POLITICAL CONDITIONALITY OF ECONOMIC RELATIONS BETWEEN PATERNALIST STATES: TURKEY’S INTERACTION WITH IRAN, IRAQ, AND SYRIA

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INTRODUCTION

IT IS OFTEN ARGUED THAT INTERDEPENDENT economic relations between countries could create a favorable atmosphere to the solution of political problems, thus enhancing peace and security. It has almost become a truism to cite Franco-German relations, and in a wider scale the development of the European Union, as ample examples of this argument. The proof is clearly there: Further interdependence among the western European countries through economic integration led to the emergence of, first, a core ‘zone of peace’, and then gradually a continent-wide “security community.” Along the way, how this integration process started among the European states (the fact that it was almost forced upon them) is conveniently forgotten and the exogenous variables that affected its development over the years are less easily discernable.

Clearly, the European states, before the creation of the rudimentary precursors of the EU back in early 1950s, were not known for their ability of peaceful co-existence. Nor were they noted for their ability in conflict management/resolution. However, it does not automatically follow that the emergence of an economic community and integration brought peaceful qualities to the “old continent.” It is without doubt that economic interdependence, after a certain level of interaction between member states, has enhanced peaceful ways of problem solving.

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Even though the economic factors and cooperation within the EU have attained prominence vis-à-vis politics, involving "negotiations" and "bargaining" (economic terminology) rather than "threats" and "warnings" (political terminology), it was clearly "high political" concerns that forced Germany and France (the core and motor of European integration) in the first place to cooperate on their coal and steel production. This is not to argue that today's EU moves with the same considerations as Europe had done 50 years ago. While today's EU has become too "complex" and overly "interdependent" to be governed simply by political considerations, it is clear, as argued by the neo-functionalists, that the decision to embark on this road was taken by the political elites with emphasis on the political. It has become increasingly commonplace after the initial political impetus that further trade and economic cooperation eased the way for further political rapprochement and integration. Nevertheless, it was the original political (not economic) willingness that had opened the way for political (and economic) cooperation.

In an age where the merits of "globalization" and its companion "regionalization" are much cherished and seen as ultimate cures for "old" style political problems associated with the "high politics" of the realist paradigm of a bygone era, it is difficult (or at least problematic) to assert the primacy of politics over economics. What is more difficult in today's increasingly interdependent world is to find proofs of clearly politically driven economic relations. Nevertheless, the argument of this article is that in the proto-capitalist states with authoritarian regimes (incidentally both go hand in hand), it is political logic that determines economic activity. Similarly, economic relations between such states or with such states are also primarily determined by the political perceptions of the ruling elite in a given country and the nature of the political relations with such a country (exogenous variable) where the "greater good for the greater number" does not necessarily become a factor that determines policy.

In any political system, economic needs and pressures have important bearing on the formulation and substance of foreign policy, though the extent and nature of this influence varies between parliamentary democracies, guided democracies, authoritarian governments, and totalitarian regimes. At another level, history shows that choices between economic systems for a country or development strategies pursued by governments, generally reflect a given country's political system and the perceptions and aspirations of its elites about their country's rightful place in the world. The connection between foreign policy and the economy is clearly important for bilateral relations between countries, economic systems and blocs. Disagreements on the economic front can cause political tension and problems, while political tension between states would also result in creating unfavorable situations for bilateral economic relations and for world trade in general.

In this context, this article presupposes that the nature of political ties between states has primacy in the Middle East in determining the course of economic relations. The main reason for this is to be found in the authoritarian character of most of the existing regimes in the region. In such an environment,
even market-oriented democratic (or quasi-democratic) countries have to accept the primacy of political-strategic relations when dealing with such states. This study aims to demonstrate the primacy of political relations in determining the level of economic interaction by examining the interrelated fluctuation of trade and political tensions between Turkey and its immediate Middle Eastern neighbors - Iran, Iraq, and Syria.

Accordingly, this article first focuses on the political determinants, which affect the trade links between Turkey, on one hand and Iran, Iraq, Syria on another, and then examines the trade relations between them. In relation to the political determinants, the article also discusses the role of the US as an independent variable in determining the ties among the countries of the region. Finally, possible effects of the recent emergence of the proto-Islamist Justice and Development Party (Adalet ve Kalkınma Partisi - AKP) government in Turkey after the November 2002 elections on the country’s political and economic relations with its Middle Eastern neighbors will also be discussed.

THE POLITICAL ECONOMY OF TURKEY’S RELATIONS WITH THE MIDDLE EASTERN STATES

On 24 January 1980, Turkey opted for an export-led growth policy over its long favored import-substitution policy. This decision ended the state-protectionist policies and the Turkish economy was open to integration with the global market. The decision was taken after lengthy debates about Turkey’s future political and economic place in the world, especially its connection with the West. Thus, the final move to adopt the 24 January austerity measures that the International Monetary Fund and the World Bank were asking for was a result of political considerations as much as economic necessities.

Whatever the main reason behind Turkey’s move towards a market economy, once implemented, it placed a certain set of demands on Turkish foreign policy. In addition to domestic measures, the economic strategy of the “January 24th Decisions” called for greater reliance on foreign trade, international borrowing and direct foreign investment. Consequently, Turkey’s economic targets became heavily connected with international economic developments and with other states’ willingness to buy Turkish products, to lend money to or invest in Turkey.

