

Research

The Effect of Political Relations on Turkey-Russia International Trade

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Abstract: Nowadays foreign trade undoubtedly takes an important place in every country's economy. A lot of research being done on the factors to determine the volume and the structure of foreign trade. GDP, relative price, and exchange rate are some of the main the indicators researchers focus on during the research process. However, it is very important to keep in consideration of others external factors during this process, such as political relations between the involved countries has a great influence on their bilateral foreign trade. Thus, this research paper focuses on the impact of the political decisions made by parties involved and its effect on their trade relations. This paper will examine long run determinants of the trade balance between Turkey and Russia, giving particular focus to the influence of the political relations between these two countries on their foreign trade. This paper focuses on changes on trade balance between these countries during the political crisis and after. The research is conducted by using quarterly trade data over the period from 1900 to 2017. Embedded Research Design is used to enable the researcher to use both quantitative and qualitative data. For the collection of qualitative and quantitative data, the research adopted the Explanatory design and Ex Post Facto design, respectively. The study also uses the ANOVA model to synthesize and estimate the variations in the trade relations between these countries during the 17-year period targeted in this research. As a conclusion the paper confirms and defines possible long run and short run negative effects of political disputes on countries trade balance with involving parties.

Keywords: International trade, Russia, Turkey, Political relations, Political crisis.

Introduction

Turkey and Russia have been key partners in investment and trade, and these relations could have started as early as 1400s. In this paper, however, the collected data is based on the 1999-2016 period. Ever since the 1900s, trade and economic relations have driven nearly all the other ties between these Turkey and Russia. The widespread notion that political crisis between

trading countries is indirectly proportional to foreign trade between them does not necessarily apply to the trade relations between Russia and Turkey. In a report, Ozel & Ucar (2019) explained that these countries have enjoyed important economic ties since the turn of the 2000s even when they appeared to be ideologically and strategically bitter (political) rivals.

For example, the historic development of Turkey's economy was steered by the Soviet transfer of knowledge, loans, and agreements on barter trade activities. The latter preceded the Russia-Turkey trade agreement that was signed in September 18, 1984 in Ankara. The Turkey's Independence War was significantly supported by the Bolsheviks who were also engaged in a different battle, fighting the White Forces. One of the conditions of the Civil War was that the Bolshevik government had to offer financial support to the Ankara government. Ankara administration was also seen as Anatolia's another power source used by the Istanbul-based Ottoman government. During the Independence War, the Bolsheviks also sent gold and weapons to the Ankara government. In March 16, 1921, the Moscow Agreement was signed, after which the Soviets promised to give 10 million rubles to the Turkish government on a yearly basis.

In May 1922, Russia and Turkey signed the first trade agreement, which paved the way for Vnestorgbank to open a bank in Istanbul in 1925. Two years later (March 1927), the Trade and Navigation Agreement were signed, allowing the trade volume between these countries to double. In 1931, the Soviet Union decided to collectivize its trade policies, exposing the Agreement to some problems, which forced the authorities to alter some of its articles. In the recent years (2000s and 2010s), the trade agreements and relations between these countries have stabilized. For example, the Turkish Ministry of Foreign Affairs (2011) stated that high level of Turkey-Russia economic relations has driven the bilateral multidimensional relations between these countries.

In 2007, the trade volume between these countries surpassed \$25.2 billion after 11 months, making Russia the second largest trading partner of Turkey after Germany. As of 2011, Russia became the leading source of import for the economy of Turkey, with the Turkey's imports from Russia accounting for 13% of its overall imports. Turkey also became Russia's fourth country of export, with a 5% share, in 2007. At the same time, Russia imported products and services worth about \$4.3 billion from Turkey. Russia also became the most significant market for Turkey's construction services, with the sum of Turkish construction projects in Russia surpassing \$26 billion. About \$5.6 billion of Turkish foreign investment was directed

towards Russia. Some Russian firms showed firm interest in investing in the tourism, telecommunications and energy sectors in Turkey.

