absence of Hierarchy among Issues

The scope of issues which are involved in foreign policy agendas has become varied as mentioned above. Keohane and Nye challenged the idea that military issues are dominant and more important than all other issues covered by governments. Therefore, hierarchic order among issues is blurred and is no longer clearly defined. They refer to Kissinger's description, and listed these expanding issues in the political agenda as energy, resources, environment, population, uses of space and seas. In addition to this; the arrangements are developed by the international organizations, like OECD, GATT, IMF and

¹⁰⁰ Keohane and Nye, *Power and Interdependence*, p.25

¹⁰¹ Keohane and Nye, *Power and Interdependence*, p.26

EU, which proved that domestic and foreign policy are overlapping.¹⁰² In fact, these arrangements and multiple overlapping issues affect countries' in not only foreign policies but also domestic regulations. National states are required to adjust regulations as determined by these international organizations and allow for these issues in their socio-economic policy agendas.

2.3.3. Minor Role of Military Force

In his book 'Bound to Lead', Nye investigated new challenges in world politics, needed to be faced by the states. He states that the emerging new actors in world politics pave the way for changing states purposes. In contrast to the traditional view, which is that military security is the priority of the states in order to protect themselves from threats, things have changed and states are responsible not only for providing physical survival but also to ensure economic welfare.¹⁰³ Obviously, economic and ecological threats have become highly important issues which states have to face in the contemporary world.

Similarly, economic and military cooperation between industrialized countries, and the interdependent nature of relationships, makes it difficult for powerful states to use military force directly on their military partners. Keohane declares that "allies cannot be threatened with the force without beginning to question the alliance"¹⁰⁴. However, it is still important to be powerful in a military context, to be able to use it in the bargaining process as a deterrent force. Nonetheless, relations between countries have been getting more intensive and force is mostly deemed to be irrelevant as an instrument of policy.¹⁰⁵

Additionally, in the sense of new objectives, such as economic and ecologic welfare, the authors calculated that using military force would not be suitable. It's cost is possibly

¹⁰² Keohane and Nye, *Power and Interdependence*, p.26

¹⁰³ Nye, *Bound To Lead*, p. 179

¹⁰⁴ Robert O. Keohane, *After Hegemony*, p.41

¹⁰⁵ Keohane and Nye, *Power and Interdependence*, p.27

high and it's result is uncertain in most cases.¹⁰⁶ Consequently, according to Keohane and Nye, even though changing the role of force does not mean that military force is less important than in the past, it leads to a complexity of various power resources, decreasing the role of military force among other power resources.¹⁰⁷

2.4. The Political Processes of Complex Interdependence

What Keohane and Nye mean by political processes of interdependence is the process of translating power resources into power to control outcomes by the three main characteristics of complex interdependence which are explained above. They emphasize that the translation process under the complex interdependence theory differs from the process when realist conditions are applied instead.¹⁰⁸

Actual differences reflect from the two approaches' attitude to military security. It has been repeatedly noted here that Realists insist that the achievement of states' dominant goals rely on military security.¹⁰⁹ Therefore, they attract the other issues to military power and territorial defense and investigated their effect in the context of politico-military extension.

On the other hand, Complex Interdependence theorists argue that in a world in which the hierarchy of issues is implicit, the variety goals of states needing to be considered according to the issues which could not be closely related to the each other is great.¹¹⁰ Therefore, under the conditions of complex interdependence, transnational actors pursue different goals for each various groups of issues instead of focusing only on security-oriented purposes.

¹⁰⁶ Keohane and Nye, *Power and Interdependence*, p.28

¹⁰⁷ Keohane and Nye, *Power and Interdependence*, p.29

¹⁰⁸ Keohane and Nye, *Power and Interdependence*, p.30

¹⁰⁹ Keohane and Nye, *Power and Interdependence*, p.30

¹¹⁰ Keohane and Nye, *Power and Interdependence*, p.30

2.4.1. Linkage Strategies

Political processes under the complex interdependence theory are different from the traditional understanding of the international system. There is a reduced opportunity to apply military force to assert control over events. Similarly, using economic power as a tool to extract predictable results on other issues has become more as political implications are restricted by domestic, transnational and transgovernmental actors.¹¹¹

In this context, Keohane and Nye emphasize that the decline of military force allows other issues to become more equal in importance. Thus, they assert that the distribution of power within each context have become significant. Therefore, states use other instruments of power as a means of achieving their goal. Asymmetrical interdependence leads to less vulnerable states using their power in particular issues as a bargaining tool. At the same time, international organizations, transnational actors and flows comprise various linkages that states might try to use in term of source of power in the political process.¹¹²

2.4.2. Agenda Setting

Agenda setting is another initial step in political process of interdependence theory. Keohane and Nye emphasize the variation of certain hierarchies in issues related with international relations. They suggest that states need to consider these changes in formulating their agenda in the political process. Political leader used to give significance to politico-military issues. In contrast, they tend, now, to stress on broader politics.¹¹³ With respect to Keohane and Nye's view, traditional approaches what are regarded as a crucial problem of foreign policy, under the threat of other states, are security issues. However, they assert that the hierarchy between security issues and economic has been decreased since the complexity

¹¹¹ Keohane and Nye, *Power and Interdependence*, p.31

¹¹² Keohane and Nye, *Power and Interdependence*, p.31

¹¹³ Keohane and Nye, *Power and Interdependence*, p.32

of world politics raised. For this reason, they emphasize that low political issues, such as economic and environmental affairs, need to be covered in the agenda of states as well as high politics, such as security matters.¹¹⁴

2.4.3. Transnational and Transgovernmental Relations

In the contemporary world of international relations, which has highly complexity and interdependence, existence of multiple channels leads the distinction between domestic and international politics to disappear. Keohane and Nye declared that multinational corporations might be found enormously important not only because they are independent actors in the system, but also because they provide governments with power sources to be used as a manipulating tool by governments. Keohane and Nye explain that transnational relations influence different groups in different ways, in terms of economic and social transactions. Thus, there is a distinction between security, economic and social transactions which affect groups in different ways. They are also in interaction with each other.¹¹⁵ Thus, in such relations among actors, there is the potential for asymmetry and vulnerability, according to patterns of political actions. For this reason, transnational and transgovernmental relations are placed prominently in the political process of Keohane and Nye's theory of complex interdependency.

2.4.4. Role of International Organizations

As widely discussed above under the section 'effect of international relations', Keohane and Nye totally insist on the positive role of international organizations in promoting world peace and stability. To avoid repetition, the role of international organization will not figure broadly in this section. Nevertheless, it is worth mentioning, that, according to Keohane and Nye, international organizations are placed significantly in the political process

¹¹⁴ Keohane and Nye, *Power and Interdependence*, p.33

¹¹⁵ Keohane and Nye, *Power and Interdependence*, p.34

of complex interdependence. In contrast with the realists, they claim that world affairs, which are multiple issues linked imperfectly, and transnational and transgovernmental relations, affect the formulation of both foreign and domestic affairs. The role of international institutions is appreciated. According to the authors, international organizations help states to set their foreign policy agenda and provide a negotiating platform between powerful states and weak states in international politics.¹¹⁶

¹¹⁶ Keohane and Nye, *Power and Interdependence*, p.36

CHAPTER THREE

CASE STUDY

INTERDEPENDENCE IN CONTEMPORARY TURKISH-RUSSIAN ECONOMIC RELATIONS

The collapse of the Soviet Union in 1991, and the ending of the Cold War have resulted in numerous changes in world politics and economics relations at both regional and international level. Not surprisingly, Turkey, as a country constituting the formal border of the two blocks, was highly affected by the new world order. Turkish political leaders, in time, tended to shape a new foreign policy, which could provide them with an opportunity to become a regional power by improving relations with former Soviet countries, and new Turkic republics. Yet, the attempts of Turkish leaders to lead regional countries failed. Reasons for this failure are a subject for another study. Turkish-Russian rapprochement, starting from that time, improved as years went by, and expanded in a manner involving every aspect of relations during the 1990s and finally reached a high level of interdependence by the 2000s.

From the second half of the 1980s, economic relations played an important role in shaping the contemporary interdependence characteristics of Turkish-Russian relations. In the 1980s, Turkey was on the way to integrating into the world economy, and carried out the adjustment of its liberal economic policies, in order to enlarge its trade relations with other countries. Similarly, even before the collapse of the USSR, Russia had been heading in the same direction as Turkey and had started to apply economic openness as part of engaging in

foreign economic relations. Thus, similar intent by political leaders of both countries paved the way to developing close economic relations between two countries. In the last two decades, increasing amount of trade relations, intense diplomatic meeting between political leaders, cooperation bilaterally and multilaterally via international organizations in terms of economic and security aspects have enhanced this. Even informal ties, established by the two countries' populations through business associations, tourism and marriages, have reinforced interdependence in the relations between Turkey and Russia.

As mentioned, close relations and partnerships between the two countries have involved not only economic issues, but also security issues. These are extremely important for creating a stable and secure regional environment. As two regional players, Turkey and Russia have engaged in conflicts: sometimes on the same side, where they have common interests, such as the Black Sea, or sometimes against each other, where they have some conflict of interest. Issues, such as the Middle East, Cyprus and the Southern Caucasus region illustrate this. However, in contrast with the traditional view, which asserts that there has been lack of trust between Turkey and Russia, the relations having always been strained, none of problematic issues has broken their partnership at the economic and diplomatic level. Turkey and Russia have tended to maintain their close relations instead of fighting each other even when conflict has arisen. Thus, these features of bilateral relations between Turkey and Russia are considered another proof of how interdependence relations lead countries to solve their problems by negotiation rather than just breaking relations. As the complex interdependence theory suggests, they do so because breaking up their multi-faceted relations over a single conflict is too costly. (see p.20)

Another point worth stating here is this: the theory claims that interdependence relations and cooperation among countries contribute to peace and stability. Even though several stressful issues, such as PKK separatism and the Chechen wars, the S 300 missile

crisis which came onto the agenda in diplomatic and security relations, both countries have sought the solution to these problems in peaceful ways. Therefore, issues between Turkey and Russia, and the political process related with these issues, will highlight evidence illustrating how interdependence relations force countries into cooperation rather than conflict.

