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TURKISH- RUSSIAN ECONOMIC RELATIONS DURING THE PUTIN ERA

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LIST OF ABBREVIATIONS

CSIS	Center for Strategic and International Studies
VSNKh	Supreme Council of National Economy
NEP	National Economy Politics
TÜİK	Turkish Statistical Institute
USAK	Uluslararası Stratejik Araştırma Kurumu
USSR	The Union of Soviet Socialist Republic

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ACKNOWLEDGEMENT

Russia has been a very important country for the last more than 250 years. We do not understand European and also world politics without knowing Russia in 19th century, in 20th century and even today. Also Russian literature and music contributed Europe and World a lot. So I wanted to study about Russia. At the same time, Turkish-Russian relations are very important historically and also today. Russia is a very important partner for Turkey economically. There are critical agreements between two countries. So I wanted to study Russia. My professor Mesut Hakkı Caşın who has studied Russia for a long time. When I decided to study Russia, I wanted to study with Mesut Hakkı Caşın without hesitation. He had always incentivized me to study harder, and also shared his magnificent Russian books with me. So I would like to thank his help me during my thesis. I also would like to thank my mother. She is always very kind, and helpful to me.

ABSTRACT

Turkish- Russian economic relations have been examined in this thesis. Russian political and economical history will also lead us to understand Russia today. Historical background of two countries helped to understand the future of Turkish- Russian relations. Economy is the key part of the thesis, but political relations are very important part of economic relations between Turkey and Russia. To countries' point views are sometimes very different with each other in foreign policy. So this relation is not defined as a strategic partnership. However there are strong links between Turkey and Russia economically, so our expectations, so the relations between two countries are in positive track in spite of some foreign policy differences.

First part of the thesis is about Russian political and economical history. Firstly there are brief information about the roots of Russia. Where does Russia come from? The importance of Kiev Russia, Novogrod and Moscow. After brief information we focused on three parts of Russian history. These are Tsardom Russia, Communist Russia and Russian Federation term. There are also some information about the reasons of the Soviet Union's unsuccessful economic performance after the middle of 1960s.

The second part of the thesis is Turkish-Russian economic and political relations. After Bolshevik Revolution, Turkey and Russia began to make good relations. There are information about this term. There is also information about economic relations between two countries in this chapter. Turkey wanted to become an industrial country, Turkey needed credit to ease this process, but Turkey did not enough support from West. However Soviet attitude was better and Soviet Russia made 7 economic enterprises in Turkey after the 1967 Agreement between Turkey and Russia. It was an important step economically. 1984 Natural Gas Agreement brought a new dimension between two countries. All these subjects are examined in this picture.

The third part began with Turkish- Russian diplomatic relations. After the collapse of Soviet Union, there were some foreign policy differences between two countries. For example Turkey wanted to influence especially Turkic Republics area, Russia did not want to lose the affect. So there was a rivalry between two countries. Chechen and Kurdish subjects are also hot topics in 1990s. However in the late of 1990s, the problems were solved and Turkish and Russian relations entered in the new era. Economy leads the relations. There are information about all these subjects. Then the focus on economic

relations. Which goods and services are exported and imported between Turkey and Russia? This question is also answered in this chapter. Energy is an important part of the economic relations between Russia and Turkey. There are also these kind of information about energy sector, agreements and figures of the sector in this chapter.

Last part of the thesis is to understand from competition to cooperation between Turkey and Russia. Foreign policy differenced have been happening between two countries. Will these policy differences create big problems between two countries. Will these foreign policy differences harm economic relations? For example Turkey and Russia used totally different foreign policy in Syria subject. What will be our expectations in the future about Turkish-Russian relations? When foreign policy differences emerge, will economic relations solve or prevent deteriorate Russian-Turkish relations in the visible future? There are answers, expectations of these questions in the last picture of the thesis.

ÖZET

Yapılan tez çalışması Putin dönemine ilişkin Türkiye ile Rusya arasındaki ekonomik ilişkileri politik taraf göz ardı edilmeden inceleyen bir çalışmadır. Öncelikle Rusya üzerine odaklanılmış, tarihsel bir perspektif ışığında Rusya gerek ekonomik gerekse politik açıdan incelenmiştir. 19. yüzyıl Rus tarihi dikkatle incelemiş, buradan Çarlık Rusya'sının son dönemi ve Bolşevik Devrimi ekonomisine odaklanılmıştır. NEP ve sonrasında 1928 yılında Stalin'in 1. Beş Yıllık Kalkınma Programı eşliğinde Rus sanayileşmesi incelenmiştir. Daha sonra 1960'lı yılların ikinci yarısından sonra Sovyetler Birliği'nde yaşanan ekonomik yavaşlamanın nedenleri araştırılmış ve sürecin sonunda Sovyetler Birliği'nin Mikhail Gorbachev liderliğindeki son dönemi üzerine çalışılmıştır. Rusya Federasyonu'nun kurulması sonrasında, Boris Yeltsin döneminde yaşanan ekonomik krizler irdelenmeye çalışılmış ve 1998 krizinin sebepleri ve daha sonra Rusya ekonomisinin toparlanma süreci izah edilmiştir. Ve 2000 yılına gelindiğinde Putin dönemi Rusya'sı gerek politik ve ağırlıklı olarak da ekonomik olarak anlatılmıştır.

Türkiye ile Sovyetler Birliği ilişkilerinde ise 1923-1959, 1950-1989 ve 1980-1990 dönemleri iki ülke arasındaki ilişkilerin tarihsel arka planını anlayabilmek amacıyla incelenmiştir. Daha sonra Rusya Federasyonu ile Türkiye arasında, Sovyetler Birliği'nin yıkılışı sonrasında Türki Cumhuriyetler üzerinden yaşanan rekabet, S-300'ler meselesi, Çeçenistan ve Kürt sorununa ilişkin iki tarafın, karşılıklı rahatsızlık yaratan politikaları ve akabinde problemlerin çözümüne giden süreç irdelenmiştir. En sonunda iki ülke arasında 2000 yılından başlayan süreç anlaşılmaya çalışılmıştır. Bu süreç içerisinde Türkiye ile Rusya arasında ekonomik ilişkiler güçlenmiş, uzun erimli anlaşmalar yapılmış, bir yerde ekonomi çekişli ikili ilişkiler zaman zaman dış politik farklılıklara karşın gelişimini sürdürmüştür. Tez metninde iki ülke arasındaki ekonomik ilişkilerin, dış politik farklılıkları absorbe edip edemeyeceği sorusu üzerine düşünülmüş ve bu sorunun cevabı aranmaya çalışılmıştır. Özellikle son bölümde bu sorunun cevabı bulunmaya çalışılmıştır. Suriye meselesinde iki ülke, dış politik açıdan neredeyse tamamen zıt istikamette bulunmuşlardır. Buna karşın iki ülke arasındaki ekonomik ilişkilerin seyrinde pürüzler yaşanmadan uzun vadeli perspektif çerçevesinde ilerlemeyi sürdürmüştür.