One of the tools of the new economic strategy was to improve the country’s export-import balance. However, unfavorable international economic conditions for export expansion (for example, rising protectionism in world trade and hints of international trade wars) were causing tensions with Turkey’s traditional trade partners, the European states. Moreover, Turkish-European economic relations were also affected by the political problems during the military regime in Turkey. A decline in the volume of trade and postponement of economic aid were the consequences of, among other things, continuing political tension between Turkey and Western Europe. In contrast to this,
Turkey’s export markets rapidly grew during the early 1980s throughout the Middle East and North Africa. This development was a result of not only expansion in the markets of oil-exporting countries but also Turkey’s renewed political efforts in the region because of its political isolation in the West. The net result was that by 1982, the Middle East and North Africa replaced Europe as Turkey’s main trading outlet and Iraq displaced West Germany as its main trading partner.11

Turkey’s neutrality in the war between Iran and Iraq helped to increase its commercial links with both countries. Bilateral trade with Iran, for example, grew to $2.3 billion in 1983-1984 and continued to rise, reflecting an interdependence that was not easily reversed. This interdependence caused occasional strains in the foreign ministry’s attempts to balance Turkey’s security concerns with its economic gains. In return for increasing export markets, Turkey had to tolerate the growth of a large Iranian exile community (upwards of half-a-million) and the occasional lapses of Iranian officials who sought to promote Islamic perceptions in their host’s secular system.12

During the war, both Iran and Iraq depended heavily on Turkey as the only secure transit route, which allowed Turkey to capture a major share of the rapidly expanding transit market of the region.13 Moreover, the war, which also created an important market for Turkish manufactured goods in the two belligerent countries, became the predominant source of expansion for exports to the Middle East. Iran and Iraq’s combined share in total Turkish exports increased from 5.5% in 1980 to 26% in 1985, but eventually declined to 15% in 1986 as a result of falling oil prices. Although it is difficult to assess the precise effect each factor had on any country’s export performance, Rodrik calculated that $1.9 billion or 42% worth of total Turkish exports between 1979 and 1984 were due to the Iran-Iraq war and other non-economic (political) changes after 1981.14 His calculations, rough as they are, highlight the critical role played by political factors.

If part of the explanation for favorable export performance during the 1980s was due to Turkey’s increasing exploitation of the market possibilities in the Middle East and North Africa, it follows then, that one of the main aims of Turkish foreign policy during that period was to preserve those markets. Turkey’s “active neutrality” during the Iran-Iraq war derived, as much from security concerns as from the fact that both countries counted among Turkey’s largest trade partners.

However, this favorable situation has undergone major changes after 1985, when the recession hit the Middle East. Further declines in oil revenues after 1985 meant a slowdown in new construction projects and a decline of Turkish exports to the region by over 20% in 1986. Iran and Iraq were the most important markets to suffer from the contraction due to falling oil prices.15 Earlier concentration of Turkish exports to these countries meant that Turkey, as a major supplier, suffered the consequences of cutbacks in regional imports more severely than most other exporters. Anxious to maintain trading links with both countries, and aware of the huge potential for reconstruction work once the war was over, Turkish authorities allowed both countries to accumulate payment
arrears with Turkish suppliers and further agreed to extend $1 billion in export financing credit to Iraq. However, the outbreak of the Gulf War in the aftermath of the cease-fire between Iran and Iraq prevented Turkey from gaining advantageous contracts.

On the contrary, the declaration of UN economic sanctions on Iraq after its attempt to occupy Kuwait in August 1990 further diminished Turkish exports to the Middle East. Even before the invasion of Kuwait, Turkey’s political relations with Iraq had become tense over the latter’s vocal criticism of Turkey’s water sharing policies, Iraq’s outspoken role in organizing a pan-Arab front against Turkey’s Southeastern Anatolia Project (GAP), and Saddam Hussein’s insinuations just before the Gulf War that he could turn his attention to water disputes with Turkey. Moreover, Hussein’s attacks on Iraqi Kurds after the cease-fire agreement with Iran, which caused widespread refugee movements into Turkey, had put strains both on the Turkish economy and Turkish-Iraqi relations.

Other political concerns, such as the water sharing dispute with Syria and its support of the Kurdistan Workers’ Party (PKK); Iran’s support of the PKK and Islamic fundamentalists in Turkey; and Turkey’s developing security cooperation with Israel, adversely affected its trade links with the region. As political relations became increasingly marred with tensions, economic relations also ebbed.

As bilateral political relations between Turkey and its Middle Eastern neighbors significantly improved towards the end of the 1990s, so did their bilateral economic ties. After the showdown between Turkey and Syria in 1997 due to the latter’s support for the PKK, which culminated in Turkey warning Syria to halt its support or face the (military) consequences, Syria stepped back and on 20 October, 1998 signed an agreement in Adana that brought a new hope for better ties. Subsequently, the capture of Abdullah Ocalan, the head of the PKK, in February 1999 in Nairobi, Kenya, contributed substantially to the improvement of political relations with Syria. By 2002, as a result of eight meetings on security and co-operation between high level civil and military officials, since the Adana Accords, not only political relations but also economic ties between the two countries have improved. After Hafez al-Assad’s death in June 2000, his son and successor Bashar took a constructive approach towards Turkey. That approach led to a better understanding between the two countries on water disputes, to an agreement on open borders during religious holidays and to better conditions for trade relations.

After nearly six years of standstill, Turkey and Iran decided on January 27-29, 1985, to revive the Regional Cooperation and Development (RCD) organization and rename it the Economic Cooperation Organization (ECO). The decision of Turkey and Iran to work together to promote cooperation in various fields (the economy, industry, agriculture, science, education and culture) for the well-being and prosperity of their peoples, was due more to political considerations than economic expectations. It was mainly Iran’s attempt to
reduce its isolation in the Islamic world, resulting from its war with Iraq. On 16 February 1992, the ECO was eventually reinvigorated with the admittance of five Central Asian Republics to membership.\(^{21}\) However, Turkish-Iranian rivalry, which had emerged in the region as both countries attempted to fill the vacuum created by the collapse of the Soviet Union, did not allow the organization to flourish further. In addition, Iran's perceived support of the PKK and radical Islamic groups, such as Turkey's Hizbullah, throughout the 1990s have curtailed improvement of political relations and conditioned economic cooperation between the two countries.\(^{22}\) Nevertheless, the election of moderate Muhammed Khatemi as the president of Iran in May 1997 and his re-election in June 2001, and the capture of Ocalan have prepared the political atmosphere between Ankara and Tehran for improved economic relations.