In harmony with the main purposes of this study [that is illustrating and explaining contemporary Turkish foreign policy activism in the light of complex interdependence theory from the political economic perspective], Turkish-Russian economic relations exemplify most of assumptions and characteristics of the theory. Moreover, studying Turkish-Russian relations in explaining recent foreign policy tendencies of Turkey, provides a tool to support political economic arguments as a response to other approaches to the issue as discussed in introduction part and literature review (see p.9). For these reasons, contemporary Turkish-Russian Economic Relations in post-Cold War era are chosen as case of study. Although the main aim of this thesis is the analysis of political economy in contemporary Turkish foreign policy, using the example of contemporary Turkish-Russian economic relations, it is necessary to analyze the two countries' relations beginning from the end of cold war, since bilateral economic relations during 90s played a significant role in shaping current economic relations by economic interdependence. Therefore, investigation of interdependence in contemporary Turkish-Russian economic relations is focused on relations during post-Cold War era. It will be investigated below, with the reference to the analytic concepts and characteristics of the theory in this part of study.

Earlier studies in literature on Turkish-Russian relations are used to clarify relations in a historical order period by period depending on the different leaders of both countries, and to investigate relations from political, economic and security perspectives. Unlike the former, analyses of economic relations between two countries in this case study will be rely on and

use definitions, analytical concepts and characteristics of complex interdependence theory in accordance with its theoretical base.

In this regard, asymmetrical interdependency of contemporary Turkish-Russian economic relations will be interpreted in the following section that focuses on bilateral trade, energy relations; it highlights the cost effect of interdependence and sensitivity-vulnerability interdependence in relations. Finally last section that focuses on investment and tourism, it emphasizes the role of multiple channels between two countries in term of both formal and informal ties.

3.1. Interdependence in Contemporary Turkish-Russian Economic Relations

Asymmetrical interdependence in contemporary Turkish-Russian relations is obviously observed in economic relations, especially in its two significant components, namely, trade relations and energy relations. Even though economic relations between the two countries have a remarkable historical background, gradually developing features of economic relations since at the end of 1980s constituted a base in structuring current economic relations between two countries, and played the primary role in improving relations by the establishment of economic cooperation, not only bilaterally, but also multilaterally.¹¹⁷

Economic relations between Turkey and Russia have been maintaining according to the Trade and Navigation Agreement signed on 8 October 1937 and the Agreement on Trade and Economic Cooperation signed on 25 February 1991.¹¹⁸ Series of Agreements signed between the two countries aside, the 1984 Natural Gas Agreement which decreed to buy Russian gas for twenty five years and paid seventy percent of it in exchange for Turkish goods and services has been a cornerstone. For this reason, considering it as a starting point of

¹¹⁷ Anıl Gürtuna, Turkish-Russian Relations in the Post-Soviet Era Unpublished M.A. Thesis, Ankara:METU, 2006. p.77

¹¹⁸ Oleg Kolobov, Aleksandr A. Konilov, and Fatih Özbay, *Çağdaş Türk-Rus İlişkileri: Sorunlar ve İşbirliği 1992-2005*, Tasarım Yayınları: İstanbul, 2006. P.15

asymmetric interdependence between two countries in favor of Russia would not be mistaken, if the elasticity of these items are taken into account as it.¹¹⁹ Articles of the Agreement on the amount of exchange changed during the past years and have been reduced to seven percent in recent years.¹²⁰ As analysed in detail below, the balance of foreign trade fluctuated term by term between the two countries and imbalances occurred to the advantage of Russia. Especially, indicators during the 1998 financial crisis in Russia clearly prove¹²¹ these asymmetries in Turkish-Russian trade relations.

Moreover, Turkey's extreme level of dependence on Russian Natural Gas is another significant feature required to analyze the two countries relations in the light of the analytic concept of interdependence theory. This is especially so with the reference to the sensibility and vulnerability interdependence. As Ułçenko mentioned, sustainable and stable energy exportation are extremely important for the economic security of the countries that lack adequate energy resources. Thus, oil and natural gas exporter countries have superiority economically and politically over the dependent parties.¹²² In the case of Turkish-Russian energy relations, Turkey's vulnerability is obvious with her high degree of dependence on Russian Natural Gas since vulnerability dependence can be measured by the cost of adjustment to the external changes over a period of time (see p.24).

Not surprisingly, the dependence of Turkey on Russian Gas has had a political impact over other aspects of relations and needs to be considered by Turkish decision makers even with regard to the issues irrelevant to energy politics. On the other hand, Turkey, as a county located on transit routes for energy resources to the west, is an important strategic partner for

¹¹⁹ The effects elasticity differences of items trading between Turkey and RF were explained under the trade relations. For detail see p.50-55

¹²⁰ Gürtuna, *Turkish-Russian Relations in the Post-Soviet Era* p.77

¹²¹ For analysis on the effect of 1998 Russian crisis on bilateral trade relations with numbers ,see p.53

¹²² Natalya, Y. Ułçenko, "Rusya ve Türkiye'nin Stratejik Güvenliğin Sağlanması Enerji Hammaddeleri İhracat ve İthalatının Rolü" *Dünden Bugüne Türkiye ve Rusya: Politik, Ekonomik ve Kültürel İlişkiler*, (Ed. Gülten Kazgan and Natalya Ułçenko, İstanbul Bilgi Üniversitesi Yayınları: İstanbul) p.183

Russia. Indeed, the energy crises, which broke out during the 2000s, forced countries to move the sustainable and secure energy supply issues to the top of their political agenda. Especially, the EU countries initiated a search for alternative energy transportation routes in order to reduce their exports from Russia and have aimed to developed energy projects. These may left Russia out of the new so-called "Great Game". In this regard, Turkey appears as an essential player in the energy politics. Turkey's increasing importance in energy politics obviously observed in issues around the Nabucco Project that has attributed a prominent role to Turkey. However, Russian's effort in bypassing the Nabucco project with the South Stream pipeline ended up with Russian support for Turkey for an oil pipeline from Blacksea port of Samsun to the Ceyhan terminal on the Mediterranean. In return, Turkey supported the Russian South Stream Project, although this is regarded as sabotaging Nabucco.¹²³ Whether compatible with the theoretical background of this study, the energy politics between Turkey and Russia will be investigated under energy relations in accordance with the concept of sensitivity and vulnerability (see p.23).

Moreover, investments by Turkish entrepreneurs in Russia, particularly in the construction sector, have contributed to the establishment of informal ties and the creation of non-governmental players such as business elites and business associations. These include both Russian and Turkish businessmen. These new players have the potential to influence the decision-making process of countries' statesmen both domestically and internationally. Also the tourism sector has had an important role in strengthening the relations between post-Soviet Russian and Turkish people in addition to its contribution to economic relations. Therefore, investment relations and tourism sector between the two countries will be analyzed with regard to the multiple channels and linkages strategies which are considered as two characteristics of complex interdependence by Keohane and Nye.

¹²³Giray Saynur Bozkurt "Türkiye-Rusya İlişkileri: Tarihi Rekabetten Çok Boyutlu İşbirliğine", Türkiye'nin Değişen Dış Politikası,(Ed. Cüneyt Yenigün and Ertan Efeğil, Nobel:İstanbul, 2010), p.711

3.1.1. Sensitivity and Vulnerability Interdependence of Contemporary Turkish-Russian Economic Relations

Asymmetrical interdependence in contemporary Turkish-Russian economic relations has been observed especially in its two significant components of economic relations, namely, trade relations and energy relations. Regarding trade relations, as will be shown in following section, the imbalance of trade volume clearly identifies Turkey as a more vulnerable party of interdependency. Undoubtedly, the high level of Turkish dependency on Russian natural gas is another factor caused imbalances in trade relations between Turkey and RF. The elasticity of demand for products trading between these countries appears as a factor that triggered Turkey's vulnerability in interdependence economic relations.

Meanwhile, energy relations between Turkey and RF are the most critical issue in terms of asymmetrical dependency of Turkey to the RF. When political and security aspects of energy relations are taken into account, the current dependency of Turkey has a potential to create a huge cost effect in terms of vulnerability and sensitivity. Therefore, the imbalances in two countries' trade relations and Turkey's dependency on Russian Natural Gas have contributed Turkey's vulnerability in terms of economic relations with RF in the post-soviet era.

On the other hand, it can be obviously seen that both countries are sensitive to each other in terms of the transfer of Caspian natural gas resources to the West, since Turkey's geopolitical position is crucial for both Turkey and EU. In this respect, Turkey's role as energy transit country on the one hand, Russian superior role as energy supplier to the West on the other. Regarding such a significant role of Turkey in energy issues between RF and the West, acceleration of the sensitivities in Turkish-Russian relation in terms of complex interdependence is quite obvious. Thus, Russians have enjoyed the advantage of using

Turkey's dependence as a source of power in the issues related with energy politics whereas Turkey has taken advantages generated from her strategic position and saves it as a political card in case of any clash of interests.¹²⁴

In sum, as explained below, trade relations and energy relations appeared as two of the most important factor that facilitate the existence of cooperation and partnership between Turkey and RF on the one hand, and it also reinforced interdependence characteristics of two countries relations in terms of sensitivity and vulnerability in each aspect of relation such as economic, political and security on the other.¹²⁵

3.1.1.1. Bilateral Trade Relations

Economic relations between Turkey and the Russian Federation, which are basically shaped through economic interdependence in the Post-Soviet era, have had a remarkable effect in improving the relations. The collapse of the Warsaw Pact and the disintegration of the USSR brought numerous historical changes to the world economy and developments in Eurasia attracted Turkish entrepreneurs in the way of leading them to enlarge their trade activities throughout the post-soviet states. The Russian Federation, as the largest country in this region, was perceived as a big market by Turkish businessmen. Accelerating foreign trade activities precipitated rapprochement not only in economic issues but also political and military issues between the two countries. Another feature of Turkish-Russian relations is that of its impact on Turkey's relations with other regional countries, and the western alliance. Political rapprochement between Turkey and Russia is sometimes viewed with suspicious by Western countries on the one hand. Turkey has had to avoid getting into conflict with Russia while maintaining its relations with post-soviet countries, where Russia pays quiet attention in accordance with its national interest. Thus, contemporary Turkish-Russian bilateral trade

¹²⁴ Erşen, "Turkish-Russian Relations in New Century",p.106

¹²⁵ Piriñci, Turkish Russian Relations in the Post-Soviet Era, p.49

relations are chiefly characterized by economic interdependence in that its influence is observable in other aspects of relations such as political and security issues.

The disappearing of the bipolar world system, and globalization , have put forward economic issues within the two countries relations in addition to political relations which have already been taken into account for more than a century. In the years following disintegration, the scarcity of goods and services in the Russian market attracted Turkish entrepreneurs and triggered improvements in trade relations¹²⁶.