Introduction

Turkey and Russia have been long term relations. The relations between Ottoman Empire and Russia began 500 years ago. Prince Ivan of Muscovy(3th Ivan) sent a letter to Sultan Beyazıt on the 31th of December of 1492 and the official relations began. The first centuries of the relations between two powers, Ottoman Empire was stronger. However, especially after the second half of the 17th century, Europe was getting stronger and getting more effective and Russia was also getting stronger and Balance of Power was getting worse for Ottoman Empire in Europe. The history between Ottoman Empire and Russia was also "The History of Wars" between 17th and early of 20th century. Russian expansionism and Slavic Nationalism was one of the biggest reason of the loss of territory of Ottoman Empire¹.However this period changed when Bolshevik Revolution was happened in Russia on the October of 1917. While Turkey was struggling for independence after the Sevr Agreement, Turkish- Russian relations evolved into positive side.

The new regime(Bolsheviks) helped Turkey during the Independence War. Good relations continued till 2th World War(WW2). Actually, when Foreign Minister Rüşti Saraçoğlu visited Soviet Union in 1939, there were some negative signals were sent to Turkey by Russians².However big change happened after the WW2 and the relations between two countries turned into negative side again. Soviet Union was the strongest power of Europe after the Second World War They wanted Kars, Ardahan and also a base in Bosphorus from Turkey. After the Second World War, There were two big powers in the world. One of them is United States. The other one is Soviet Union. So Turkey needed help from United States against Soviet Russia. Tensions between two countries improved especially when Stalin was in power in Russia(Stalin died in 1953 and Soviet Union policy softened against Turkey). However Turkey stayed in Western Side during the Cold War.

After the collapse of the Soviet Union in 1991, Turkish- Russian Relations entered into new era again. Two countries' relations turned into good relations again. However there were some disagreement in Turkish- Russian relations in 1990s. Turkey and Russia had

¹ Larrabee F. Stephen - Lesser O. Ian, Turkish Foreign Policy in an Age of Uncertainty, pp 112, Published by Rand 2003

² Öymen Altan, Bir Dönem Bir Çocuk, Doğan Kitap, pp 162.

some different point of views especially about Kurdish and Chechenian problems. But this disagreements were solved in the late of 90s and economic advantages(interests) become a prominent factor. Especially energy become the main agenda of the relations. Bilateral trade volume was 1.4 billion dollar in 1992, but it increased to 38 billion dollars in 2008. The leading figures of politics of two countries mentioned about 100 billion dollar trade volume. In spite of foreign policy differences between Turkey and Russia, two countries are taking advantages of attraction of trade.

In our thesis, Turkish- Russian economic relations in Putin Area are going to be examined. However, firstly, The History of Russian economy are going to be examined. The last term of Tzardom Russian economy are going to be explained after the Crimean War(1854-1856). After that, there are going to be focus on Communist Russian economy. Economic developments are also going to be analyzed after the collapse of Soviet Union in 1991 in the first part of the this section. After the explanation of the historical background of the relations of two countries, Turkish-Russian economic relations are going to be examined. The last part of the theses, the expectations of the future of Turkish- Russian relations are going to evaluated.

There are information about both Russian history and also The History of Turkish- Russian relations in this thesis to make comments and projections of the two countries' relations.

Turkish- Russian economic relations have been getting stronger, but there are some foreign policy differences between Ankara and Moscow. Turkey and Russia have sometimes in very opposite direction. For example, Turkey and Russia looked at the opposite side in Syrian problem. Turkey was against Esad Regime, but Russia supported the regime. The question is of the thesis will Turkish-Russian good economic relations absorb some foreign policy differences between two countries. Will these kind of political differences create big problems between two countries. In our thesis, this question is going to be tried to answer. However firstly we will learn the back round of the relations. Economy is an important part of the relations, there are some information about Turkish- Soviet economic relations in our thesis. For example, 1967 is an important date of two countries' relations.

Soviet began construct industry installations. 1984 is an important date for Turkish- Russian relations. Natural Gas Agreement is a milestone between Ankara and Moscow

relations. Turkish-Russian economic relations got stronger after this agreement. All of this subjects are examined, and also there is one more important question are tried to answer. Will economy or politics lead Turkish- Russian relations? This question is linked main question of the thesis. However the key question is will Turkish-Russian good economic relations absorb some foreign policy differences between two countries? This question will be answered in the late of the thesis. Thesis will begin with the history of Russian history.

CHAPTER 1

ECONOMIC AND POLITIC FRAMEWORK OF RUSSIAN HISTORY

1.1. WHERE DOES RUSSIA COME FROM?

Russia is a very important country both politically and economically in today's world. Russia was also an effective power of European politics in the 19th century, and 20th century. Especially after the Second World War, Russia was one of the two big powers of the world. Soviet Union survived till 1991. It is not possible to understand 19th and 20th century without understand Russia. It is important to go to the origins of Russia. What is Russia? Where does Russia come from? Firstly there are going to give some brief information about the roots of Russia, then we are going to come recent history of the country. Russia's roots traced back to Slav family. Slav family divided into three parts. These are East Slavs, West Slavs and South Slavs. East Slavs are consisted of Russian, Ukrainians and Byelorussian. West Slavs are consisted of Polish, Czechs and Slovaks etc. South Slovaks are consisted of Bulgarians, Croats, Slovenians etc... So Russia is a part of East Slav family. Slav name firstly was used in Preudo- Cesarios's book in 6th century. East Slavs lived in forests of Dnieper, Volga and Don rivers¹. Actually, there is not an agreement about first Russian state and Russian communities among historians².

According to Norman hypothesis, Russian roots have been coming from Scandinavian Vikings³. Russ word probably are coming from "Ruotsi" word from Finnish language. It means boatman, rovers. Then word became Rusi and then it transformed to Russ in Slav language⁴.

Kiev, Novogrod and Moscow

Kiev, Novogrod and Moscow were very important cities in Russian history. These cities had some differences democratically. For example; Kiev Russia and Novogrod had democratic backround, but Moscow had autocratic origins. Firstly, there are going to be given some information about Kiev Russia.

¹ Rusya Tarihi, Rusya Online, Haber ve Yorum Sitesi <http://www.rusya.ru/RusyaTarihi.htm>

² Caşın Hakkı Mesut, Rus İmparatorluk Stratejisi, Okumuş Adam, pp 44.

³ Caşın Hakkı Mesut, Ibid.,p. 44-45.

⁴ Rusya Tarihi, Rusya Online, Haber ve Yorum Sitesi <http://www.rusya.ru/RusyaTarihi.htm>

Kiev Russia had developed both as economically and culturally between the 5th and 13th century. Kiev was the trade center in 11th century, and one of the most open cities in Northern Europe. When we look at the the governance, we see the democratic components of the city. Kiev was not only governed by a prince like neighbor cities, actually Kiev was governed by city council, and this city council consisted of free people(these people were men). The power of nobles and princes were being restricted by a carefully prepared law. Kiev and neighbor cities merged and they created a slack federation. The name of the construction is Kiev Russia. Kiev was governed by a prince on paper⁵. People of city had a chance to join in this city council. The name of the foundation was city council(veçhe). This council was a men population council. Prince, high commissioner and even one of the citizens had a chance to meet together to discuss problems in this city council. However meetings sometimes were rude, merciless, fevered and frequently bloody. On the other side of the coin, this city council was the closest foundation to the democracy of the Russian history⁶.