Ambiguity and discomfort in Ankara about its shattered relations with Baghdad after the Gulf War continued as the US administration showed its determination to isolate Saddam Hussein's regime internationally, putting pressure on Turkey not to normalize its relations with Baghdad despite the accumulating costs to Turkey as a result of UN sanctions.\(^{23}\) Consequently, despite Turkey's continuing alliance with Washington on regional affairs, Turkish leaders started to consider in late 1990s to advance economic ties between Turkey and its Middle Eastern neighbors as a prelude to improve political relations. Finally, at the beginning of 2002, the National Security Council (NSC) declared its desire to see Turkey improve its relations with neighboring countries through trade, as "external relations develop along with the improved trade ties."\(^{24}\) The NSC's declaration also signalled the military's support for the initiative. It was the military, in effect, that actively oversaw the development of bilateral relations with Syria after the Adana Accords through the appointment of General Aytac Yalman, Commander of the Gendarmerie Forces, as the coordinating officer.\(^{25}\) The military's initial desire to improve Turkey's relations with its Middle Eastern neighbors for security reasons coincided with the willingness of the new coalition government under the premiership of Bulent Ecevit to have better political relations. In the government's eagerness to improve political relations with Turkey's southern neighbors, an important part was played by the widespread annoyance over economic losses incurred as a result of difficult political relations with Syria and Iran as a result of US policies and because of the US-led UN sanctions on Iraq. Later on, when a new government, comprising moderate Muslim elements, came to power after November 2002, one of the declared priorities of the AKP leadership in Turkey's foreign relations was to strengthen the country's relations with all its neighbors, especially the Middle Eastern countries. In this context, the new Foreign Minister Abdullah Gul emphasized the importance of establishing better economic and political relations with Syria and Iran to improve peace and stability in the region.\(^{26}\)

The State Minister responsible for Foreign Trade Undersecretary, Kursad Tuzmen, also emphasized several times the importance of better trade relations with Turkey's neighbors. He publicly complained that Turkey's commercial exchanges with Iraq, Iran, and Syria represented a mere 8 percent of
its foreign trade and declared Ankara’s commitment to boost economic relations with its immediate neighbours. The connection between political and economic relations in Turkey’s new approach toward its southern neighbours were clearly articulated by the Interior Minister Abdulkadir Aksu in March 2003. After a meeting with the Syrian Political Security Department Chairman, General Gazi Muhammed Kenan who was attending the Turkish-Syrian Security Cooperation Meeting in Ankara, Aksu announced that “the political dialogue between the countries also prepare a suitable means for improving economic cooperation.”

POLITICAL CIRCUMSTANCES OF TURKEY’S ECONOMIC RELATIONS WITH IRAQ

As a result of the sanctions on Iraq after the end of the Gulf War, Turkey suffered a great loss. The effects of the sanctions have not only included a slowdown in trade but also a downturn in tourism. In addition, Turkey’s losses due to the influx of Iraqi refugees and the halt of oil flow from the Kerkuk-Yumurtalik pipeline are difficult to calculate. Moreover, the effects of the UN embargo on Iraq were more heavily felt in south eastern Turkey where the economy depended on trade with Iraq and where the PKK had been active. Those facts made the termination of the sanctions all the more important to Turkey for both economic and political reasons. As frustration grew as a result of the continuation of sanctions, Turkish officials became more vocal in their criticism and started to question the utility of UN sanctions on Iraq. Although former President Turgut Ozal faithfully followed the US lead in the Gulf War, the perception gradually changed as Turkey could not capitalize on the ending of the war and missed the chance to further its relations with its neighbors because of continuing US pressure not to do so. While Turkey’s close cooperation with the US did not produce expected benefits, the sanctions became even more of an irritation, harming Turkey’s interests in an ever-growing circle. As a result, as early as December 1992, Bulent Ecevit, the Democratic Left Party (DSP) chairman, held talks with Iraqi leaders in Baghdad to revive bilateral relations. In April 1993, Ankara re-established diplomatic relations with Baghdad at the level of chargé d'affaires, and numerous exchanges of official and unofficial delegations between the two countries took place over the next three years.

During a visit to the US in October 1993, the then Prime Minister Tansu Ciller pressed hard for the Iraqi oil pipelines to be re-opened, and direct negotiations on this issue were held between Ankara and Baghdad in late 1993 and early 1994. Despite Turkey’s unsuccessful attempts, Ankara’s interest in normalizing trade relations with Iraq continued. A visit by a group of influential Turkish businessmen in the summer of 1995, was followed by the signature of an official protocol outlining measures to further facilitate bilateral trade. However, Turkey’s endeavors in the international political platforms, welcomed and encouraged by the Iraqi government, were not able to overturn the US
position toward sanctions. Nevertheless, Turkish grievances and efforts were at least partly instrumental in softening the sanctions. The former Foreign Minister Ismail Cem’s meeting with the UN Secretary-General Kofi Annan and Bulent Ecevit’s attempts during the OSCE Istanbul Summit in November 1999, as well as the Undersecretary of the Ministry of Foreign Affairs, Faruk Logoglu’s visit to Iraq over the status of the UN sanctions in May 2001, led to the removal of Iraq’s oil export quotas through SCR-1254.