Moreover, according to Kazgan, beginning from the 1980s, both countries liberalized their economies and simultaneous liberalization processes motivated Turkey and to intensify their trade relations.¹²⁷ Especially in the light of the supplementary role of the Russian market for the Turkish economy, Russia gained superiority among other countries with which Turkey traded. When compared with European Markets, the Russian market is closer to Turkey and this geographic advantage for the RF has played a facilitator role in trade relations. Also, 16.2 percent of the RF's Population consists of people who are originally of Turkic roots , which is another reason for the RF 's importance in trade.

In addition to this, thanks to the structural reform pursued by the RF in order to transform its economy to the market economy, improving trade relations have become convenient for both sides. These new conditions in the Russian market have created a suitable environment for shuttle trade and considerable numbers of Turkish companies have started export-oriented production in order to meet the Russian market's demand.¹²⁸ Thus, even though political mistrust between two countries has remained following the collapse of the USSR, commercial and economic relations have flourished gradually and bilateral trade

¹²⁶ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri* p.16

¹²⁷ Gülten Kazgan, "The Political Economy of Relations between Turkey and Russia" in *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* (ed. by Rittenberg, Libby, Connecticut: Praeger).p.139

¹²⁸ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri* p.16

relations have contributed to the establishment of interdependence relations between Turkey and the RF which have shaped the economic environment of post-soviet era.

From the economic point of view, trade relations have had significant importance for both countries, when mutual interest is taken into account during 1990s. Such a consideration triggered increasing foreign trade volume between Turkey and the RF and shaped their relations, compatible with characteristics of economic interdependence.¹²⁹ As mentioned in the second section of this study, “rising multilateralism in inter-state relations and the existence of nongovernmental actors paved the way for the emergence of new interaction channels”(p.19) such as trade.

Remembering Balaam and Vesseth stress on “trade as a tool used by the states in order to create economic interdependence”¹³⁰ leads us to the multiple channels thesis asserted by Keohane and Nye. This maintains that the diversity of players in international politics and bilateral economic activities have become more relevant to foreign economic policies in the contemporary world affairs.(p.34) For this reason, “the remarkable increase in trade volume between Turkey and since the collapse of Soviet Union has not only an international economic aspect, but also a political and diplomatic one.”¹³¹

Mutual interests leading Turkey and the RF to improve their trade relations are investigated by Sezer from the two countries perspective separately with these words: “from the Russian perspective, with the urgent demand of an economy in transition, for investment capital and consumer goods; and from the Turkish perspective, by the increasing ambitious of the Turkish business community to integrate into the world economy in order to find new

¹²⁹ Mübberra Pirinçci,, *Turkish Russian Relations in the Post-Soviet Era: Limits of Economic Interdependence*, Unpublished M.A. Thesis, Ankara:METU, 2009 p.38

¹³⁰ David N. Balaam, and Michael Veseth, *Introduction to International Political Economy*, New Jersey: Prentice Hall Inc.,1996. p.121

¹³¹ Pirinçci, *Turkish Russian Relations in the Post-Soviet Era*, p.39

markets for their goods and services”.¹³² However, as Keohane and Nye suggests that even though mutual benefits occur between the two countries,, interdependence relationships always involve cost (see p.20) and the cost effect of such relations need to be considered especially by the most dependent party.

In this regard, in the case of Turkish and Russian relations, mutual interest, deriving from their contemporary economic situations, forced them to cooperate in economic affairs in the first place. In addition, it also paved the way for the gradual enlargement of the scope of cooperation into such fields as political and military affairs. Thus, the vulnerabilities and sensitivities extended by inter-states relations have made them over time more interdependent on each other.

Meanwhile, the role of business elites and informal ties in improving relations between Turkey and RF is another point that leads us to complex interdependence nature of relationships. As explained, Keohane and Nye stress that the increase in interaction between states through multiple channels has become easily observable in the contemporary international relations of the states. Non-governmental elites, multinational firms and banks have become important players in world politics (see p.17). Indeed, as Yanık pointed out, increasing economic activities between two countries have paved the way for the establishment of the Turkish-Soviet Business Council, now the Turkish-Russian Business Council after the collapse of the Soviet Union. Indeed, the business elites played an important role in extending business ties to the rest of Eurasia.¹³³

As noted above, the upward trend is observed in the bilateral trade between Turkey and the RF during the post-Cold War years. Turkey exports manufactured goods, such as

¹³² Duygu Bazoğlu Sezer; “Turkish-Russian relations: The challenges of reconciling geopolitical competition with the economic partnership”, *Turkish Studies*, 2000, Vol. 1, No.1. pp.61

¹³³ Lerna K. Yanık, “Allies or Partners? An Appraisal of Turkey's Ties to Russia, 1991-2007”, *East European Quarterly*, 2007, Vol. XLI, No. 3.p.369

textiles, chemicals, vehicles and foods, to the RF in return for raw materials, natural gas, oil and metals, in the first place.¹³⁴ In fact, these distributions in terms of items that Turkey imports and exports basically introduce the reason why economic relations between two countries are shaped by interdependence asymmetrically.

Most of the Turkish exports goods are manufactured goods are that highly elastic in demand, in contrast to Turkish importation of goods such as oil and natural gas which have a more stable demand than manufactured goods. Thus, the elasticity differences of items have caused an imbalance in trade relations over time, especially with the existence of financial instability and crisis in Russia.¹³⁵ These actual structures of Turkish-Russian bilateral trade relations clearly identify Turkey as a more vulnerable party of interdependency from the economic point of view. The imbalance of trade relations and vulnerabilities of Turkey will be displayed lighter below in Table 1 with numbers as well.

Table 1. Turkey-Russian Federation Foreign Trade between the years 1992-1997 (million \$)¹³⁶

Years	Turkish Export	Turkish Import	Trade Balance	Trade Volume
1992	438.4	1040.4	-602	1478.8
1993	499.1	1542.4	-1043.3	2041.5
1994	820.1	1045.4	-225.3	1865.5
1995	1238.2	2082.4	-844.2	3320.6
1996	1511.6	1921.1	-409.5	3432.7
1997	2056.4	2174.3	-117.9	4230.7

¹³⁴ Gürtuna, *Turkish-Russian Relations in the Post-Soviet Era*, p.77

¹³⁵ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri* p.p.21

¹³⁶ Source: Devlet İstatistik Enstitüsü Available [online], http://www.tuik.gov.tr/PreIstatistikTablo.do?istab_id=624 [24 Ağustos 2012]

Table 1 shows that between 1992 and 1997 Turkish exports to Russia increased from \$438.4 million to \$2056.4 million and Turkish imports increased from \$1040.4 million to \$2174.3 million. At the end of 1997, Russia became the second trade partner in Turkey's total exports and sixth in total imports whereas Turkey was the fourteenth in Russia's total exports and seventeenth in Russian total imports. In addition to this, the trade volume between two countries reached \$4230.7 million by 1997 with the threefold increase.

However, the trade balance, as the table has shown, fluctuated in negative degrees in favor of Russia. Thus, in spite of the RF enjoying great importance for Turkey in its foreign economic relations, it is not possible to mention the same importance currently for Turkey among RF's trade partners. Even though trade volume between the two countries has reached a huge amount, Turkey is not placed within Russia's priority trade partners.¹³⁷ Kazgan explained this situation with the imbalance of exports between the two countries and asserts that the Russian market has been important for Turkish exports but the Turkish market is not a primary export market for Russia. Clearly this is one of the sources of asymmetrical relations in terms of economic relations.¹³⁸

For this reason, the imbalance of trade relations is a perennial issue for Turkish politicians. For instance, Former Turkish Ambassador to the Russian Federation, Nabi Şensoy, mentioned that "for further developments of bilateral economic relations to be of benefit to both sides, it is important that this imbalance be redressed."¹³⁹ Even though statesmen and business associations have been highlighting their displeasures on this issue on every platform, undoubtedly highest among issues of Turkish dependency is Russian natural

¹³⁷ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.16

¹³⁸ Kazgan, "The Political Economy of Relations between Turkey and Russia" p.160

¹³⁹ Nabi Şensoy, "Turkish-Russian Relations: from Bilateral Co-operation to Multidimensional Partnership", *Insight Turkey*, Vol.4 No.2. 2002, p.12

gas the chief another factor causing imbalances in trade relations between Turkey and RF as indicators during the 1998 Russian financial crisis illustrated.

With the impact of the Russian financial crisis of 1998 on bilateral trade relations, there was a sharp downward trend for Turkey. As mentioned above, before the crisis the RF was the second biggest trade partner for Turkey. However, the financial crisis in 1998 caused a remarkable decline in trade volume between the two countries. As a result of devaluation of the Russian Ruble, exporting goods from Turkey became expensive and Russia tended to import her manufactured goods from cheaper markets, while Turkey increased her oil and natural gas imports from Russia in order to meet with increasing energy demand.

The Turkish-Russian trade volume, which was reached about 8-10 billion dollars, annually, on the eve of the Russian financial crisis, accounted for only 3.5 billion dollars which represented a 34.4 percent decline in Turkish exports and a 0.1 percent decrease in imports in 1998.¹⁴⁰ In other words, during the crisis, Turkey's exports to Russia diminished at an extreme level, whereas very little decline was observed in its imports from Russia. The same tendency continued in 1999, and Russia regressed to ninth among exporter countries as against fifth among importer countries for Turkey. Total exports from Turkey to Russia dropped to 589 million dollars and total imports increased 10 percent from 1998 to 1999 respectively.¹⁴¹ Thus, the ongoing imbalance in bilateral trade became quite obvious especially after the Russian economic crisis in 1998 and all indicators above provide another evidence for illustrating how the two countries relations show asymmetrically interdependence in terms of economic relations as well as the vulnerability of Turkey in the line of interdependence relations of two countries.

¹⁴⁰ Sezer; "Turkish-Russian relations" p.73

¹⁴¹ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri* p.19

Kazgan stresses that in Turkey and Russia, both countries that are newly adjusting to the free market economy, financial instabilities have had reciprocal effect. Nonetheless, Turkey as an asymmetrically dependent party of bilateral relations is more affected by the worsening economic situation in the Russian economy more than Russia is affected by the changes in Turkish economy.¹⁴² Indeed, the financial crisis hit the Turkish economy too in 2001, but did not affect the Russian economy remarkably.