Kiev Russian's democratic level was higher than another powers in the world. For example, Byzantines writers were surprised when they saw this system in the 7th century. They saw Slavs were not being by a person, and they wrote; "Slavs had been living in democracy since ancient times." Byzantines managed autocratic governance, and Byzantines defined this situation(Kiev Russian's governance model) close to anarchy and chaos. City council(veçhe) was an important function in Russia before Christianity⁷. Where can we put Kiev Russia in Russian history? Where are they belong to?

Actually "Kiev Russian" history is the history of Slavs, not only Russians and Ukrainians. "Kiev Russia" is not the first country of today's Russia, "Kiev Russia" is the first country of East Slavs. These are Russia, Belarus and Ukraine⁸.

Russia had chances to stay in democratic structure in turning points of history. If invaders did not prevent domestic developments, Russia could have been more free and more enlightenment country⁹. However Mongols invaded Russia between 1237 and 1240, and

⁵ Bookchin Murray, 1905'ten, 1917'ye Rus Devrimleri, Dipnot Yayınları, pp 21.

⁶ Bookchin Murray, Ibid., pp. 22-23.

⁷ Yılmaz Harun, Rusya'da Devlet Merkezli Sistem ve Bürokrasi- Versus Yayınları, pp.4.

⁸ Yılmaz Harun, Ibid.,pp. 13.

⁹ Bookchin Murray, 1905'ten 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.21.

Kiev Russian collapsed in the 13th century. Mongols invaded Russia and Kiev declined. There was one more reason of the decline of Kiev Russia. There were disagreements between princes in Kiev¹⁰, but Mongol invasion was the biggest reason of decline of Kiev.

After the decline of Kiev, free Russia's attraction center went to (glided to) Novgorod and Pskov (Pskov was under control of Novgorod). Both cities were saved from Mongols invasion with the helping forests and bogs, and old city councils (veche) continued till 15th century. Political life was free and lively in Novgorod¹¹.

Novgorod was one of the most important and the most effective countries in Russian history. According to some historians, Novgorod was the alternative against growth of the state of Moscow and also Novgorod was the alternative against central authority. Relatively free, democratic and cosmopolitan Novgorod memory was a democratic symbol for Russian opposition movements during and after the 19th century. Novgorod was the symbol of Russia's democratic legacy¹². Actually there were a competitions between democratic and autocratic powers in Russia.

There were princedoms in Russia, Moscow was one of them. Moscow's rise was not expected in the early of 14th century. Moscow began to expand in 1303-1304. Moscow took control of Mozhaysk in the west, Pereyaslav in the north, and Kolomya in southeast and Moscow began to become a serious rival for another princedoms¹³.

What was the date of the emerge of Russia? Moscow princes took control of periphery regions, and today's Russia began to emerge. If needed to give an exact date, Moscow Prince 3th Ivan (1462-1505) took control of Novgorod Republic in 1478, it was milestone for Russia. Moscow and Novgorod were two main places of medieval Russia united in 1478¹⁴. More autocratic Moscow invaded more democratic Novgorod.

When we examine Russian history, we see democratic roots of Russia. For example Kiev Russia and Novgorod had democratic elements. However after Moscow took the control of Russia, Russia began to govern more autocratically. Actually Russia would have been

¹⁰ Bushovitch Paul, Büyük Petro, İletişim Yayınları pp.25.

¹¹ Bookchin Murray, 1905'ten 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.22.

¹² Riasanovsk Nicholas W. - Mark D- Steinberg Mark, Rusya Tarihi, İnkilap Yayınları, pp.73.

¹³ Hosking Geoffrey, Rusya ve Ruslar, İletişim Yayınları, pp.107.

¹⁴ Bushovitch Paul, Büyük Petro, İletişim Yayınları, pp.23.

more democratic country, but history went different direction. Moscow took the control, not Novgorod invaded Moscow. For example, If Mongols had not invaded Russia between 1237 and 1240, if Kiev Russia had not been invaded, maybe, today's Russia would have been more democratic country¹⁵. However, today, according to The Economist Intelligence Unit Democracy Index 2013, Russia is the 125th country in the democracy list and there are 167 countries in this list¹⁶.

¹⁵ Bookchin Murray, 1905'ten 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.21.

¹⁶ Democracy Index 2013, Democracy in Limbo- A Report From The Economist Intelligence Unit, Jun of 2014, pp. 7.

1.2. THE HISTORY OF TZARDOM RUSSIA AND IN AND AFTER CRIMEAN WAR

The late of 17th century, and 18th century was an important period of Russian history. Russia began to be a strong empire in this period of time. Russia began to become an important power between big European empires. Why did Russia become an important power both in 19th and 20th century. We should know what happened in the 17th and 18th century in Russia. Answers of the question were in 17th and 18th century. There are going to give some information in the late of 17th century and 18th century now.

Great Petro and 2. Catherine were very important figures of this time. These two figures made big movements to make Russia stronger empire. These people made Russia was one the biggest power of Europe. To understand Russia, firstly we need to understand Great Petro and 2. Catherine. They created the future' empire. Also industrialisation period was an important period of time. There are some explanations the relations between Russia and the lack of industrialisation in this part of the thesis.

When we return to Russian history again, we see Russian leaders saw Russia was behind Europe technically, socially and culturally. So tsars wanted to close the gap between Russia and Europe. Russia wanted to become westernized and modernize. Russia was the ice country in the north of the Asia in the 15th century. Europe was the nearest civilization torch for Russia. On the one hand, Russia wanted to make connections intellectually with Europe, and also Russians wanted to create an empire¹⁷.

Great Peter and 2. Catherina

Great Peter was the one of the most important figure for Russian history. Petro ruled Russia between 1689 and 1725. Petro reorganized, strengthened state and arm. Russia conquered new lands in this term. Petro founded new armada, and he founded St. Petersburg as a new capital. He wanted to be known West literature, west science, west's social consideration in Russia. Russian culture' Europeanization had began to emerge in Russia in his term. Late term Russian history do not understand without Petro¹⁸.

¹⁷ Yılmaz Harun, Rusya'da Devlet Merkezli Sistem ve Bürokrasi, Versus Yayınları, pp.11.

¹⁸ Bushovitch Paul, Büyük Petro, İletişim Yayınları, pp.13.

Tsar Petro wanted to bring press to Russia. Aristocrats class were being educated by private teachers at their home. However schools were limited in Russia in the late 17th century, in the early 18th century. So Europeanization became limited for some Russians. On the other hand, some Russians thought they spoke French better than their language, Russian language. This process were only lived in the elite class. So it means this transformation period did not deepened in Russia. It remained limited in the elite class. It did not touch peasantry¹⁹.

Tsar Petro ordered young noble to go to abroad to get education. Young artists were earned salary regularly. Schools and press were founded in Petro era. Non- religious writing were translated to Russian language. Petro wanted Europeans visited Russia to give education and work in Russia²⁰. However this process also created problems too. After the Peter, Russia became bi-communal country. Westernization process enable bi-communal country²¹.

Petro who was like a dictator of 20th century. Some dictators wanted to westernize their traditional society in 20th century. Petro was like these dictators. Petro saw the modernization is the very important way for Russia. After modernization, Russia would achieve victory²².