As a result, Turkey began to subtly distance itself from America’s Iraqi policy. Even though Turkey continued to allow US warplanes to operate against Iraq from its Incirlik air base as part of Operation Northern Watch, Turkish officials started to candidly express their misgivings. In the meantime, a modus operandi emerged between Turkey and the US vis-à-vis their cooperation against the Iraqi regime. In exchange for Turkey’s compliance with the US-led sanctions in general, the latter overlooked the large quantities of oil smuggled through the Habur border crossing by Turkish lorries from Iraq. Moreover, the imposition of UN sanctions did not totally end the traffic across the Turkish-Iraqi border, and limited deliveries of food, medicine, and construction material continued with UN compliance, in return for Iraqi deliveries of diesel fuel by trucks. The illegal diesel trade through Iran, Jordan and Turkey allowed the Iraqi people to breathe and significantly maintained border trade between those countries. Solely as a result of the registered diesel brought into Turkey from Iraq under the ‘border trade’ arrangement, Turkey obtained about $19 million only in December 1999. However, these legal and illegal movements of goods across the borders were not able to prevent the decay of a fleet of more than 40 thousand Turkish trucks lying idle in south eastern Turkey where they had provided considerable employment to local Kurds.

While Turkey was trying to persuade the US about the removal of the sanctions, it was also preparing the infrastructure (fixing the twin pipeline, etc.) to further develop its relations with Iraq. After easing the sanction rules in December 1999, a Turkish plane carried medical equipment to Baghdad on 9 October 2000. A few days later, Turkish doctors and more medical supplies were sent to Iraq. Although the flights were authorized by the UN Sanctions Committee, the Turkish press was keen to underline the government’s announcement that it intended to upgrade diplomatic relations with Baghdad by sending an ambassador there. The timing of the announcement clearly indicated other concerns than simply improving relations with Iraq. Although the Turkish government had been taking initiatives to normalize diplomatic and economic relations with Baghdad for some time and the decision to appoint an ambassador was reached some three months earlier, the dispute with the US over the pro-Armenian resolution in the US House of Representatives hastened the change of Turkish policy toward Iraq. With the ease in the sanctions, Turkey’s export increased by 58% in the first 8 months of 2000 reaching $246 million, compared to $164 million worth of exports in the first 8 months of 1999. Despite a few setbacks, Iraq and Turkey almost reached pre-1991 Gulf War levels in their bilateral trade in April 2000; most of this trade was
conducted under the terms of Iraq’s UN-supervised oil-for-food deal, though some illegal cross border trade continued.44

In order to create stronger trade connections, Turkey also made important attempts to solve the problem of Iraqi debts to Turkish businessmen. Within the framework of the debt payment plan agreed to by Turkey and Iraq in May 1999, crude oil from Iraq started to flow to Turkey on June 1, 1999. Revenues from the oil allowed 49 Turkish firms to be compensated a total of $81 million.45 Resolution of this problem relieved Turkish companies and encouraged new business connections with Iraqi businessmen. As a result, the Turkish-Iraqi Joint Economic Commission’s Baghdad meeting in February 2000 attracted as many as 90 Turkish companies and 100 businessmen, signing $220 million worth of contracts.46 Turkey was also represented with 96 companies and the State Minister Tunca Toskay in the 33rd International Baghdad Exposition in October 2000.47 In August 2001, Iraqi Minister of Oil Amr Rashid visited Ankara for Joint Economic Commission meeting and met Turkish businessmen.48 Immediately after, in September 2001, Undersecretary for Foreign Trade, Kursad Tuzmen went to Iraq with a delegation of 200 representatives from various companies to establish new business contacts for Turkish firms.49

Turkey’s efforts to utilize the post-sanction period in Iraq also expanded into the oil and natural gas sectors. While negotiations to build a natural gas pipeline between Turkey and Iraq started, officials from the state energy companies (Turkish Petroleum Cooperation — TPAO and Pipeline Transportation Corporation — BOTAS) as well as the private company, Tekfen, established contacts with Iraqi officials in order to initiate various natural gas projects immediately following the end of the sanctions.50 Finally, Iraqi Minister of Oil Amr Rashid confirmed in July 2001 that Iraq had agreed to transfer natural gas to the southern territories of Turkey and construct a pipeline for this after the end of the UN sanctions on Iraq.51 Another positive development in the energy area took place when the Turkish Petroleum International Company (TPIC), a TPAO affiliate, won a bid from the Iraqi government in November 2000 to open and operate 20 oil wells in northern Iraq.52

Turkey also prepared the necessary infrastructure for the development of normal trade between the two countries. In late October 2000, during State Minister Tunca Toskay’s visit to Iraq, an agreement was signed to re-start the operation of the Turkey-Baghdad railway, which had been closed for 20 years.53 Subsequently, in late 2000, the Baghdad railway was reopened to freight and passenger transport.54 During Toskay’s meetings with Iraqi officials, the plan for opening a second border gate between the two countries, about 10 kilometers south of Habur, was also discussed because of the high volume of trade.55 It was expected that Turkey would increase its trade volume and be among the three leading exporting countries to Iraq.56

While Turkish-Iraqi relations were improving quickly and the Turkish decision makers and businessmen were expecting the end of the sanctions, the
September 11 attacks and the US invasion of Iraq complicated Turkey’s political and consequently, economic relations with Iraq.\textsuperscript{57} The first sign that Turkey’s relations with Iraq would not be the same came immediately after the September 11 attacks in Washington and New York: The border trade with Iraq was completely halted on 18 September 2001 leading to significant income losses for the region.\textsuperscript{58}

Even in the early months of 2003, when Turkey’s most important ally, the US, started to talk about the possibility of going to war against Iraq, the government carried on its agenda to solidify its relations with Iraq. In mid-January, the State Minister Kursad Tuzmen visited Baghdad with 350 Turkish businessmen to strengthen business contacts.\textsuperscript{59} Such an initiative was also a sign of a strong opposition in Turkey against the expected US invasion of Iraq. Although Turkish-American relations hit rock bottom when on 1 March 2003 the Turkish Parliament refused to allow the US to mount an attack from Turkish territory against Iraq, Turkish-Iraqi trade figures, after a brief period of decline, continued to improve in the aftermath of the US occupation. However, the continuing political chaos in Iraq severely restricted operations of the Turkish firms in this country.