In this regard, it is clear that Turkey is the dependent party of this interdependence relationship between Turkey and Russia in economic terms. The cost paid by Turkey is higher than the cost paid by Russia in order to overcome economic difficulties arising from external factors, in particular from the other party. As Sezer mentioned, the 1997 East Asian Crisis and the 1998 Russian financial crisis has had a worsening effect on economic cooperation between Turkey and the RF,¹⁴³ but from the 2000's onwards, Turkish exports to Russia started to increase again whereas we have not observed a remarkable increase in imports from Russia.¹⁴⁴

With the effect of 1998 Russian crisis, Turkish imports from Russia decreased by 34,4 percent in 1998 and by 56,6 percent in 1999 whereas total trade volume between two countries decreased by 17 percent. However, Turkey exports from Russia were valued with only a 1 percent decrease in 1998. In other words, Turkey's export from Russia declined by remarkable amount, while very few changes were observed in imports from Russia during this crisis. More importantly, these tendencies in bilateral trade between the two countries remained in the same directions in 1999 and Russia was placed ninth among Turkey's importer countries whereas fifth among Turkey's exporter countries. In numbers, total imports from Russia declined to 589 million dollars while total exports increased by 10 percent when

¹⁴² Kazgan, "The Political Economy of Relations between Turkey and Russia" p.160

¹⁴³ Sezer; "Turkish-Russian relations" p.75

¹⁴⁴ Pirinçci, *Turkish Russian Relations in the Post-Soviet Era*, p.41

compared with numbers of previous year. Thus, the effects of the 1998 crisis on balance sheets occurred with increasing imbalances in foreign trade volume between two countries.¹⁴⁵

In addition to this, Turkey's imports from Russia increased by 8 percent while exports to Russia reached the highest amount ever with its 38,6 increase in 2001. Turkey was the one hit by economic crisis this time. However, the upward trend in Turkey's exports from Russia continued with 43 percent increases under crisis conditions while imports had been still decreasing by 10 percent.¹⁴⁶

To understand the different reactions by the Russian and Turkish economies to external factors reflected from each other's economies, the elasticity of products trading between these countries is needed to be considered. The differences between elasticity of imported and exported products from the RF is the main reason of decreasing in Russian export from Turkey when economic crisis hit the RF, whereas Turkey's export from Russia remain nearly in same amount with previous years under crisis conditions. Undoubtedly, energy resources' and raw materials' which are places the highest amount of share within Turkish imports from RF had lower elasticity than RF's imports from Turkey which are manufactured goods such as textiles, chemicals, vehicles and foods .

As Kazgan noted, Turkey has been exporting to Russia mainly services and consumer product and importing from Russia products of heavy industry, including military equipment and fuel materials as well.¹⁴⁷ Thus, it is clear that the sectors Turkey trades with Russia, mentioned above, have a potential to make Turkey dependent on the RF. Beside energy resources, when the arms and weapons imported from the RF are taken into account, the trade between Turkey and Russia is needed to be analyzed with the security dimension as well,

¹⁴⁵ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.19

¹⁴⁶ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.19

¹⁴⁷ Kazgan, "The Political Economy of Relations between Turkey and Russia" p.149

since these kinds of dependency could provide a tool for the RF to apply as a source of potential power via economic interdependence.

In addition to the worsening effects of the 1998 economic crisis, Russian imports from Turkey declined sharply due to fact that the RF devalued the Ruble by 75 percent and adjusted import substitution policy. Meanwhile, Turkey's natural gas consumptions and world energy prices have increased simultaneously. All these factors are reflected on the balance sheet as a deepened trade imbalance. Moreover, the tax exemptions provided by the CIS countries to the RF facilitate the entrance of financially strong EU countries to the Russian Market. Also, Turkish manufacturers lost their competitiveness in Russian markets, due to the Partnership and Cooperation Agreement signed between the RF and the EU, an agreement providing some privileges to EU countries producers.¹⁴⁸

Another reason for the trade imbalance between the RF and Turkey has arisen from informal trade, called shuttle trade or suitcase trade. Shuttle trade has played a significant role in developing bilateral trade relations, and in establishing formal and informal ties between Turkey and the RF. It has also contributed to the two countries' societies' convergence to each other since the collapse of Soviet Union. During the 1990s, not only billions of dollars entered into the Turkish economy by shuttle trade, but it also provided some opportunities to encourage the establishment of small businesses both in Turkey and the RF.¹⁴⁹ Thanks to geographical proximity, low transportation cost and wide diversity of products, Turkey became one of the centers of the shuttle trade. In 1997, 45 percent of products which entered into Russia by shuttle trade were Turkish goods.¹⁵⁰

However, the low quality of Turkish goods entered in Russian Market through shuttle trade negatively impressed the Russian consumer. Beginning in 1995, the shuttle trade

¹⁴⁸ Grtuna, *Turkish-Russian Relations in the Post-Soviet Era*, p.80

¹⁴⁹ Grtuna, *Turkish-Russian Relations in the Post-Soviet Era*, p.81

¹⁵⁰ Pirinci, *Turkish Russian Relations in the Post-Soviet Era*, p.44

between Turkey and RF has tended to decline.¹⁵¹ Not surprisingly, the decline in the shuttle trade was also triggered by other economic instabilities and implementations which were brought into force by the CIS and resulted in lost competitiveness for Turkish manufacturers in the Russian market, in favor of EU countries. In addition, cheap Asian goods which had recently entered into the Russian market undermined shuttle trade in bilateral economic relations.¹⁵² Also, the Russian membership process to the International Monetary Fund (IMF) and World Trade Organization (WTO) forced the RF to apply some restrictions on shuttle trade and the unregistered economy. The RF had to follow IMF conditions in order to increase its tax income, and therefore it reinforced its custom controls to prevent shuttle trade.¹⁵³

Nevertheless, shuttle trade has shown a remarkable trade volume in bilateral economic relation between two countries. However, it was not easy to obtain data that illustrates shuttle trade's importance in trade relations, until the Central Bank of Turkey started to publish official statistics on shuttle trade in 1996.¹⁵⁴ According to the data, shuttle trade reached 8.842 billion dollars in 1996. It stood at 5.849 billion dollars in 1997 and had declined by more than fifty percent to 3.800 billion dollars in 2004.¹⁵⁵

In the 2000s, Turkey and the RF had become regional and strategic partners and cooperated in many areas including both economic and security issues. The bilateral trade relations increased again after the 1998 economic crisis in the RF and trade volume between the two countries reached more than thirty-seven billion dollars in 2008, which is approximately 8 times more than what it was in 2000. This can be observed in table 2. Especially, there was a major increase in trade volume between 2006 and 2008 from 21 billion dollars to 37 billion dollars. In 2008, Turkish exports to the RF amounted to 6.4 billion

¹⁵¹ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.24

¹⁵² Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.25

¹⁵³ Gürtuna, *Turkish-Russian Relations in the Post-Soviet Era*, p.81

¹⁵⁴ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.29

¹⁵⁵ Source: Rusya Online, *Türkiye-Rusya*, Available [Online], <http://www.rusya.ru/TurkiyeRusya.htm> ,(14 August 2012)

dollars, whereas imports from the RF totaled 31.3 billion dollars. These indicators clearly illustrate huge amount of foreign trade deficit in trade relations of Turkey and the RF.

Table 2: Turkey-Russian Federation Foreign Trade between the years 2000 and 2011 (million\$)¹⁵⁶

Years	Turkish Export	Turkish Import	Trade Balance	Trade Volume
2000	643.9	3887,6	-3243.7	4530.6
2001	924.1	3435,7	-2511,6	4359,8
2002	1172	3891,7	-2719.7	3891,7
2003	1367.6	5451.3	-4083.7	6818.9
2004	1859.2	9033.1	-7173.9	10892.3
2005	2377.1	12905.6	-10528.5	15282.7
2006	3237.6	17806.2	-14568.6	21043.8
2007	4726.9	23508.5	-18781.6	28235.4
2008	6483	31364.5	-24881.5	37847.5
2009	3202.3	19447.9	-16245.6	22650.2
2010	4632.3	21592.2	-16959.9	26224.5
2011	5995.2	23951.5	-17956.3	29946.7

However, the global economic crisis in 2008 has reverberated in both states' economies and affected also Turkish Russian trade relations by way of decreasing trade volume by 67 percent in the year 2009, compared to the 2008 figures. Nonetheless, it recovered and reached 26 billion dollars with a 16 percent increase in 2010. Finally, trade volume between Turkey and RF registered about 30 billion dollars in 2011.

¹⁵⁶ Source: Devlet İstatistik Enstitüsü Yıllara Göre Dış Ticaret Verileri. Available [online] http://www.tuik.gov.tr/VeriBilgi.do?alt_id=12

According to data reported by the office of the Commercial Counselor in the Turkish Embassy in Moscow, the RF figured in the first place among Turkey's importer countries whereas it is occupied the seventh position within Turkey's exporter countries in 2011. In addition, Turkey was placed in sixth rank among Russian's export partners and thirteenth place among Russian's import partners.¹⁵⁷

In another significant development in bilateral trade relations, as İşeri points out, Turkey and RF agreed to use the Turkish lira and the Russian Rouble in foreign trade rather than US dollar, and this development was considered by some Turkish businessmen as a "historical achievement" in Turkish-Russian economic relations. İşeri evaluated this initiative as a step towards the establishment of a ruble economic zone which can be a tool to upgrade the two countries' relations to the level of a strategic partnership.¹⁵⁸

The shuttle trade between Turkey and the RF has still been playing a significant role in current Turkish Russian bilateral trade, especially in terms of Turkey's export to Russia. As illustrated in Table 3, the income generated due to Shuttle trade was about 6 billion dollars in 2008. Unfortunately, it demonstrated a downturn by 2009 due to economic conditions reflecting the global economic crisis and restrictive policies implemented by the RF in the process of membership to IMF and WTO.

¹⁵⁷ T.C. Moskova Büyükelçiliği Ticaret Müşavirliği, Yıllık Raporlar 2011, p.111. Available [online] <http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=368&dil=TR&ulke=RF> (24 Augustos 2012).

¹⁵⁸ Emre İşeri, "Euroasian Geopolitics and Financial Crisis: Transforming Russian-Turkish Relations from Geopolitical Rivalry to Strategic Cooperation", *Journal of Balkan and Near Eastern Studies*, Vol.12, No.2, 2010,p.185

Table 3. Income Generated from Shuttle Trade by Years (Million \$)¹⁵⁹

Years	Income
2000	2944
2001	3040
2002	4068
2003	3953
2004	3880
2005	3473
2006	6408
2007	6002
2008	6200
2009	4783
2010	4951
2011	4424

In sum, the level of bilateral trade between Turkey and RF has increased enormously since 1992. As İşeri stressed, the cooperation in trade between two countries is expected to expand, since they "...agreed on a joint target to increase the trade volume by 100 billion in the next five years. This illustrates why, for sound economic and security interests, Turkey has chosen not to be openly defiant of the RF's regional interest."¹⁶⁰ Indeed, improvements in economic relations have led to both countries avoiding conflict, and emphasizing economic benefits in their bilateral relations.