The main aim of Petro was to remove the Sweden threat. Sweden had the coast. Russia defeat Swedish Army in Paltova War. Petro won the land from Sweden in 1703. Petro constructed a new city in this land, the name of the city was St. Petersburg. St. Petersburg had been the capital of Russia during the 200 years²³.

There are some information about social life of Great Petro term. Before Petro, there were not any women in meetings, social activities. It was changed after Petro. Tsar organized social activities, balls. He also wanted men should come social activities, balls with their wife. It was obligation to go to this social activities with wife. Before Petro, domestic and foreign events were secret of the state. Limited bureaucratic staff had only these information. This information was presented to the Czar. Petro changed this system. First

¹⁹ Bushovitch Paul, Ibid.,pp. 57-58.

²⁰ Bushovitch Paul, Ibid.,pp.58.

²¹ Belge Murat, İki Toplumlu, Taraf Newspaper, 8th June 2014

²² Roberts J.M., Avrupa Tarihi, İnkilap Yayınevi, pp.368.

²³ Roberts J.M., Ibid.,pp.369.

newspaper was published in Russia in Petro era. Third one, before Petro, Russian people did not have rights to go abroad, and also foreign people did not have rights to arrive in Russia. Petro also changed this system and this practice was loosened²⁴.

Another important figure of Russia was 2. Catherina(1762-1796) in 18th century. She was respectful with laws. Because she was not coming from Romanov Dynasty. She attached importance to institutions, and laws. 2. Catherina had opinions how she can formed government. She got this opinions, knowledge form Enlightenment thought. Catherina had the vision to govern the empire with law. According to her, rule(law)was a tool to improve the prosperity of the society and to improve power of the state²⁵.

Russia' transformation continued till Tolstoy term. However, nevertheless, Russians had underdeveloped industry. Political and religious oppositions had been pressed and also there were painful poverty in Russia. Some people had been speaking French language fluently since 18th century. These people had been living in privileged conditions. However, on the other side, people believed ghosts, witches in rural side of the country. Leo Tolstoy explain the situation with these words; "One Russ get roots from European culture. This Russ understood kindness, honor, liberty thoughts as west believe. However there is one more Russ. Darkness forest' Russ, bigoted Russia's Russ, Mongol- Tatar Russ. Second Russ prefer bossiness and bigotry"²⁶. So there were very big differences of Russian society.

So as we know, Russia, especially after Petro had tried to close the gap between Russia and West. Because Russia was behind the Europe and Tzars had tried to close the gap. Russian performance had been fast during the two hundres years. When the time went the early 19th century, the atmosphere changed for Russia in Europe. Russia was one of the biggest powers of Europe.

It is time to look at the economic and politic history of Russia in 19th century. After Russia entered into the international system, Russians achieved sovereign position very fast. Actually, Russia was not invited in the Peace of Westphalia Agreement in 1648, because they were not important to be invited, but since then Russia joined each important wars in

²⁴ Yılmaz Harun, Rusya'da Devlet Merkezli Sisten ve Bürokrasi, Versus Yayınları, pp. 171.

²⁵ Hosking Geoffrey, Rusya ve Ruslar,İnkilap Yayınevi, pp.296.

²⁶ Bookchin Murray, 1905'ten 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.25.

Europe and they began to become a source of concern for western observers in the middle of 18th century(Westphalia Treaty established the modern concept of sovereign statehood. So it is an important term in Europe)²⁷.When Congress of Vienna met in 1815, Russia maybe was the strongest power in the continent²⁸.(Balance of Powes system was founded in Congress of Vienna²⁹. Balance of Power, tradionally, it refers to a state of affairs in which no one predominates over others³⁰).

When Tzar arrived in Paris with his army, the people of Paris met Russian Tzar Alexander with shouts "Long live Emperor Alexander" in 1814. Russian army was maybe the strongest power in the land, on the other hand, Britain was the strongest power in the sea in the early of the 19th century³¹. Russia was getting the power in the early of 19th century like they were one of the big superpowers after the WW2. However Russians lost almost everything in forty years what they achieved during the last two hundred years³². Russia's power began to decrease after the agreement of Congress of Vienna³³.

Congress of Vienna enabled peaceful and steady term in Europe³⁴. This term was a peace and industrial term. However Russia did not make industrialization efforts, and this situation was not understood till Crimean War(1854-1856) exactly³⁵. After Russia lost in Crimean War, Russia's foreign policy changed direction towards Asia instead of Balkans³⁶. Russia lost against big powers economically and technologically between 1815 and 1880. Tzar Nicholas attitudinized against market powers, but it does not mean Russia did not develop in this term. The population of Russia was 51 million people, but it increased 76 million people in 1860, 100 million people in 1880. Urban population increased too. Iron production went up, textile industry developed. However Europe developed much better than Russia, so comparatively Russia was back. Russia could not develop as Europe as did³⁷.

²⁷ Straumann Benjamin, The Peace of Westphalia as a Secular Constitution, Constellations, Volume.5, Number 2,2008, pp.175.

²⁸ Kissinger Henry, Diplomasi, İş Bankası Yayınları, 9. Baskı- pp.132-133.

²⁹ Çakmak Haydar, Uluslararası İlişkiler: Giriş, Kavramlar ve Teoriler- Doğu Kitapevi, January 2014, pp.210.

³⁰ Griffiths Martin, O'Callaghan Teery , Roach C. Steven- International Relations, The Key Concepts, Second Edition, pp.17.

³¹ Kennedy Paul, Büyük Güçlerin Yükseliş ve Çöküşleri, İş Bankası Yayınları, pp.215.

³² Kissinger Henry, Diplomasi, İş Bankası Yayınları, 9. Baskı- pp.132-133.

³³ Kennedy Paul, Büyük Güçlerin Yükseliş ve Çöküşleri, İş Bankası Yayınları, pp.215.

³⁴ Sander Oral, Siyasi Tarih İlk Çağlardan 1918'e, İmge Yayınevi, pp.177.

³⁵ Kennedy Paul, Büyük Güçlerin Yükseliş ve Çöküşleri, İş Bankası Yayınları, pp.215.

³⁶ Armaoğlu Fahir, 19. Yüzyıl Siyasi Tarihi- 1789-1914, Timaş Yayınları, pp.263.

³⁷ Kennedy Paul, Büyük Güçlerin Yükseliş ve Çöküşleri, İş Bankası Yayınları, pp.215-216.

Russian GDP per head was the half of the England in 1830, however 60 years later, Russia had one quarter in 1890³⁸. Russia enhanced its iron production double, but England enhanced its iron production thirty times more. So there was a big discrepancy between two countries because of industrial revolution. Russia did not maintain its position as a biggest iron producer and exporter in Europe. Russia began to import from West and Russia became more dependent on import goods of Europe. Railway was an important subject too. Russian performance was not good in railways. Network of railways of United States was 8500 miles, but The Russians's was not more than 500 miles in 1850³⁹.

If we give an Ottoman Empire example in the 19th century, Ottoman Empire behinded Europe economically and technologically too. When we look at Ottoman Empire's situation to make income comparasion, Turkish geographics's income of Ottoman Empire was 55, when the average of Western Europe and United States income per head was 100 in 1820. This income difference increased between 1820 and 1913 because of industrial revolution. Turkey's income per head decreased to 29 percent in 1913(Turkey was also back of Western countries because industrial revolution in 19th century)⁴⁰.