Nevertheless, in accordance with Security Council resolution 1483 of 22 May 2003, $756 million (of $850 million) worth of contracts signed by the Turkish firms, were included in the Priority Goods List of the UN.\textsuperscript{60} Another significant step for Turkish-Iraqi trade relations was the start of the oil flow from the Kirkuk-Yumurtalik pipeline in August 2003.\textsuperscript{61} Further, on November 20, 2003, during Jalal Talabani’s (head of the Iraqi interim government) visit to Ankara, the State Minister, Kursad Tuzmen, mentioned in the same conversation both the importance of the Iraqi government’s cooperation against the PKK and his government’s enthusiasm to re-construct Iraqi infrastructure. In response, Talabani announced his government’s condemnation of any sort of terrorist activities in Iraq and promised to guarantee the security of the Turkish truck drivers and businessmen.\textsuperscript{62} Finally, a protocol was signed in early December 2003 between the two countries, agreeing to start meetings to open the second gate; to set regular meetings once a week to solve the problems in the border gates and to set a red telephone line between the two border authorities. The two countries also agreed to increase the number of officials at the border gates and the number of trucks passing through the gates; to open the Nusaybin-Kamisli-Musul railway to full usage; and to organize the Turkish-Iraqi Joint Economic Commission meeting in Ankara in April 2004.\textsuperscript{63}

**POLITICAL PREREQUISITES OF TURKEY’S ECONOMIC RELATIONS WITH IRAN**

As mentioned earlier, trade between Turkey and Iran peaked during the Iran-Iraq War since both belligerents turned increasingly to Turkey to satisfy their import needs. Turkey’s proximity made its goods easier and faster to sell and transport. By 1983, not only Turkey’s exports to Iran reached a record level, 25 times what it had been during the last year of the Shah’s reign, but also Iran
became one of the most important trade partners of Turkey. Thus, when the US froze Iran’s assets and imposed a trade embargo on the Islamic Republic of Iran as a result of the hostage crisis, Turkey refused to support sanctions and expanded profitable economic ties with Iran.

However, the initial commercial and financial benefits that Turkey derived from the Iran-Iraq War were not steady and slowly eroded as both countries had to curtail their imports as the long war sapped their foreign exchange reserves. Unfavorable oil prices after 1985 played a role in the revenue decline. Moreover, after the two countries agreed on a final cease-fire in August 1988, Iran gradually revived its traditional trade routes, resulting in a decreased Turkish-Iranian trade. Thus, while the volume of Turkey’s exports to Iran was $1,078 million and its imports $1,264 million in 1985, the corresponding figures for 1992 were $455,2 thousand and $364,8 thousand.

Moreover, the brief Turkish-Iranian competition over influence in Central Asia and the Caucasus also effected the trade relations between the two countries. Efforts to present the “Turkish” and “Iranian” development models to the new states and their perceived diametrically opposite strategic interests, inevitably created a rivalry between Tehran and Ankara. The realization, however, that neither country possessed enough political-economic clout to establish an exclusive influence zone in Central Asia and the Caucasus allowed the two countries since 1995 to concentrate on improving their bilateral economic relations.

The softening of Iranian revolutionary rhetoric after Khomeini’s death in June 1989 allowed both countries to experiment with a more pragmatic approach in their relations. Muhammed Khatemi’s election in 1999 as Iranian President, his re-election in 2001, Abdullah Ocalan’s capture in 1999 and the destruction of Turkish Hezbollah by the Turkish security forces in 2000 were among the positive developments that removed the obstacles in front of reviving bilateral political relations between Turkey and Iran.

One of the signs that political relations between the two countries were finally moving in the right direction was the Turkish acceptance, after much hesitation and soul searching, of buying Iranian natural gas to meet growing local demand in eastern Turkey. After lengthy negotiations, the gas supply agreement with Iran, amounting to 228 billion cubic meters of Iranian natural gas worth $23 billion over a 25 year period, was finally signed by Prime Minister Necmettin Erbakan in August 1996. Unfortunately, the agreement was signed only a few days after US President Clinton’s approval of the Iran-Libya Sanctions Act (ILSA) in August 1996. Despite Washington’s dislike and active opposition, Turkey insisted that ILSA allowed trade (as opposed to “investment”) with Iran, and also the Turkish-Iranian gas deal should be exempted from the sanctions since it was agreed to in May 1995, before the approval of the new bill.

Turkey’s cooperation in the energy field and talks on security and defence cooperation with Iran during President Rafsanjani’s visit to Ankara in
1996, made the Clinton Administration express its displeasure and made it clear to Turkey that any defense cooperation with Iran would not be welcomed. In addition, Washington claimed that as a NATO ally, Turkey's efforts to improve military relations with a country that was developing weapons of mass destruction was unusual and asked Ankara to stop developing such relations with Tehran. Nevertheless, Turkey finally overcame American opposition to the Turkish-Iranian natural gas connection and began buying Iranian natural gas as of July 30, 2001. Despite disagreements and tensions regarding the quality of the construction of the measuring centre by the Iranians, the pumping of Iranian natural gas to Turkey started on 11 December 2001, signalling a new period of economic and political relations between the two countries.