¹⁵⁹ Source: Türkiye Merkez Bankası Ödemeler Dengesi İstatistikleri, Available [online] <<http://www.tcmb.gov.tr/odemedenge/odemelerdengesi.xls>> (13 Augustos 2012)

¹⁶⁰ İşeri, "Euroasian Geopolitics and Financial Crisis", p.185

However, imbalance in trade relation accelerated simultaneously as a negative direction for Turkey and contributed Turkey's dependency on the RF economically as explained above. For this reason, bilateral trade relations are one of the most important factors that facilitate the existence of cooperation and partnership between Turkey and RF on the one hand, while it also reinforced interdependence characteristics for the two countries relations in each aspect of relation such as economic, political and security on the other.

Besides trade, energy relations are another significant dimension in shaping relations between two countries in accordance with an analytic perspective of complex interdependence. In this regard, energy relations and discussions on Turkey's dependence on Russian energy sources are analyzed in the following section of this part of the study.

3.1.1.2. Energy Relations

Energy sector has been the most important sector of economic relations between the two countries, and is the most critical issue in terms of asymmetrical dependency of Turkey to the Russia. When political and security aspects of energy relations are taken into account, "...energy relations between two countries are not limited to being a basic economic transaction but considered as a sources of economic dependence of Turkey to the RF".¹⁶¹

The RF is one of the richest countries in terms of its energy resources in the world, on the one hand, and Turkey is a country which almost fully dependent on energy import and has been increasing her energy demand year by year in the region on the other. The long term energy cooperation between two underlines the interdependence of two countries' relations. The reasons for increasing energy demand from Turkey mainly reflect from developments in its industrial production sector. However, Turkey has a lack of adequate energy sources to meet with its need in expanding production activities. Also, sensitivity to environmental

¹⁶¹ Pirinçci, *Turkish Russian Relations in the Post-Soviet Era*, p.46

issues has caused a tendency to consume clean energy resources which has triggered the consumption of natural gas. In this respect, Turkey has been seeking to diversify her energy supply from various sources and is willing to improve her cooperation with the RF over energy issues.¹⁶²

Russian natural gas imports to Turkey rely on the agreement signed between two countries' government in 1984. With this agreement Soviet Union became a major energy partner for Turkey. In the following years, two additional agreements were signed, based on the previous one and extending its life for 25 years. These agreements quietly contributed to improvements in economic relation between Turkey and Russia. According to Kazgan, the agreement on the purchasing of natural gas from the USSR by 1985 and from the RF from 1992 onward had established a major basis in expanding economic relations. The expansion of the total trade volume from 1987 onwards, summarizes the nature of the natural gas agreements.¹⁶³ Indicators on Turkey's natural gas export from Russia between 1992 and 2002 show increasing trade volume year by year and Turkey's 282,7 million dollar natural gas purchase from Russia in 1992 reached 1,5 billion dollar in ten years with a total 413 percent increase.¹⁶⁴

Traditionally, Russia appears in the first place among natural gas exporter countries to Turkey. Turkey had been purchased almost all of its natural gas needs from the RF until 1996. However, from 1996, the RF's share in the import of natural gas has been starting to decrease due to fact that Turkey's ability to diversify its energy supply and stop its dependence solely on Russian natural gas. In this regard, Turkey engaged in economic relations, and signed agreements with other countries such as Turkmenistan, Iran, Egypt, Algeria, Qatar, Iraq, and Nigeria. In this context, Turkey, currently has been importing natural gas from the RF since

¹⁶² Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.70

¹⁶³ Kazgan, "The Political Economy of Relations between Turkey and Russia" p.146-149

¹⁶⁴ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.71

1987, from Nigeria since 1999 and from Iran since 2001.¹⁶⁵ Yet, there have been observable decreases in the amount of natural gas exported from the RF; Turkey still has been dependent on RF natural showing a large proportion in total volume of Turkey's natural gas purchases. Table 4, clearly proves that even though the share of natural gas exported from RF had decreased in the years between 1996 and 2003, it has been still maintaining its prime position as the main supplier.

Table 4. Amount of Natural Gas and LNG imported by Turkey between the Years 1987-2004 and Shares of RF¹⁶⁶

Years	Total	From RF	Blue Stream	Share of RF (%)
1987	520	432	-	83,0
1988	1178	1136	-	96,4
1989	3101	2986	-	96,2
1990	3358	3246	-	96,6
1991	4097	4031	-	98,3
1992	4461	4430	-	99,3
1993	4975	4952	-	99,5
1994	5377	4957	-	92,1
1995	6859	5560	-	81,0
1996	8041	5524	-	68,6
1997	9874	6574	-	66,5
1998	10383	6539	-	62,9
1999	12657	8693	-	68,6
2000	14975	10079	-	67,3
2001	16368	10931	-	66,7
2002	17624	11603	-	65,8
2003	21179	11422	1252	59,8
2004	22173	11106	3238	64,6

¹⁶⁵ Kolobov, Konilov, and Özbay, Çağdaş Türk-Rus İlişkileri, p.72

¹⁶⁶ Source :Botaş Faaliyet Raporları, http://www.botas.gov.tr/faliyetler/dg_ttt.asp Available [online]

In addition to natural gas imports from Russia, Turkey's strategic transitory role in transporting energy sources to the west is significantly important in shaping energy relations. In this respect, energy is a matter not only as a factor creating dependence of Turkey on the RF but also in contributing economic interdependence in terms of sensitivity and vulnerability.¹⁶⁷ In 1997, RF Prime Minister Viktor Chemnomyrdin visited Turkey and an agreement was signed between Turkey and the RF in order to construct the Blue Stream Pipeline Project which has started a new period in exporting Russian Natural Gas and transferring it to wide markets, more specifically to Southern Europe and Middle East.

The arrangements of this agreement accelerated economic and political rapprochement between two countries. The project proposed to transfer Russian natural gas to Turkey via the pipeline which passes under the Black Sea. Russia agreed to supply Turkey sixteen billion m3 of natural gas annually for twenty-five years through the pipeline. By the activation of Blue Stream Pipeline in 2003, the RF's share has been increasing among countries exporting natural gas to Turkey¹⁶⁸. Thus, Turkey's dependency on Russian gas and its worsening influence on balance of foreign trade volume has been still deepening to the vulnerability of Turkey.

It is needed to underline, at this point, the differences between Russia's primary purposes in energy relations with Turkey in the 1980s, and after collapse of Soviet Union. The USSR was pursuing strategic purposes in order to achieve its political interest by establishing economic relations with Turkey. On the contrary, the RF has transformed its regulated economy to the market economy and adjusted liberal economy policies in accordance with interests of Russian firms and companies. As a result, Russia avoided facilitating payments of

¹⁶⁷ Pirinçci, *Turkish Russian Relations in the Post-Soviet Era*, p.4

¹⁶⁸ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.71

Turkey in exchange for its natural gas purchases in the way of paying back with consumer products.¹⁶⁹

In the 1990s, the RF refused Turkey's attempt to extend regulations derived from 1984 Natural Gas Agreement in which it was decided to buy Russian gas for twenty five years with seventy percent of it in exchange for Turkish good and services, and Turkey had to adjust to new payment conditions. In other words, Natural Gas Agreements between Turkey and the RF, signed during 1990s, were based on economic interest rather than political and strategic purposes, unlikely the agreements signed with the USSR.¹⁷⁰

Cooperation in the energy sector between Turkey and the RF and the construction of the Blue stream pipeline has been queried by statesman and academics. Some approaches highlight its advantages to both Turkey and the RF since the pipeline was one of the biggest investment of the RF in the Turkish economy and it was constructed in coastal regions of countries. Also, it is stressed that ,to satisfy her energy needs from a provider country located in the region introduce some strategic advantages to Turkey such as being a curial player in order to transfer Russian resources to the Western world.¹⁷¹

Bacik stated that Turkey was a country located where significant amount of profits might be generated by shipping oil and natural gas via its territory to Western markets and Turkey could play a moderating role in energy relations between the RF and European countries.¹⁷² Turkish Foreign Minister, Davutoğlu, summarized Turkey's place in energy affairs with these worlds: "Turkey is neither a county that has an excess of energy nor a country that produces energy. Thanks to the geographical position Turkey enjoys, parts of her national strategy involves facilitating the transit of energy across her territory, which is central

¹⁶⁹ Kazgan, "The Political Economy of Relations between Turkey and Russia" p.141

¹⁷⁰ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.71-72-73

¹⁷¹ Pirinçi, *Turkish Russian Relations in the Post-Soviet Era*, p.49

¹⁷² Gökhan Bacik, "The Blue Stream Project, Energy Co-operation and Conflicting Interests", *Turkish Studies*, 2001, Vol. 2, No. 2, p.87, <http://www.eia.doe.gov/emeu/cabs/turkey>

to the East-West energy corridor.”¹⁷³ On the other hand, Kiniklioğlu and Morkva emphasized that Turkey defines her role in energy affairs as an energy transit country and energy hub for Europe. However, they criticized those views that consolidating energy cooperation with the RF would not be to Turkey’s interest, since a growing and worrying level of dependency on Russian gas is on the table.¹⁷⁴

Approaches which emphasize the advantages of Blue Stream Project aside, it is treated as a one of the greatest strategic mistakes made by policy makers in terms of increasing Turkey’s energy dependency on the RF through creation of the Russian natural gas monopoly in Turkey and security weaknesses since sustainable energy supply is strategically important for maintaining production activities as well as obtaining national security. For this reasons, “...the military circles and the Foreign Ministry put some reservations and objections about the national security implications of the agreement. In addition, NATO was also displeased with its member’s dependence to Russian resources which is considered against energy security understanding of NATO.”¹⁷⁵

Moreover, Sezer noted that there is no consensus in Turkish public opinion about the issue either. Some asserted that Turkey need to decrease its dependence on Russian gas by multiplying her energy sources, whereas others considered the Blue Stream as a keystone in developing a strategic partnership with Russia.¹⁷⁶ On the other hands, not surprisingly, Blue Stream project and improvements of cooperation with the RF in energy sector were supported by business elites and associations. For this reason, asserting that “...the Blue Stream Pipeline displayed both the power of the business lobbies, as well as the Turkish elite’s desire to make Turkey an energy hub... and demonstrating the power of business lobbies both in Turkey and

¹⁷³ Davutoğlu, “Turkey’s Foreign Policy Vision”, p.91

¹⁷⁴ Suat Kiniklioğlu and Valeriy Morkva, “An Anatomy of Turkish-Russian Relations”, *Southeast European and Black Sea Studies*, Vol.7, No.4, 2007, p.540

¹⁷⁵ Görtuna, *Turkish-Russian Relations in the Post-Soviet Era*, p.90

¹⁷⁶ Sezer; “Turkish-Russian relations” p.74

Russia and their ability to influence the political decision-making process in Turkey”¹⁷⁷ would not be wrong.