Russia did not catch industrial revolution, and it created problems. Russia understood this problem in Crimean War.

Russia was far away from Western European civilization and culture for centuries, but Russian society lived a remarkable modernization period in the 18th and 19th century⁴¹.

When we look at Russian economy at the broad period of times, there are three important parts of Russia. These are transition terms. Firstly, there are going to be given brief information, then we focus on these terms.

Russia has lived three big transition terms. First one began in 1860s after the Crimean War(1854-1856), second one was Bolshevik Russian Term(Communist Term) and the third one was Russia returned open economic system again after the collapse of Soviet Union in 1991. First transition term began in 1861. Feudal Landowning System was partly ended and economic relations turned capitalist direction in Tzardom Russia. The second biggest transition term began in 1917, it is defined as a Communist Revolution. "State

³⁸ Kennedy Paul, Ibid.,pp.217.

³⁹ Kennedy Paul, Ibid.,pp.217.

⁴⁰ Pamuk Şevket, Osmanlıdan Cumhuriyete Küreselleşme, İktisat Politikaları ve Büyüme, İş Bankası Yayınları, pp.296.

⁴¹ Kennan George, Communism in Russian History, Foreign Affairs

Ownership and Management Policy" was put into action. Command economy was approved (After the 1928, after NEP- National Economy Policy) in this term. The third biggest economic transition term started in the early 1990s. Economy was began to be designed within the frame of private ownership. The aim was to economy grow stronger and faster in all these three big transition terms⁴².

Crimean War and effects...

There are going to be some brief explanations before 1861 conditions to understand developments after 1861 in Russia. Russia experienced very important developments in Crimean War in this period of time. Russia lost Crimean War against Ottoman Empire, England and France between 1854- 1856. This war proved Russia was more behind militarily, politically and economically against the Continental Europe. Once upon a time, Russia was a invincible power, but Russia understood now they were behind the Continent⁴³. Crimean War was accepted as a humiliating war for Russia.

This war showed competitiveness problems to Russia politically and militarily. Armaments of Russia were poor quality, Russia also had some difficulties sent their soldiers to front and Russia was moved out off the Near East after the war. After the Crimean War, Russia's effect was damaged in Europe. But also this war gives Russia to reorganize their military power, increase war capability effectiveness of its military and to modernize its economy. For example Russian saw the importance of network of railways. It was shown transparently⁴⁴. They had to send their soldiers to front on the right time (After the war, Russia was interested in railways. By 1903 there were some 40.000 miles of railroad in existence in the area of the Russian Empire)⁴⁵. Economy was also in big trouble. Russian rural economy stopped after the Crimean War. Financial conditions got worse after the banking crisis⁴⁶. After the war, a cautious reform and modernization term was started by 2th Alexander. The path of reform and modernization was named as "Great Reforms". Emancipation gave peasants personal freedom, and they had share rights for the

⁴² Spulber Nicolas, Russia's Economic Transitions, From Late Tsarism to the New Millennium, Cambridge University Press, 2003, Preface 19-20

⁴³ Bookchin Murray, 1907'den 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.43.

⁴⁴ Spulber Nicolas, Russia's Economic Transitions From Late Tsarism to the New Millennium, Cambridge University Press, pp.3.

⁴⁵ Dobb Maurice, Soviet Economic Development Since 1997, International Publishers New York, pp.35.

⁴⁶ Leonard S. Carol, Leonard- University of Oxford- Agricultural Productivity Growth in Russia, 1861-1913: From Inertia to Ferment, pp.3.

lands⁴⁷ (Before this reform, there were land slaves in Russia and this was a big problem. Alexander wanted to solve this Russian long-term problem). Czar 2nd Alexander rescued peasants and abolished their feudal dependence from the landowners on the 19th of February 1861. Peasants were freed, after this decision, agricultural production improved⁴⁸, and they began to open paths to capitalist relations. Before making this decision, they discussed about abolish serfdom, liberalize peasants and partly abolish the feudal system. And at last the biggest and the most shameful practice (serfdom) of Empire was abolished in 1861. Emancipation gave rights to peasants to buy land from their old landowners. According to rule, self had right to buy half of the land that they cultivated before. They had to pay cost to state to buy land with installments. And installment payment would continue till 49 years. Landowner had another half of the land. Landowner could use this land or sell⁴⁹. This step is a beginning step of socioeconomic transitions term and it was realized after the Crimean War⁵⁰.

By the 1880s, most Russian leaders understood Russia should not become as a heavy agricultural country. If Russia wants to stay one of the great power status, industrialization is necessity. Because there was an increasing strong power link between power and industry. Russia began to struggle to make Russia more industrialized country. Russian industrial growth rates were averaged 7-8 percent annually during the 1890s years. This growth rate- industrial production increased by an average of 5.72 percent annually between 1885-1914. This rate was exceeding the American, British and German rates for those years. However, nevertheless Russia was behind these European countries, and labor productivity only grew slowly and per capita income fell in the second half of the 19th century. According to these data (some of them positive, some of them negative), Russian economy could be seen neither pessimist nor optimist way in this term. Besides Russia's industrialization efforts had some negative impacts for society. Tariffs, high taxes, high prices affected poor people's life standards negatively⁵¹. However Russian economy began to grow better. Industrial firms increased to 21 thousands between the middle of 19th century and the middle of the 1890s (Less than 10 thousand people were working for these

⁴⁷ Wade A. Rex, *The Russian Revolution 1917*, Cambridge University Press, pp.3.

⁴⁸ Nicolas Spulber, *Russia's Economic Transitions- From Late Tsarism to the New Millennium*, Cambridge University Press, pp..3.

⁴⁹ Bookchin Murray, *1907'den 1917'ye Rus Devrimleri*, Dipnot Yayınları, pp.44.

⁵⁰ Spulber Nicolas, *Russia's Economic Transitions- From Late Tsarism to the New Millennium*, Nicolas Spulber- Cambridge University Press, 2003- Page Introduction 19.

⁵¹ Wade A. Rex, *The Russian Revolution 1917*, Cambridge University Press, pp.4-5.

firms). Labor force increased from less than 500 thousand to approximately 800 thousand people.

The value of Russian industry production increased from 160 million Ruble to approximately 1 billion Ruble. Russia also continued growing with the good performance till the end of 19th century⁵². These figures were good figures, but nevertheless actually Russian Empire still was an economically underdeveloped country. However, on the opposite direction, Russia, nevertheless, had 3.3 million relatively small industry proletariat. These people were working for manufacturing, mines, construction and trade⁵³.

There are going to give some information about Russian agricultural sector in the late of 19th century and early of 20th century now. According to prediction of academician Paul Gregory, Russian net grain production grew annually 3.1 percent between 1885 and 1913⁵⁴. In spite of there are some positive pictures of Russian agricultural sector, agricultural scarcity had also lived. Russian people lived crisis in agricultural sector. And this kind of problem pave the way for revolutionary riot. Russian agricultural production was in a very low rate. Yes, there were some speed-up, but this situation was temporary. This speed-up(production increase) is away from sustainable performance⁵⁵. So there are mix picture of Russian economy. On the one hand, Russian economy had been developing, but on the other Russia was mainly agriculture country and people suffered from these problems.