Improved political relations between Turkey and Iran were followed by improvements in economic relations. The Turkish Undersecretary of Foreign Trade Kursad Tuzmen visited Iran with 120 businessmen in May 2000. His meetings with Iranian officials covered various issues including the establishment of a Turkish-Iranian Business Committee, the cracking down on the illegal fuel oil trade that resulted in annual tax losses of $1.5 billion, and the proposition of the Iranian authorities to turn the Economic Cooperation Organization (ECO) into a common market. The Turkish-Iranian Business Council was established on November 6, 2001, and its first meeting took place in Tehran during Turkish President Necdet Sezer's visit in June 2002. The Council held its second meeting in Istanbul in June 2003 and the "Iranian week" event was organized at that time. In October 2003, the State Minister Kursad Tuzmen visited Tehran with 300 businessmen, who managed to sign $200 million worth of contracts with their Iranian counterparts. Iran promised to reduce all the customs and taxes on Turkish goods to around 4 percent within five years, beginning in 2004. The two sides also agreed to set up new border trade centres.

Meanwhile, discussions about the quality and price of natural gas deliveries to Turkey continued throughout 2002-2003. The new AKP government was intent on re-negotiating earlier agreement, and finally a delegation was sent to Tehran in December 2003 for consultations on decreasing natural gas prices. The Turkish move to stop buying gas altogether paid off and Iran finally agreed to decrease the prices.

Despite unsolved issues, recent developments prove that Tehran and Ankara have been striving to establish better relations. The Turkish President Necdet Sezer's visit to Tehran in mid June 2003 showed that the parties could sit and discuss their concerns.

POLITICAL TENSIONS AND TURKEY'S ECONOMIC RELATIONS WITH SYRIA

Political problems between Turkey and Syria had badly affected trade relations between them. Although the two countries had signed six cooperation agreements in various fields from 1947 to 1987, tension in political relations severely restricted economic relations. However, in 1998 the two countries
signed the Adana Accord after nearly averting a war over Syria’s support of the PKK. While Abdullah Ocalan’s expulsion from Syria opened the way for the development of better relations between the two countries, the real turning point was the Adana Accord. In keeping with the Accord, a monitoring system was activated, security officials from the two countries meet regularly, and two Turkish security specialists have taken up posts in Damascus.80

After Bashar Assad succeeded his father Hafez to the Presidency in June 2000, Syria’s relations with Turkey improved even more. The better atmosphere in political relations was soon reflected in the trade volume between the two countries, which reached $724.7 million in 2000, up from $539.2 million in 1999, making Turkey the fourth largest trading partner of Syria.81 To facilitate increased trade, a Turkish-Syrian cooperation protocol in transportation went into effect in mid-July 1999, envisaging bilateral cooperation in the joint development of railways, shipping and airway transportation.82

After a 1999 visit to Turkey by a delegation headed by an aide to Syrian Prime Minister, Salim Yassin,83 the two countries decided to reactivate the Joint Economic Commission, which had been inactive since 1988. It met in May 2000 in Damascus where a memorandum of understanding (MOU) was signed. In harmony with the trade agreement signed in 1974, the MOU stipulated that the Joint Economic Commission would start working; a special council would be established to allow Syrian and Turkish businessmen to exchange opinions; relations and contacts between chambers of commerce of the two countries would be increased; and agreements on the protection of reciprocal investments and on the prevention of double taxation would be signed.84 During the visit, businessmen representing 100 Turkish companies established agreements with their Syrian counterparts valued at $400 million. At the end of the visit, on May 8, 2000, the Turkish Export Products Fair (“Made in Turkey 2000”) was opened in Damascus to promote Turkish products to Syrian businessmen and to the Gulf States.85 Meanwhile, regular train connections between Turkey and Syria that were discontinued in 1993 were re-established in early 2001.86

Following the Joint Economic Commission meeting, the Foreign Economic Relations Council (DEIK) started working on the establishment of common business councils with Syria. In June 2001, the first meeting of the Turkish-Syrian Business Council was held in Istanbul. At the meeting, State Minister Recep Onal and Al Imadi, the Syrian Minister of Economics and Foreign Trade, signed the Business Council Establishment Agreement.87 The Syrian Minister emphasized his government’s willingness to reach the highest level of cooperation with Turkey. The growing cooperation between the two countries was further reflected in the proposal of the Head of the Trade Chamber of Damascus, Rateb Shallah, that Turkey could benefit from Syrian free trade agreements with its neighbours by establishing joint investments with Syrian companies and export products to Arab countries duty free.88
Syria’s decision to embark on new structural reforms for its economy and new investment projects in industry, oil and other natural resources, agriculture, and tourism have provided new opportunities for Turkish companies. In November 2000, a delegation of Turkish businessmen from Iskenderun visited Damascus and Aleppo, which introduced Turkish companies to Syrian businesses. In December 2000, Syria’s Ambassador, Mohammed Said Al Bunni invited Turkish companies to invest in new projects contemplated by the Syrian government. In May 2001, he reiterated his government’s wish to see Turkish companies participate in new projects, and announced that in order to make proceedings easier for Turkish companies, the Syrian government was making necessary preparations for the removal of visa requirements. Al Bunni also underlined the increase in foreign trade volume from $400 million to $1 billion in 2001 adding that the two countries have the potential to increase it even further.

Syria has also signed agreements with Jordan and Egypt in order to bring Egyptian natural gas to Turkey, and the Syrian Energy Minister officially conveyed this deal to Turkey. Syria has 225 billion cubic meters of natural gas reserves, which are only 250-300 kilometres away from Antep-GAP and Adana-Iskenderun regions of Turkey. Thus, building a pipeline linking Syrian reserves to Turkish southeast would be an efficient way to meet the needs of the region. As a result, in May 2001, the Syrian Ambassador to Ankara stated that BOTAS and the Syrian Ministry of Energy would cooperate in oil and natural gas research. According to the planned project, Syrian natural gas would be carried to Turkey and distributed from Turkey to the European markets, while the natural gas pipeline coming from Egypt via Jordan would also join the pipeline from Syria. The Ambassador also mentioned Syria’s plans to link electricity grids between Egypt, Lebanon, Jordan, Syria, Turkey and Iraq.