In 2002, the Blue Stream gas pipeline was completed, a protocol signing ceremony for the Blue Stream commission took place in Durusu, near Samsun and, first Russian gas was transmitted to Turkey via the new pipeline on 20 February 2003.¹⁷⁸ The quantity of natural gas that Turkey exported from the RF has been increased gradually in the years following the activation of Blue Stream Pipeline. In 2010, forty-six percent of Turkey’s natural gas purchases were provided from Russia. In this regard, energy relations between Turkey and the RF which are shaped by interdependence have the potential to cause a cost effect. In particular, if the high level of Turkey’s dependence on RF natural gas, which is clearly illustrated by Table 5, is taken into account, the search for an alternative energy provider and diversify energy resources needs to be priority for Turkey.

¹⁷⁷ Yanık, “Allies or Partners?”, p.359

¹⁷⁸ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.75

Table 5. Natural Gas Transportation by Years (Million Contracts Cum)¹⁷⁹

Years	RF	Iran	Azerbaijan	Nigeria (LNG)	Algeria (LNG)
2003	12.460	3.461	-	1.107	3.795
2004	14.102	3.497	-	1.016	3.182
2005	17.524	4.248	-	1.012	3.814
2006	19.316	5.594	-	1.099	4.210
2007	22.753	6.054	1.257	1.395	4.204
2008	22.962	4.113	4.580	1.017	4.219
2009	17.207	5.252	4.959	903	4.487
2010	14.535	7.765	4.521	1.189	3.907
2011	21.477	8.190	3.806	1.248	4.156

Indeed; with the gas row between RF and Ukraine in 2005, Turkish energy dependency became a public issue and Russian reaction that was stopped providing natural gas to Ukraine because of disagreement over the price of gas not only resulted in Turkish decision makers' awareness about their own vulnerability,¹⁸⁰ but also brought to the attention of European countries who were mostly dependent on Russian gas coming via Ukrainian pipeline. Economic reasons aside, it is considered as a Russian attempt to punish the Ukrainian government for the "orange revolutions".¹⁸¹ From these perspective, it is proved that how asymmetrical interdependence might be used as a source of power that provides less dependent actors an advantage to use in bargaining process and dealing with the other actors. Accordingly, with the existing of new power sources asymmetrical interdependence can be

¹⁷⁹ Source : BOTAS 2011 Yılı Sektör Raporu, p.7. Available [online]:

http://www.enerji.gov.tr/yayinlar_raporlar/Sektor_Raporu_BOTAS_2011.pdf

¹⁸⁰ Kınıkoğlu and Morkva, "An Anatomy of Turkish-Russian Relations", p.540

¹⁸¹ Emre Erşen, "Turkish-Russian Relations in the New Century", *Turkey in the 21st Century* (Ed. Özden Zeynep Oktav, Ashgate: England, 2011), p.104

applied as a source of power is that power as a control over outcomes or the potential to affect outcomes. (see p.22). In this regard, it is clear that dependency on Russian natural gas might not only create economic outcomes but also threaten countries' political stability and security.

Actually, seeking alternative energy transit routes which would relieve the worsening effect of dependency on Russian Gas in the way of diversification resources was not a new issue. With the increasing importance of Caspian energy resources, debates on the transfer of these resources to the west have been placed in the center of energy policy agenda. However, in the case of constructing the Trans-Caspian Pipeline Project based on cooperation between Turkey and Turkmenistan, it would be a challenge for Russian prior position in terms of energy supplier.¹⁸²

As prominent countries with rich energy resources in the Caucasus, Azerbaijan, Kazakhstan and Turkmenistan have invested about 8 billion dollar in their energy sector and Turkey appeared as the cheapest and most secure transit route for the oil and gas reserves of Caspian Sea.¹⁸³ Therefore, Baku-Tbilisi-Ceyhan Pipeline Project constructed routing the Kazakh and Azeri oil through two interconnected pipelines from Baku and Tengiz via Turkey to the Ceyhan port at the southern coast of the country. Construction of BTC was completed in 2005 and began to ship Caspian oil to international markets in 2006.¹⁸⁴

Turkey also supported the Nabucco Natural Gas Pipeline project, that was the most important project in order to reduce European dependency of Russian Natural Gas by using the reserves in Azerbaijan, Kazakhstan, Turkmenistan, even Iraq and Iran as well. The aim of the project was to construct a new pipeline to transfer the Caspian natural gas via Turkey, Bulgaria, Romania, and Hungary to Austria.¹⁸⁵ However, not surprisingly, Turkey's

¹⁸² Gürtuna, *Turkish-Russian Relations in the Post-Soviet Era*, p.91

¹⁸³ Gürtuna, *Turkish-Russian Relations in the Post-Soviet Era*, p.92

¹⁸⁴ BTC Direktörlüğü, <http://www.btc.com.tr/proje.html>

¹⁸⁵ Erşen, "Turkish-Russian Relations in the New Century", p.105

participation in the project was challenged by Russian interest in the European energy sector since the RF has a superior position as a supplier in EU. Erşen explained Turkey's intention to join the Nabucco Project with her large dependence on Russian natural gas especially after the completion of the Blue Stream Pipeline. He underlined the Turkish public's concerns about the Ukrainian gas crisis, Turkey's growing energy needs and the necessity diversify energy sources. More interestingly, Erşen asserts that Turkish concern with the project could be considered as a political card to improve its relations with West, as Turkish-US relations had started to get back on track.¹⁸⁶

Meanwhile, Aras mentioned that while "...Turkey and Russia cooperate in the Blue Stream Pipeline and other potential projects, they also compete in providing alternative routes for oil and gas transfer to Europe."¹⁸⁷ Indeed, the struggle over the Nabucco Project between Turkey and the RF has resulted in Russian support for Turkey for an oil pipeline from Blacksea port of Samsun to the Ceyhan terminal on the Mediterranean. In return, Turkey's supported the Russian South Stream Project although this is regarded as sabotaging to Nabucco. Both of these projects were announced during Russian Prime Minister Vladimir Putin's visit to Turkey in August 2009.¹⁸⁸

When so called "pipeline rivalry" between Turkey and the RF is considered in the context of complex interdependence, it is obviously seen that both countries are sensitive to each other in terms of the transfer of Caspian natural gas resources to west, since Turkey's geopolitical position is crucial for both Turkey and EU. In this respect, Turkey's role as energy transit country on the one hand, Russian superior role as energy supplier to west on the other. Regarding such a significant role of Turkey in energy issues between RF and West,

¹⁸⁶ Erşen, "Turkish-Russian Relations in the New Century", p.105

¹⁸⁷ Bülent Aras, "Turkey and the Russian Federation: An Emerging Multidimensional Partnership", *SETA Policy Brief*, No:35, 2009.p.9

¹⁸⁸ Giray Saynur Bozkurt "Türkiye-Rusya İlişkileri: Tarihi Rekabetten Çok Boyutlu İşbirliğine", *Türkiye'nin Değişen Dış Politikası*, (Ed. Cüneyt Yenigün and Ertan Efeğil, Nobel:İstanbul, 2010), p.711

acceleration of the sensitivities in Turkish-Russian relation in terms of complex interdependence is quite obvious. Thus, Russians have enjoyed the advantage of using Turkey's dependence as a source of power in the issues related with energy politics as well as irrelevant issues whereas Turkey has taken advantages generated from her strategic position and saves it as a political card in case of any clash of interests.¹⁸⁹

3.1.2. Multiple Channels and Informal Ties in Contemporary Turkish-Russian Economic Relations

The emergence of Anatolian businessmen as new actors in shaping international trade relations through business associations is another factor showing Turkey to be primarily a trading state. Analyses of tourism and investments by Turkish entrepreneurs in Russia, particularly in the construction sector, show how informal ties and non-governmental actors contribute to developments of economic interdependence between Turkey and Russian Federation within the political process of complex interdependence. Therefore, the role of these non-governmental actors and informal ties in shaping economic interdependence between Turkey and Russia has become evident.

Accordingly, the role of business elites and informal ties in improving relations between Turkey and RF is another point that leads us to the complex interdependence nature of relationships. As mentioned, Keohane and Nye stress that the increase in interaction between states through multiple channels has become easily observable in the contemporary international relations of the states. Non-governmental elites, multinational firms and banks have become important players in world politics (see p.17).

Moreover, as Yanik pointed out, increasing economic activities between two countries have paved the way for the establishment of the Turkish-Soviet Business Council, now the

¹⁸⁹ Erşen, "Turkish-Russian Relations in the New Century", p.106

Turkish-Russian Business Council after the collapse of the Soviet Union. Indeed, the business elites played an important role in extending business ties to the rest of Eurasia.¹⁹⁰ In this regards, the last section focuses on investment and tourism and emphasizes the role of multiple channels between two countries in terms both of formal and informal ties in accordance with the characteristics of complex interdependence theory.

3.1.2.1. Investment

Investment relations between Turkey and the RF are another significant factor in establishing economic interdependence relations. Besides its contribution to economic relations, it reinforced also interactions between two countries' populations through multiple channels as the complex interdependence theory suggests.¹⁹¹ As explained in part two of this study, multinational firms and banks have the ability to affect both domestic and inter-states relations, thus, they have become important players in contemporary world politics. According to Keohane and Nye, these people's' activities in various countries make them more sensitive to one another and thus enlarge the extent of interdependence characteristics of relations. (see p.34) In this regard, investment relations between the RF and Turkey need analysis to understand especially the role of non-governmental actors such as business associations and multinational firms in the relations of two states and informal ties established through those actor's activities.