For example, Russian large investment ensured fast railway development. Construction length of the railway was 1626 km in 1860, it increased 10.731 km in 1870, it went up 22.685 km in 1880. During the industrial boom of 1890s, Russia constructed more than 2.5 thousand km of railways⁵⁶. However, on the other hand, If we compare Russia with Western countries, Russian economy was far poorer in 1913⁵⁷.

⁵² Bookchin Murray, 1907'den 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.51.

⁵³ Bookchin Murray, Ibid, pp.52.

⁵⁴ Leonard. S. Carol, Agricultural Productivity Growth in Russia, 1861-1913: From Inertia to Ferment- pp.1-2.

⁵⁵ Leonard S. Carol, Ibid.,p.2.

⁵⁶ Khaustova Ekatarina, Pre-Revolution Living Standards: Russia 1888-1917 Annual Conference of the Economic History Society, April 2013, pp. 5-6

⁵⁷ Gregory R Paul , Political Economy of Stalinism, Cambridge University Press, pp.24.

In general framework, Russian economy did not perform badly in the last term of 19th century. Their economic performance was impressive but nevertheless Russia was behind industrialized countries before the Revolution of 1917. Russia, GDP per head, had one of three as France and Germany (If the Germany and France GDP per head were 100, it was 33 in Russia). Austria- Hungary was poorer than France and German but nevertheless if Austria- Hungary, GDP per head, has 100, it was 60 in Russia in this term. Communist system was founded by Bolsheviks under this conditions and market economy was abolished till 1991⁵⁸. Actually Russia was rapidly developing country in 1913, but, Russia was also behind from European countries, and also from United States. According to Maddison, GDP per head of United States was 13.550 dollars, it was 5.550 dollars in Russia in 1913(In 1980 dollars)⁵⁹. (Maddison is a famous researcher who study international economic differences). Russia was trying to solve their economic problems, but Russia was in some some difficulties in the early of 20th century.

Japan, War and 1904- 1905

Military failures, economic problems could a problem for the governance of a country. Tsardom of Russia had one more difficulty in 1904. The name of the problem was Japan. Russia had some disagreements with Japan in 1904. Tzar's advisors believed Russia beat Japan easily and Tzar wanted to prevent increasing opposition movements and political disturbance with military success. Tzar challenged and claimed they smashed Japan⁶⁰. In February 1904, Japan pre-empted further Russian expansion in China by launching a devastating surprise attack on the tsarist fleet in Port Arthur⁶¹.

Russia was sure the success against small Japan. But Russia lost against Japan. Modern Japan Armada defeat Russian Armada on May of 1905⁶². This loss created big problems for the regime. 1905 Russian lost against Japan prompted Russian Revolution⁶³. There were also some serious economic problems in Russia. People were suffering.

⁵⁸ Gregory R. Gregory, *Ibid*, pp.26.

⁵⁹ Fisher Stanley, *Russia and Soviet Union Then and Now*, National Bureau of Economic Research(NBER)-ppp. 222

⁶⁰ Caşın Hakkı Mesut, *İmparatorluk Stratejisi*, Okumuş Adam Yayınları, pp.95.

⁶¹ Simms Breddan, *Europe The Struggle for Supremacy*, Penguin Books, pp.274.

⁶² Bookchin Murray, *1905'ten 1917'ye Rus Devrimleri*, Dipnot Yayınları, pp.105.

⁶³ Caşın Hakkı Mesut, *İmparatorluk Stratejisi*, Okumuş Adam, pp.137-138.

One of the most important development, maybe the most important development, was industrialization after the second part of the 18th century. Industrializing countries proceeded, non-industrial countries fell behind. Armament was also affected by the industrialization period. If your industrial level is stronger, power of the military was also improved because of technological process.

There were some social movements in Russia. Russian religious leader also activist Gapon prepared a program. This program involved social and political demands. For example, one of their demands were all Russian people should become equal in front of laws, and labor should work eight hours⁶⁴. Firstly, the program was confidential. Gapon firstly revealed this program to the very close people⁶⁵. However a socialist group persuade Gapon to launch a campaign for peasants. Gapon, firstly, was not sure what he had to do, but then he decided to accept this offer. They decide to prepare a petition, and they wanted to give this petition with demonstration to Tsar 2. Nicolas. A foreman sacked four workers. on December of 1904. They wanted these four workers should go back their jobs, and they wanted the government should make pressure fabric management because of these people should return their job. 3th of January 1905 began extraordinary. Big productive facilities' productions stopped. Approximately 12000 workers went to the street. One week letter strike expanded though the capital of the Russia. 100000 workers put down their tools in 380 fabrics⁶⁶. This strike transformed one of the biggest strike of Russian history⁶⁷. So many people joined walk, according to estimation, there were between 150000 and 250000 in streets. Crowds were stopped by cavalry soldiers unexpectedly, and soldiers opened fire towards crowds⁶⁸.

Nobody knows how many people died in Bloody Sunday. According to Jewish(Bund) Association, the death toll was between 960 and 1226. According to Soviet historian the number was between a few hundreds and 1000. According to foreign press, the death toll was 4600 people⁶⁹. After Bloody Sunday, autocracy lost its legitimate both for peasants

⁶⁴ Bookchin Murray, 1905'ten 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.115.

⁶⁵ Bookchin Murray, Ibid.,p.116.

⁶⁶ Bookchin Murray, Ibid.,pp.117

⁶⁷ Bookchin Murray, Ibid.,pp.116-117

⁶⁸ Bookchin Murray, Ibid.,pp.119.

⁶⁹ Bookchin Murray, Ibid.,pp.120.

and for middle class⁷⁰. Russian Monarch lost reputation. However regime continued to live. Tsar, firstly, formed Duma(Advisory council) and then representative foundations were formed. And some opposition parts began to support Tsar, the cooperated. However social democrats began(both Menşeviks and Bolsheviks) to be seen as the enemy of the state⁷¹. 1905 was an important date for Russia. Bloody Sunday was the next to the last try to topple Tzar. Russia- Japan war triggered 1905 Revolt.

⁷⁰ Bookchin Murray, Ibid.,pp.121

⁷¹ Caşın Hakkı Mesut, Rus İmparatorluk Stratejisi, Okumuş Adam,pp.138.

1.3 SOVIET ECONOMIC MODEL AFTER 1917 OCTOBER REVOLUTION: SUCCESS AND FAILURE

Russia conditions were very critic before 1917 both for Russia and for Europe. WW1, Revolution and Civil War were very important term both for Russian and European history. Communist economic model was used by Bolsheviks. Bolsheviks gave up using full communist system, they used National Economy Politics between 1921 and 1928. Stalin's industry policy was very important for both Russian economy. At last, Soviet Russia became industrial country after five years economic plans. So it is very important to learn this period of time to understand Soviet Union.'s performance till middle of 1960s. We return to the early of 20th century again.

Russia needed foreign finance to support its industrialization, and Russia dependent on foreign finance. The gross foreign debt to Gross National Product in 1913 was about % 40⁷². It was a big problem for Tzar and opposition movements tried to topple Czar but they did not become successful. WWI (Great War) also created serious troubles for the Russian regime. There were opposition movements against Tsar for a long time and this war prompted opposition to be active⁷³.