Meanwhile, Turkey has sought to further develop political relations through “Declaration of Principles,” which constituted a set of demands from Turkey, including Damascus’ abandonment of its claims over Hatay. Syria has hesitated to sign the declaration, indicating that it prefers to establish good relations first, and then solve outstanding political problems over time. Turkey appears to have found this approach acceptable. The visit of the Syrian Army Chief of Staff, General Hassan Turkmani, to Ankara in June 2002 and the signing of a military training and cooperation framework agreement between the two countries show how far the bilateral relations can go. According to the agreement, Syrian officers will benefit from Turkish Armed Forces’ military training institutions.

Meanwhile, as the US invasion of Iraq was imminent, Turkey and Syria tried to find a way to avert it. As part of his Middle East tour, the then Prime Minister (now Minister of Foreign Affairs) Abdullah Gul went to Damascus on January 4, 2003 to assess the developments in the region with the Syrian leaders. On January 31, 2003, State Minister Kursad Tuzmen visited Damascus and spoke about the possibility of establishing a free trade zone with Syria. His visit, immediately following a similar visit to Baghdad, showed the
intensity of the diplomacy between Ankara and the capitals of regional states and Ankara's last minute attempts to avert a war in the region.\textsuperscript{97}

Although US pressure on Turkey to be wary about its relations with Syria has increased since its invasion of Iraq, Ankara has seemed determined to continue to improve its political relations with Syria. Ankara is hopeful that a peace agreement between Israel, the Palestinian Authority and Syria would open up greater economic opportunities for Turkish trade and business ventures, especially for its construction companies in Syria, Lebanon, the West Bank and Gaza.\textsuperscript{98} Finally, a visit by the Syrian Prime Minister, Mustafa Miro, to Ankara in July 2003, the first in 17 years, to discuss the water sharing problem between the two countries was a significant step that is bound to promote more trade.\textsuperscript{99}

CONCLUSION

The recently improved political atmosphere between Turkey and its Middle Eastern neighbors have resulted in more trade. Turkey has initiated many projects and established institutional contacts with its three immediate Middle Eastern neighbors because of improved political relations since 1988. The rise of the AKP to power in Turkey after the November 2002 elections has generally been considered more conducive to better relations with these countries. As a result, despite the Iraq War in March 2003 and strains in Turkish-American relations due to Turkish policies towards Iran, Syria and Iraq, Ankara has continued to strengthen its political and economic bonds with its immediate Middle Eastern neighbours.

Despite the positive reciprocal attempts since the late 1990s for further economic cooperation and closer political relations, it is imperative that these countries find solutions to their deep-rooted and long-standing political problems in order to establish more economic relations. The uncertain future of Iraq and the status of the Kurds in it, the asymmetric roles of religion in political life in Turkey and Iran, the latter's ambiguous position towards Turkey's Kurds, the issue of the Hatay region, and the water disputes, still color Turkey's political relations with its Middle Eastern neighbors. Consequently, economic relations are adversely affected.

In addition to the need of solving bilateral issues, the US approach towards Iraq, Iran and Syria also plays a significant role in the formation of Turkish policies (political as well as economic) towards its Middle Eastern neighbors. Developments after September 11, have put tremendous pressure on the Turkish government in its effort to find a balance between its alliance with the US, on the one hand and the desire to pacify its Middle Eastern borders and increase economic and political cooperation with its neighbors in the region.

Although Turkey was not happy with the Saddam regime in Iraq, it preferred the status quo lest any change destabilize the fragile balances of the Middle East. In the end, the refusal of the Turkish Parliament in March 2003 to allow deployment of American forces in Turkey led to the biggest crisis in
Turkish-American relations since the 1970s. Turkey’s efforts to develop its relations with Iran and Syria, which were labelled “rogue states” and “axes of evil” by Washington, also increased the tension in Turkish-American relations. Ankara warned in early April 2003 that accusations by the US Secretary of State Colin Powell against Iran and Syria might create an image of a clash of civilizations. Those accusations were followed by a statement from Robert Wexler, a member of the US House of Representatives, during his visit to Ankara, that the US was shocked to witness Turkey’s close relations with Iran and Syria while the Iraq war was continuing and that they were anxious about whether Turkey was shifting its position. While Ankara reiterated that Turkey had the right to establish friendly relations with those states, former advisor to US President Bush, Richard Perle, accused the AKP government of damaging Turkish-US relations and argued that the future of Turkish-American relations depended on Ankara’s cooperation with Washington regarding Iran and Syria. This coupling of Turkish-American relations with Turkey’s response to US demands on its Middle Eastern neighbors are bound to create further strains on Turkey’s relations (both political and economic) with Iran, Syria and Iraq.

However, improved political relations and regional cooperation with Syria, Iran and Iraq in trade is important for Turkey. Such collaboration will not only increase the prosperity of the states involved, but will also contribute to the stabilization of the region. Even though there has not been a “trade boom” between Turkey and those countries, there has been a significant gradual rise in trade proportionate to improved political relations. The more stabilized political relations between the parties concerned, the more trade will develop. Current Turkish government’s sensitivities towards its Middle Eastern neighbors and its keen interest in developing trade relations with them will naturally contribute to the improvement of relations. The key impediment for this development appears at the moment to be an exogenous factor. Namely, the US policy in the Middle East and its demands from Turkey, which forces the latter into a currently impossible position of attempting to balance its own national interest and those of its biggest and closest ally.

ENDNOTES


2. For the concept of “security community,” see Karl Deutsch, Political Community in the North Atlantic Area (Princeton: Princeton, 1957);
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3. For the story behind the emergence of what is today the EU, see, Trevor Salmon and Sir William Nicoll, Building European Union: A Documentary History and Analysis (Manchester: Manchester University Press, 1997).