Investment relations between Turkey and the RF have been developing after the Natural Gas Agreements came into force in 1984 and 1987, to buy Russian gas for twenty five years and paid seventy percent of it in exchange of Turkish good and services. The regulations adjusted by these agreements facilitated Turkish investors and constructing firm's entrance to Russian market. Also, following the collapse of the Soviet Union, the RF

¹⁹⁰ Yanık, "Allies or Partners?" .p.369

¹⁹¹ Pirinçci, Turkish Russian Relations in the Post-Soviet Era, p.54

economy entered into the transformation process and adopted market oriented policies which caused a demand explosion in the country during the 1990s. Excess of demand in the Russian economy attracted foreign investors and paved the way for improving investment relations between two countries.¹⁹²

Besides big firms, such as Enka, Koç, Zorlu (Vestel, Taç, Zorlu Enerji), Efes, and Sisecam, several small and medium sized firms have been operating in the Russian market since 1988, even before the disintegration of the Union.¹⁹³ Enka was the first company to invest in Russia with a considerable amount of investment in 1988, right after the implementation of 1984 Natural Gas Agreement. This initiative of Enka, which was one of the biggest earlier investments made by Turkish firms, encouraged Turkish entrepreneurs to extend their production activity towards Russia for long term. During the 1990s, Enka was followed by other Turkish companies, such as Netaş in 1995 and Efes Beverages in 1996. The construction sector was the field that attracted most of the Turkish companies. Therefore Turkish businessmen played an important role in restructuring the RF's economy and rebuilding the state after the collapse of the Soviet Union.¹⁹⁴

Turkish Investments in the RF increased after the 1998-1999 economic crisis, as firms tended to investment directly, rather than import to the RF as a result of export substitution policies adopted by the government and the devaluation of Russian Ruble. For these reasons, doing business has become less profitable, and direct investments then seemed to be a more convenient way to conduct economic activities in the RF. In addition, the direction of the investment started to change in accordance with changes in Russian economy policies.

¹⁹²Hasan Selçuk, *Türkiye Rusya Ekonomik İlişkileri*, Tasarım Yayınları: İstanbul, 2005,p.65

¹⁹³ Source: DEİK Rusya Federasyonu Ülke Bülteni p.25 Available [online] http://www.deik.org.tr/KonseyIcerik/4024/Rusya_Federasyonu_%C3%9Cİlke_B%C3%BCİteni.html (28 Ağustos 2012)

¹⁹⁴ Pirinçci, *Turkish Russian Relations in the Post-Soviet Era*, p.54

Indeed, Turkish investors tended to place their operations in peripheries where more subsidies were provided for investors than was the case in central regions.¹⁹⁵

The construction industry has been a primary sector in terms of investment relations between Turkey and the RF since the disintegration of Soviet Union. Turkish construction companies have been actively operating and engaging in business in the RF for twenty years. One of the first projects that provided an opportunity to enter the Russian market for Turkish construction companies, was a project aiming to construct housing for soldiers coming back from East Germany in accordance with the Unification Treaty of Former East and West Germany which was signed between the Federal German Government and the Russian Federation in 1990. This development constituted a cornerstone for activities for Turkish construction firms in the RF, and the fifteen thousand housing units were built by Turkish companies and 2.5 billion dollars income generated by these activities between the years 1993 and 1995.¹⁹⁶

In the following years, Turkish construction companies were engaged in numerous construction projects in the RF, and increased the areas of their activities to include the restoration and renovation of public buildings, shopping malls, business and trade centers, hotels, guest-houses and restaurants, residential buildings, along with industrial facilities in various parts of the RF¹⁹⁷. Moreover, these construction activities also created employment opportunities for both Turkish and Russian workers in terms of contracting services. Between the years 1992 and 2005, the number of Turkish citizens who were employed in the operations of Turkish firms in the RF came to 304,271.¹⁹⁸

¹⁹⁵ Selçuk, *Türkiye Rusya Ekonomik İlişkileri*, p.66

¹⁹⁶ Cihangir Gürkan Şen; "Türkiye-Rusya Ekonomik ve Ticari İlişkileri", *Moscow: Rus-Türk İşadamları Birliği*, May 2003, Available [online] http://www.stradigma.com/turkce/agustos2003/makale_01.html

¹⁹⁷ T.C. Moskova Büyükelçiliği Ticaret Müşavirliği, Sektör Raporları Müteahhitlik Hizmetleri. Available [online] <http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=370&dil=TR&ulke=RF> (26 Ağustos 2012)

¹⁹⁸ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.43

The number and the volume of investments in RF have increased considerably during the 2000s. Between the years 2000-2008, Turkish construction companies completed 684 projects in the RF and income generated by these project reached 23,266 billion dollars as Table 7 indicates. However, as seen in the table, the number of projects decreased sharply to 43 in 2008, poor when compared with the previous year. In 2009 the number of projects completed in the RF was only 21. Obviously, the global economic crisis in 2008 had a worsening effect on the activities of Turkish contractors in Russia; nonetheless the number of projects had started to increase again by 2011 and volume of contracting services reached 2,064 billion dollars.

Table 6. Turkish Contracting Services in RF between the years 1989-2012¹⁹⁹

Years	Volume (Billion \$)	Number of Project
1989-1999	9.694	587
2000	165	19
2001	343	38
2002	428	40
2003	1.033	70
2004	746	56
2005	2.468	70
2006	2.738	61
2007	5.922	101
2008	2.778	43
2009	1.809	21
2010	1.277	34
2011	2.064	74
2012(Jan-Jul)	1.495	36
Total	32.960	1.250

In 2009, the level of investments made by Turkish investors was 5, 6 billion dollars and reached 7 billion dollars by the end of 2010. In terms of foreign direct investments between Turkey and RF, there were imbalances in favour of Turkey in contrast with bilateral trade and energy relations. However, Russian investment in Turkey has exhibited a

¹⁹⁹ T.C. Moskova Büyükelçiliği Ticaret Müşavirliği, Rusya Dış Ticaretine ve Türkiye-Rusya İlişkilerine Yönelik Güncel İstatistikler. Available [online] <http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=125&dil=TR&ulke=RF> (28 Ağustos 2012)

remarkable rise in recent years and the value of the Russian businesses in Turkey was measured at about seven billion dollar in 2010. In general, Russian capital came to Turkey by partnerships with local Turkish companies in the sector of energy, telecommunication, manufacturing, logistics, media and tourism.²⁰⁰

To conclude, while asymmetrical interdependence in relations between the RF and Turkey is not a matter in terms of investment and construction sector; these kinds of relations contribute to interactions between two societies and serve to produce new actors and interest groups, such as business associations and multinational firms who have a potential to influence the decision making process of countries' statesmen, both domestically and internationally. Therefore investment relations between two countries are need to be considered as another factor that triggers interdependence characteristics of contemporary Turkish-Russian economic relations through multiple channels and linkages strategies.

3.1.4. Tourism

Tourism is another significant sector which not only contributes to economic relations between Turkey and the RF providing a remarkable amount of revenue, but also has had an important role in strengthening the relations between post-Soviet Russian and Turkish people. The two countries' communities, who had lived completely separate with the borders and cultural barriers of the Cold War world order within same region for more than 50 years, have had an opportunity to come into contact with each other and establish social interactions, eliminating ideological confrontation. Indeed, these informal ties appearing between Turkish and Russian people affected the characterization of two counties relations by interdependence.

²⁰⁰ T.C. Moskova B y kel iliđi Ticaret M şavirliđi, Aylık Rapor, Temmuz 2012. Available [Online] <http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=369&dil=TR&ulke=RF> (23 Ađustos 2012)

The Tourism Cooperation Agreement, which facilitated the organization of tourism and fairs as well as tours to the historical places was signed by the two countries on 24 March 1995. Afterwards, the Turkish Ministry of Tourism started promotion activities for Turkey's resorts in order to attract Russian tourists.²⁰¹ Consequently, the number of Russian tourists visiting Turkey, more specifically to the southern regions of Turkey, has increased continuously. Geographical closeness and cheap and highly quality Turkish tourism services, as well as conveniences provided by Turkish government to the visa procedure for Russians add to the reasons for Russians coming to Turkey.²⁰²

As with other fields of economic relations between Turkey and the RF, the tourism sector was hit by Russia's 1998 financial crisis. As is illustrated by figures in Table 7 below, the number of Russian Tourists coming to Turkey declined sharply in 1998. Nonetheless, the 2001 crisis in Turkey relieved impacts of Russian financial crisis on tourism because of the fact that the prices within the tourism sector tended to decrease under crisis conditions. Low-level prices of the Turkish tourism sector caught the attention of Russian tourists again, and the number of Russian Tourists coming to Turkey started to increase by 2001.

²⁰¹ Aydın Turan and Olgan Bekar, *Türkiye'nin Orta ve Uzun Vadeli Ekonomik Çıkarları Açısından Türk Rus İlişkileri*, TESEV Yayınları: İstanbul, 1997. p.181

²⁰² Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.34

Table 7. Number of Russian tourist coming Turkey²⁰³

Years	Numbers
1995	587.982
1996	721.083
1997	737.700
1998	676.183
1999	438.719

Following the developments of Turkish-Russian bilateral economic relations, connections in the tourism sector had similarly improved by 2000s. According to the numbers showed in Table 8, about 2.5 million Russian tourists visited Turkey in 2007, and it reached 2.8 million in 2008. In addition to the Mediterranean cities, Istanbul and the Black Sea are currently preferred by Russian people. In contrast with the 1998 crisis, the global economic crisis of 2008 did not decrease tourism between the two countries as obviously appears in the table. Three million Russian tourists were accommodated in Turkey in 2010, and the number reached 3.5 million in 2011. In terms of Turkish tourists going to Russia, it is not possible to say whether there is a considerable amount of Turkish tourist entrance there.

²⁰³ Kolobov, Konilov, and Özbay, *Çağdaş Türk-Rus İlişkileri*, p.31

Table 8. Number of Russian tourist coming Turkey²⁰⁴

Years	Numbers
2005	1,864,682
2006	1,853,442
2007	2,465,336
2008	2,879,278
2009	2,694,733
2010	3,107,043
2011	3,468,214

In sum, the tourism sector's place in bilateral economic relation is not seem to be as huge as other sectors, such as trade, energy and investment, in terms of its volume in total economic activities, its importance in reinforcing bilateral relation between two countries has to be considered in analyzing the interdependence characteristics of Turkish-Russian economic relations. Informal ties established by multiple channels are one of the characteristic of the theory which is suggested Keohane and Nye.

²⁰⁴ Source: TC Turizm Bakanlığı Sınır Giriş-Çıkış İstatistikleri Available [online] <http://www.ktbyatirimisletmeler.gov.tr/TR,9854/sinir-giris-cikis-istatistikleri.html> , (29 Ağustos 2012)

CHAPTER FOUR

CONCLUSION

The aim of the thesis was to introduce a political economic explanation to the transformation of contemporary Turkish foreign policy in the context of the complex interdependence theory. As explained in the introductory chapter, recent foreign policy activism and the multi-dimensional approach to foreign policy under the AKP governments based on so called “zero problems with neighbors” has attracted widespread attention by policy makers, journalist and academics in both domestically and internationally. Arguments such as the shift of axis, neo-Ottomanism and the Turkish Model mostly focus on the Islamic ideological factors rather than economic consideration behind Turkey’s recent pro-active foreign policy implementations.