Growth of Industrial Production, 1860-1913(% per year)

	1870-1880	1880-1890	1890-1900	1900-1910	1910-1913
Russia	5.1	6	7	3.5	5
Germany	2.7	4.4	4.3	3.5	5.2
United States	5.7	5.6	3.8	5.4	5.4

Source- Stanley Fisher- Russia and Soviet Union Then and Now- pp. 233.

⁷² Fisher Stanley, Russia and Soviet Union Then and Now, National Bureau of Economic Research, pp.223.

⁷³ Gatrell Peter- Harrison Mark, The Russian and Soviet economies: in two world wars: a comparative view, Economic History Review 1993, pp.425.

WW1 conditions, Russia and 1917 Revolution

Russia was the mainly agricultural country in the early of 20th century, agricultural system was not enough to meet the needs of modern age⁷⁴. Russian's entry into WWI was a unprecedented madness. Excluding Austria- Hungary and Turkey, Russian situation was worse than other countries to continue the war socially and economically. Russian situation was not enough to continue this war⁷⁵. Above all, Russian military power was not enough to continue the modern war. Russian situation was outdated. There was also one more problem. Russia did not have any land connections with allied power. German armada was strong in The Baltic Sea, so it was a problem for Russia to get foreign help from sea road. Russian infantry class did not have enough equipments. Russia firstly mobilized 6.5 million war power. However infantries only had 4.5 million guns. Army needed to produce 150000 guns per month, but Russian industry only produced 27000 guns. On the other hand, German troops all kinds of modern weapons⁷⁶.

Bolshevik leader Lenin was in exile in Switzerland on January of 1917, he thought he did not live enough to see Russian Revolution. However empire got fatal injury. Actually the creature of the Russian Revolution was German Armies. Russian's soldiers families were starving. Production decreased, but the reason of the problem was the transportation system collapsed in Russia. After the Tsar, liberals and socialist formed a provisional government. The biggest mistake of this government, they wanted to continue the war. However it was impossible. Germans helped Lenin to return to Russia. Lenin understood Russian people wanted peace and bread. Lenin really wanted to get the power, he was decisive to get the power from the government hardly. Government did not resist the second wave. The name of this wave was October Revolution⁷⁷.

1 million Russian soldier escaped from the army till 1917 Bolshevik Revolution, they returned to their villages. Russia got 15 million people to the army to close the gap. Some of these people's age was not enough to go to military power. Peasants were taken to the war industry. In this situation, there was a basic foodstuff in the countryside. There was also a scarcity in the city. Women were waiting in the queue in front of the shops. These

⁷⁴ Kennan F. George, The Russian Revolution, Fifty Years After, October 1967

⁷⁵ Bookchin Murray, 1905'ten 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.173.

⁷⁶ Bookchin Murray, Ibid.,pp.174.

⁷⁷ Roberts J.M, Avrupa Tarihi, İnkilap Yayınevi, pp. 608

shops were selling food products. They were waiting to get some foods from these shops⁷⁸. Uneasiness began to improve in 1912⁷⁹. After 1916-1917 winter, hunger emerged in big cities. Hunger, bad conditions of factories and war created hopelessness and it triggered February Revolution⁸⁰.

If we try to make a short summary, monarchy lost respectability because of military inabilities, inflation, low salaries. Foods were not enough. And in this situation, police arrested some workers because police alleged workers used destructive activities on January of 1917. So workers lost to show their demands in legitimate. Food scarcity was coming, people were waiting in front of shops with high tensions, when time was coming to the February of 1917. Some workers were working for Pulitov Companies. Rebellion began and protest transformed to the general strike. They wanted the war had to be finished, and they also wanted the autocracy to be finished. The banners were shown that they did not want Russia to be in war, also they did not want autocracy. Insurgents set afire police stations. Czar, firstly, abolished Duma, and he declared martial law. However, he understood the situation was not hopeful. His generals recommended he decided to abdicate. This waiver, firstly, in favor of his big son Prince Mihail. However, Mihail saw people who were against monarchy in Petrodgrad. They hated monarchy. Mihail saw this situation, and he gave up of succeeding to the crown. Two headed eagle was removed in public buildings. 2. Nicolay portrait was lowered⁸¹.

⁷⁸ Bookchin Murray, 1905'ten 1917'ye Rus Devrimleri, Dipnot Yayınları, pp.175.

⁷⁹ Caşın Hakkı Mesut, Rus İmparatorluk Stratejisi, Okumuş Adam, pp.151.

⁸⁰ Caşın Hakkı Mesut, Ibid.,pp.152.

⁸¹ Hosking Geoffrey, Rusya ve Ruslar, İnkilap Yayınevi, pp.536.

Power's National Incomes in 1914.

Population and Income Per Capita

	National Income	Population	Income per capita
United States	37 billion dollar	98 milyon	377 dollar
Britain	11	45	244
France	6	39	153
Germany	12	65	184
Italy	4	37	108
Russia	7	171	41

Source: Paul- Kennedy -Büyük Güçlerin Yükseliş ve Çöküşleri- pp.298.

Russia's big transformation term

And Tsardom collapsed in 1917. After the fall of Tsar, Russian economy experienced second transition period. After Bolsheviks got power in 1917, Russia withdrew from WW1, the new term was started for Russia⁸². This term was a huge transformation term, Russians tried Communist System to be successful. It was a very important term of both for Russia and the world. Great War (WW1), Revolution and Civil War damaged economy a lot. A Supreme Council of National Economy(VSNKh) was founded in 1917. Workers controlled factories on December of 1918. Lands and banks were nationalized. Foreign debts were refused⁸³. All of big factories were nationalized in the middle of 1918, and war communism began.

⁸² Gatrell Peter- Harrison Mark, The Russian and Soviet economies: in two world wars: a comparative view, Economic History Review 1993, pp.425.

⁸³ Fisher Stanley, Russia and Soviet Union Then and Now, National Bureau of Economic Research, pp.223.

The basic compound of the Soviet order had been invented by Lenin and his fellow communist leaders within a couple of years of the October Revolution. There had been created a centralized, one ideology dictatorship of a single party which permitted no challenge to its monopoly of power⁸⁴. However the conditions of Russian economic situation was very difficult in 1920s.

Agricultural production decreased, famine began. Uncounted millions death in 1920 and in 1921. Bolshevik policy was enough to win the Civil War, but production, industry contracted. Inflation increased. Price increase was 1000 % for some goods between 1917 and 1921. And the regime made a tactical retreat and NEP was approved . Large scale industry was responsible for 75 % of industrial output, remained nationalized. They did transportation, banking and foreign trade. Foreign capital was invited. Less than one percent of industrial output had been produced in foreign- owned firms by 1928⁸⁵.

Population went down dramatically in this term. Russian population was 171 million in 1914, but it decreased to 132 million people in 1921. Russia lost industrial enterprises, railways and farms after Russia lost Poland, Finland and Baltic countries in the WW1. Manufacturing industry decreased and its productivity went down to 13 percent of the 1913 level in 1920. Russian iron ore production was only 1.6 percent, pig iron was only 2.4 percent, steel was only 4 percent, cotton was only 5 percent before the WW1 production levels. Russian production levels decreased dramatically because of social and political chaos between 1917 and 1921. Russian economy was affected by this kind of problems, but actually Russia had changes to grow faster⁸⁶.