5. For an assessment of the connection between economic development, liberalization and democratization see Francis Fukuyama’s controversial book, The End of History and the Last Man (London, New York: Penguin, 1992), especially introduction and parts 1, 9, 10 and 19. He asserts on p. xv that although “there is no economically necessary reason why advanced industrialization should produce political liberty,” it is a fact that the “world’s most developed countries (which consists of mostly free-market economies) are also its most successful democracies.” Also see Charles E. Lindblom, Politics and Markets: The World’s Political and Economic Systems (New York: Basic Books, 1977), pp. 3-13 and 161-222.


7. For example, although economic liberalization in a country does not necessarily have to lead to political liberalization or democratization, it seems that both processes are, at least, loosely connected, and liberal changes in economic policies have either preceded or sometimes followed the moves toward political freedoms. This becomes more important as, in principle, similar regimes are assumed to be more responsive to one another, thus more closely connected, though there may be exceptions to the rule.

8. During the debate, basic foreign policy issues such as Turkey’s international orientation and the merits of increased regionalization were
intermingled with the questions arising in connection with economic (under)development. The growing awareness at the time that the West no longer possessed the ability or the inclination to make an effort to better Turkey's condition without a major restructuring of its economy made the deliberate regionalization of Turkey's political and economic policies an increasingly attractive option. Need for extensive foreign aid that could only come from the West and Turkey's traditional modernization drive, however, weighted heavily towards closer relations with the then European Economic Community (EEC). It was also clear that continuation of Turkey's close relations with the West, without changing its economic policies carried within serious risks of economic and social unrest that might have placed the very existence of Turkey's modernization drive in question. For further discussion see, Mustafa Aydin, *Turkey Transformed; Regime Change and Foreign Policy, 1980-1991*, Ch. 4, forthcoming.


10. There was for example a sort of 'trade war' between Turkey and the EEC in 1982 and 1983. While the Community restricted imports of Turkish cotton goods into the Community, Turkey retaliated with increased import duty on Community steel. See *The Economist*, October 9, 1982, p. 50; and Ron Ayres and T. C. Thompson, *Turkey: A New Era* (London: Euromoney-Interbank, 1984), p. 48.

11. While Turkey's exports to the EC dropped from 42.7% to 30.5% of total exports between 1980 and 1982, the share of exports to the Middle East and North Africa doubled from 22.3% to 45%. At the same time Iraq with its $2.028 million trade volume with Turkey replaced W. Germany ($1.803 million) in 1982 as Turkey's main trading partner. See *OECD Economic Survey; Turkey* (April 1983), p. 28 and Turkiye Is Bankasi A.S., *Economic Indicators of Turkey, 1980-1984* (Ankara: Is-Bank Plc. Economic Research Department, 1985), p. 9.


16. Iraq's debt to Turkey at the end of the Iran-Iraq war was around 2.5 billion dollars, of which it paid off some $600 million by August 1990, when it
ceased payments. See Amikam Nachmani, “Turkey in the Wake of the Gulf War: Recent History and its Implications,” Insight Turkey, 1/3 (1999), p. 139.


18. Saddam Hussein openly threatened Turkish Prime Minister Yildirim Akbulut during his visit to Iraq on May 30, 1991. According to a written statement by Akbulut, dated June 17, 1991, he was warned by Hussein while discussing water issues that, “NATO is dispersing. [The] US is losing power. A powerful state is the one whose words are listened to around. Nobody listens to the US any more. It won’t help you either. What is going to happen to you now?” See Hulki M. Cevizoglu, Korfez Savasi ve Ozal Diplomasisi (Istanbul: Form Yayinlari, 1991), p. 185; and Suha Bolukbasi, “Turkey Challenges Iraq and Syria: The Euphrates Dispute,” Journal of South Asian and Middle Eastern Studies, 16 (4) 1993, p. 25.

19. According to the agreement, Syria would stop supporting the PKK and recognize it as a terror group, Ocalan and the PKK would not embed Syria and those arrested by the Syrian security would be sent to Turkey, a monitoring system would be put in place, a direct telephone line between the security officials of the two countries would be established, security officials from the two countries would meet regularly, and two Turkish security specialists would take up posts in Damascus. For details, see “Uygulama Dikkatle Izlenecek” and “Suriye’ye Iki Haftalik Sure,” Milliyet, October 23, 1998; “Suriye Denetim Guvencesi Verdi,” “Suriye Kabul Etti,” and “Suriye ile Gorusme Olumlu,” Hurriyet, October 21, 1998.


25. The Turkish Military had been very much involved in the development of Turkish-Syrian relations as the responsibility for overseeing the
relations with Syria was left to the Turkish Army with an internal governmental communique in September 1995. In fact, it was a statement from the Chief of the Turkish General Staff on the Syrian border that started the whole process that led to the Adana Accord, which was signed by General Aytac Yalman, then the Commander of the Second Army, on behalf of Turkey.

31. Olson, “The Kurdish Question and Turkey’s Foreign Policy,” p. 103.
32. During his visit to Ankara in November 1999, Iraqi Deputy Prime Minister and Finance Minister Hikmet Al Azawi asked Turkey to provide comprehensive support for his country to convince Western leaders to end the embargo. “Iraq Seeks Turkey’s Help to End Embargo,” Turkish Daily News, November 8, 1999.
44. Turkish Daily News, April 19, 2000.
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47. “Toskay: İrak Büyük Potansiyele Sahip.”
63. “Irak’ın Yeniden Yapılandırılması.”
66. Ibid.
79. “Sezer to Visit Iran Next Week,” NTV, June 14, 2002.
91. “Turkey-Syria Trade Relations,” report prepared by the Embassy of Damascus of the Turkish Republic, (December 1996).
98. Olson, “The Kurdish Question and Turkey’s Foreign Policy,”
pp.87-88.