In contrast, it was argued in this thesis that the recent pro-active foreign policy of Turkey and improving relations with the non-Western world is driven by economic consideration rather than Islamic ideology. As a result of increasing integration into the world economy, the appearance of the Anatolian businessman as a new actor in shaping international trade relations through business associations and the diminishing role of security issues in the foreign policy agenda, Turkey has become a ‘trading state’ who has attached more importance to economic issues such as trade, export markets, foreign direct investment, and energy relations.

Turkish economic relations with other states have been mostly characterized by economic interdependence and portrayals the characteristics of the complex interdependence theory. For this reason, the complex interdependence theory which is explained by Robert Keohane and Joseph Nye in their seminal book ‘Power and Interdependence’ was introduced

as a theoretical framework for this study in order to understand changes in traditional Turkish foreign policy on the one hand, and the new Turkish foreign policy on the other.

Accordingly, chapter two presented the definition and analytic concept of complex interdependence theory comprehensively. The characteristics of complex interdependence such as multiple channels, absence of hierarchy among issues and minor role of military force were explained in order to acquire a methodology for investigating Turkey's relations with other states in the political process of economic interdependence.

The final endeavor of the thesis was the examination of the contemporary Turkish-Russian economic relations in the post-Cold War era in accordance with the analytical concepts and characteristics of complex interdependence theory as a case of study. Russia is one of the greatest trade partners of Turkey and the bilateral trade relations between two suffered from an imbalance in trade volume in favour of Russia. In addition, Turkey's high level of dependence on Russian Natural gas has increased and moves her into a vulnerable position in terms of energy security issues. These features of the relationship were explained in accordance with the concept of vulnerability and sensitivity. Moreover, the characteristics of the complex interdependence were highlighted while investigating contemporary Turkish-Russian relations which has been shaped by economic interdependence gradually during the 1990s and finally reached a high level of interdependence by the 2000s.

As explained in the introduction, economic considerations in Turkish foreign policy and adjusting a liberal understanding of foreign policy making process is not a new issue. It was introduced by previous governments. For instance, following the collapse of USSR, Turkey adapted a more assertive and multi-dimensional foreign policy in the post-cold war era under the leadership of Turgut Özal. Even though the early-1990s enthusiasm could not be sustained by state authorities, as the country had to overcome several internal and external

instabilities, economic relations in terms of bilateral trade and energy relations between Turkey and the RF have increased during the 1990s and gained an interdependence characteristic before the 2000s. Indeed, Turkey has been ruled by eleven governments from different ideological background in post-Cold War era until the current AKP government²⁰⁵ and Turkish-Russian relations have been improving without remarkable interruption relevant to the ideologies of political parties in this period. This process has also been maintained by the AKP government, though they have been criticized for improving relations with the Muslim world and shifting away from West ideologically.

Moreover, transformation in contemporary Turkish foreign policy was first introduced by Cem who was the Ministry of Foreign Affair between the years 1997 and 2002.²⁰⁶ This view, was also noted by Meral and Paris with those words "...Previous Turkish governments, especially under the late Foreign Minister Ismail Cem, had also envisioned a more proactive Turkey in the Middle East and the normalization of contentious relations with Armenia, Greece, and Syria..." and thus, "...the Turkish foreign policy transformation began not with the rise of AKP...".²⁰⁷

The fact that changes in foreign policy under AKP government are an extension of previous governments' policy is another proof which makes political economic explanation of transformation in contemporary Turkish foreign policy reasonable. Therefore, consideration of policy makers in order to maximize Turkey's economic interest within region is the driving factor behind the AKP's foreign policy implementation.²⁰⁸ Contemporary Turkish-Russian economic relations which have been shaped by economic interdependence provided us with the best illustration of this economic consideration by policy makers not only under AKP

²⁰⁵ Oran, *Türk Dış Politikası*, p.203-204

²⁰⁶ Oran, *Türk Dış Politikası*, p.204

²⁰⁷ Meral and Paris, *Decoding Turkish Foreign Policy Hyperactivity*, p.78

²⁰⁸ Meral and Paris, *Decoding Turkish Foreign Policy Hyperactivity*, p.85

government but also previous government as well. Such considerations became visible in the two countries' relations before 2000s.

These approaches also highlighted by Erşen with these words: "Turkey's reactions to Russia's second military intervention in Chechenya were much calmer than Western countries reactions", and he pointed out that Turkish Prime Minister Bülent Ecevit's statement saying Turkey viewed the Chechen issue as a domestic problem for Russia, proved that the impact of economic concerns on Turkish Russian relations had already become observable by 1999. It symbolized the desire of Turkish governments to improve her relations with Russia.²⁰⁹

In consequence, the third chapter of the thesis was prepared as a case study, which analyzed the economic interdependence between Turkey and the Russian Federation from the perspective of relations in bilateral trade, energy, investment and tourism. Asymmetrical interdependence in the contemporary Turkish-Russian economic relations was observed in economic relations, especially in its two significant components, namely, trade relations and energy relations. Regarding trade relations, the imbalance of trade volume clearly identifies Turkey as a more vulnerable party of interdependency. Undoubtedly, the high level of Turkish dependency on Russian natural gas is another factor caused imbalances in trade relations between Turkey and the RF. The elasticity of demand for products trading between these countries was appeared a factor that triggered Turkey's vulnerability in interdependence economic relations. Indeed, energy resources' and raw materials' constituting the highest share of Turkish imports from RF had a lower elasticity than the RF's imports from Turkey: manufactured goods such as textiles, chemicals, vehicles and foods.²¹⁰

Therefore, the imbalance in two countries' trade relations has contributed Turkey's dependency to RF in terms of economic relations in the post-soviet era. Trade relations

²⁰⁹Erşen, "Turkish-Russian Relations in the New Century"p. 97

²¹⁰ For detail, see p.49-53

appeared as one of the most important factor that facilitate the existence of cooperation and partnership between Turkey and RF on the one hand, and it also reinforced interdependence characteristics of two countries relations in each aspect of relation such as economic political and security on the other.

Meanwhile, energy relations between Turkey and RF are the most critical issue in terms of asymmetrical dependency of Turkey to the RF. When political and security aspects of energy relations are taken into account, the current dependency of Turkey has a potential to create a huge cost effect in terms of vulnerability and sensitivity. Yet, as mentioned in chapter two, when interdependence occurs in world politics, there must be reciprocal cost effect what would make the relationship costly to break, especially for the more dependent party. (see p.20) More importantly, asymmetrical economic interdependence provides a source of power that would be applied in any bargaining process in order to control outcomes of negotiations to the advantage of the less dependent party (see p.22). Therefore, decreasing the imbalance in trade volume by expanding her exports to the RF, searching for alternative energy providers and diversify energy resources in order to overcome her vulnerability in relations with Russia have become a priority of Turkey's policy makers.

With respect to these realities, Turkey's increasing relations with Russia, as a non-Western county, are driven mostly by economic considerations which have been adopted by previous government and maintained by the AKP government as well. In other words, asserting that the zero problem policy is a strategy sourced by economic consideration would not be wrong, since the economic development of the Turkey and the establishments of economic cooperation are related with obtaining stability within the region. Therefore, Turkey's tendency to normalize and improve her political and economic relations with regional counties, changing her foreign policy behavior in the way of using soft power resources in her relations with other states, improving her relations in peaceful ways with

states which her diplomats traditionally considered hostile, and also introducing herself as a mediator in disputes related with regional issues derive from politic and economic considerations of policy makers. Thus, the contemporary pro-active foreign policy or so-called zero problem with neighbors policy of Turkey has been established in accordance with the economic priorities of the state that have occurred and gradually developed since the beginning of post-soviet era.

As Kirişçi points, the growth of foreign trade has entered the decision making matrix of governments and foreign policy makers. Thus, the zero problem policy with neighbors can be considered as a willingness to find new export markets²¹¹ and acquiring secure and sustainable energy resources. In the case of Turkish-Russian economic relations, not surprisingly, Turkey aims to increase her export to the RF as well as other states and regrets her dependence on Russian energy sources, looking to diversify her sources and energy supplier countries.

These concerns of foreign policy makers seem rational and pragmatic when the current situation in bilateral economic relations between Turkey and RF is considered. Yet, the imbalance in trade volume and the high level of energy dependency of Turkey on Russian natural gas is obvious. To this end, the Turkish desire to have stronger links with Russia does not represent any shifts away from the Western countries...²¹² but demonstrate that "...Turkish foreign policy is increasingly the foreign policy of a trading state seeking markets and economic benefits..."²¹³. Therefore, the zero problem policy with neighbors can be considered as willingness to find new export markets, thus her foreign trade with neighboring countries increased more than six-fold between the years 1995 and 2007.²¹⁴

²¹¹ Kirişçi, "The transformation of Turkish Foreign Policy: The rise of the Trading State", p.49

²¹² Meral and Jonathan Paris, *Decoding Turkish Foreign Policy Hyperactivity*, p.85

²¹³ Kirişçi and Neslihan Kaplanoğlu, *The politics of Trade and Turkish Foreign Policy* p.706

²¹⁴ Kirişçi, "The transformation of Turkish Foreign Policy: The rise of the Trading State" p.49

In addition, as mentioned, the appearance of Anatolian businessmen as new actors in shaping international trade relations through business associations also represents Turkey as a trading state. The role of these non-governmental actors and informal ties in shaping economic interdependence between Turkey and Russia has become evident. Analyses of tourism and investments by Turkish entrepreneurs in Russia, particularly in the construction sector, show how informal ties and non-governmental actors contribute to developments of economic interdependence between Turkey and Russian Federation within the political process of complex interdependence.

In conclusion, political economic perspectives and economic factors have played a significant role in transforming the traditional realist security-orientation of foreign policy of Cold War to current foreign policy activism. Economic interdependence and trading state logic have become a main concern by policy makers in recent Turkish pro-active foreign policy. In terms of Turkish-Russian relations, current imbalance in trade volume and increasing dependence on Russian energy resources have introduced a rational and pragmatic economic consideration. Involvements of business elites in international trade relations has played a significant role in interpreting foreign affairs in line with liberal and multi-dimensional economic considerations. Studies on the political economic explanation of contemporary Turkish foreign policy can assist in analyzing Turkey's relations with other neighboring countries under the "zero problems with neighbors" policy, as there are some indicators making such analyses reasonable.

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