According to the general consensus, the growth in the trade volume between these countries should coincide with an improvement in their political relations. In the Russia-Turkey case, however, the trade ties have declined and strengthened even when their political relations have taken a different route. It is these historical backgrounds, coupled with unpredictability in the relationship between political and trade relations among Russia and Turkey that form the basis of this research.

Materials and methods

The study employed the use of secondary data which was collected using a data sheet. The data sheet collected both qualitative and quantitative data. The qualitative data related to the documented effects of political crisis on international trade and the actions that the two countries have taken to recover from their current crisis. This was from published journal and online materials from accredited sources. In addition the questionnaire was developed as a research instrument for the purpose of gathering information from responders to estimate the impact of each year. More than 100 copies were created and scholars from Russia and Turkey were chosen as responders. The quantitative information related to the trade data from 1999 – 2016 to show the trade relations in different periods and the area of latest Turkey – Russia Conflict. This was also be from published journal and online materials from accredited sources.

This research used an Embedded Research Design to enable the researcher to use both quantitative and qualitative data. For the collection of qualitative and quantitative data, the research adopted the *Explanatory design* and *Ex Post Facto design*, respectively. The study also implements the ANOVA model to synthesize and estimate the variations in the trade relations between these countries during the 17-year period targeted in this research.

Conclusion

In this work, trade relations between Turkey and Russia were investigated through the prism of political relation. Our conclusion is that economic and political relations are indivisible connected. Several positive and negative aspects were highlighted through the rich political relations. The conflict between Armenia and Azerbaijan, Chechen wars, Cyprus issue, Russia-Georgia war and Syrian conflict are the main political events complicating relations between the two countries. Frequent bilateral visits at the level of Presidents and Prime-Ministers, numerous political and economic agreements and joint economic projects, such as the Blue Stream

stimulated the betterment in relations between Turkey and Russia. As for economic relations, Turkey and Russia gathered sufficiently important experiences in trade and economic cooperation. Even though Turkey has a deficit of the total value of trade with Russia, mostly caused by the import of energy resources, its income from Russian tourists and civil engineering projects in Russia assist closing the gap. A special attention must be paid to the fact that, as bilateral trade between Russia and Turkey has been always based on strategic goods such as natural resources and food, what makes both of the countries be more cautious while building their political relations.

It is also worth noting that even in the political relations worsening period, the trade between countries, although significantly reduces, but never trails off. Moreover, in case of the imposition of sanctions, traders find circumvention routes to import prohibited goods through third countries. In case of Russia imposing sanctions against Turkey, the Turkish company established a transfer of vegetables to Russia through neighboring countries such as Kazakhstan and Belarus. Meanwhile, Russian citizens are keep on buying prohibited to sale and purchase in the Russian Federation tours to Turkey, benefiting from the services of Ukrainian and Belarus travel agencies (Papernaya, 2016). Having an econometric model built, we confirmed the hypothesis that worsening in relations between Turkey and Russia negatively affects their trade relations. However, betterments in relations between countries do not have a significant impact on trade. It can be explained by the fact that in the relations between Turkey and Russia, negative and positive events are often very close to each other by dates: sometimes they occurred in the same period, or with just a year break. Thus, it can be presumed that the negative effect caused by political relations worsening suppresses the positive effect of political relations betterment. Results obtained in this study bear a resemblance to findings of Pollins (1989), Polechek (1997), Armstrong (2012) and Çakmak and Ustaoglu (2017) studies, mentioned in empirical literature. The findings verified that the realistic approach is dominant in the relationships between Turkey and Russia. That is to say, Turkish and Russian sides should tend to keep their political relations good when they appreciate the importance of each other politically and economically. When considering these all together and taking into account the damages of negative and tense relationships to the trade, both countries should keep the relationships good, avoid tense political disputes and repair the worsened relationship all of a sudden as this fact is essential for their welfare and security.

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Dedication

Not mentioned.

Conflicts of Interest

There are no conflicts to declare.



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