Russian economy experienced extraordinary transformation term after 1917. Russian economy began to transform from capital- based economy to centrally planned economic system⁸⁷. According to some scientists, economic failure and weakness was one of the main reasons of the Russian Revolution 1917⁸⁸.

⁸⁴ Service Robert, *The Penguin History of Modern Russia*, Third Edition, Penguin Books, 2009, pp.123.

⁸⁵ Fisher Stanley, *Russia and Soviet Union Then and Now*, National Bureau of Economic Research, pp.224.

⁸⁶ Kennedy Paul, *Büyük Güçlerin Yükseliş ve Çöküşleri*, İş Bankası Yayınları, pp.47.

⁸⁷ Khaustova - Pre-Revolution Living Standards: Russia 1888-1917, Annual Conference of the Economic History Society, April 2013, pp.1.

⁸⁸ Khaustova Ekaterina- Pre-Revolution Living Standards: Russia 1888-1917, Annual Conference of the Economic History Society, April 2013, pp.2.

Bolsheviks and economy

Production were nationalized by Bolsheviks in this term. Employment market were controlled by central government, wages were fixed. Bolsheviks managed economy within the frame of central planning⁸⁹. But people of Russia was resist against the new rules of Bolsheviks. Because economic consitions were very difficult after the WWI in Russia. People were against new system, and in this circumstances, Lenin did not want to force people to accept the new system, he retreated for a period of time. Lenin made a strategic step and he retreated for a period of time under this conditions. It was defined as a strategic retreat step. New economy policy started to be used. The name of the program of NEP: National Economy Policy⁹⁰.

The History of Communist Russia

Russian economy hardly damaged, production decreased and capital stock went down drastically. According to Markevich and Harrison, GDP (Gross Domestic Product) of Russia was 50 percent lower in 1918 than 1913 levels⁹¹. Russian economic performance was worse in the early 1920s. Peasants lived in scarce conditions in 1921⁹². More than 7 million people died of starvation and sickness during a famine in 1921-1922⁹³. If American Mission for Aid and Quaker Group had not helped Russia, a lot more Russian would have died because of scarcity problem of 1921-1922⁹⁴. And, in these conditions, The New Regime changed its economy policy for a period of time⁹⁵. And in these conditions, NEP began to be implemented. NEP was approved by Party Convention on May of 1921 in Soviet Union. Aim of NEP was to solve serious economic problems⁹⁶. NEP was the term between 1921 and 1928 in Soviet Russia⁹⁷. Peasant rebelling in Russia in the early 1921⁹⁸, and in these conditions, Lenin declared NEP in the spring of 1921. Lenin objected

⁸⁹ Spulber Nicolas- Russia's Economic Transitions, From Late Tsarism to the New Millennium, Cambridge University Press, Nicolas Spulber 2003, pp. Introduction 21.

⁹⁰ Keskin F., NEP, Türk Dış Politikası 1. Cilt Der. Baskın Oran, İletişim, pp.160.

⁹¹ Cheremukhin Anton- Glosov Mikhail - Guriev Sergei- Tsyvinski Aleh, Was Stalin Necessary for Russia's Economic Development, National Bureau of Economic Research, pp.7.

⁹² Cheremukhin Anton- Glosov Mikhail- Guriev Sergei- Tsyvinski Aleh, Ibid., pp8

⁹³ Merriman John, A History of Modern Europe, W.W. Norton Company, pp.952

⁹⁴ Riasanovsky V. Nicholas- Steinberg D. Mark, Rusya Tarihi, İnkilap Yayınevi, pp.528

⁹⁵ Cheremukhin Anton- Glosov Mikhail- Guriev Sergei- Tsyvinski Aleh, Was Stalin Necessary for Russia's Economic Development, pp.8

⁹⁶ Keskin F., NEP, Türk Dış Politikası 1. Cilt Der. Baskın Oran, İletişim, pp.160.

⁹⁷ Neumann Mathias, Revolutionizing mind and soul? , Social History Vol.33, No.3, August 2008, pp.243.

⁹⁸ Johnson Simon- Temin Peter, The Macroeconomics of NEP, Economic History Soviets, 1993, pp.754.

doctrinairian opposition and he behaved like a realist. NEP was the reconciliation. NEP was the temporal retreat for the way towards socialism. On the other hand, NEP was not a completely retreat. State was the top of the economy, and continued to control finance, modern transportation, large and medium- seized industry, wholesale products. Private enterprises had a chance to operate for small industry⁹⁹. Soviet economy began to perform better after NEP. Hyperinflation was controlled in 1923-1924. Financial Stability got better¹⁰⁰.

Money system, market economy and trade liberalization returned. Labors were getting overtime wage. Foreign capital was encouraged. Business corporations were usually managed by private enterprises. Conditions of peasants began to get better after NEP. Food distribution were more effective. Russian economic production started to increase. Russian economy usually caught before the war conditions in the middle of 1920s. Economy caught the pre- WW1 level both agricultural sector and non-agricultural sectors in 1928¹⁰¹(In spite of some problems, Russian economic performance generally was well) . For example, Russian industry production increased 60 percent in 1924¹⁰². However on the other hand, Russia was in grain crisis in 1928 and 1929¹⁰³.

There were different opinions about NEP

Communists were worried about the social results of NEP. There were some restrictions against NEP in 1924 and in 1925. On the other hand, some Bolsheviks, including Lenin, began to see NEP as a special way towards socialism instead of temporal retreat. Actually there were two different opinons how does Russia reach socialism? One of them was Russia was a agricultural society, peasant society, so maybe NEP was a correct way towards socialism. The other thought was the authority should make socialist Russia by force¹⁰⁴. After Lenin's death in 1924, power struggle emerged between these two thoughts¹⁰⁵. Lev Troçki developed and defend "left" thought. According to this opinion,

⁹⁹ Riasanovsky V. Nicholas- Steinberg D. Mark, Rusya Tarihi, İnkilap Yayınevi, pp.527.

¹⁰⁰ Abdullayev Natug, Rusya'da Sosyalizmin Kurulma Sorunsalı veya Sonun Başlangıcına Bakış, Uluslararası Hukuk ve Politika, Cilt 3,pp.65.

¹⁰¹ Cheremukhin Anton- Glosov Mikhail- Guriev Sergei- Tsyvinski Aleh, Was Stalin Necessary for Russia's Economic Development, pp.8.

¹⁰² Johnson Simon- Temin Peter, The Macroeconomics of NEP, Economic History Soviets, pp.750.

¹⁰³ Harrison Mark, Why did NEP Fail? Universty of Warrick Institutional Repository,February 1980, pp.4.

¹⁰⁴ Riasanovsky V. Nicholas- Steinberg D. Mark, Rusya Tarihi, İnkilap Yayınevi, pp.528.

¹⁰⁵ Risonovksy V. Nicolas, Ibid.,pp.529

party and leader of state would improve economic and cultural levels of Russia. Russia was a underdeveleped country, party and leader of state would solve this problem. State would become as an attacker for economic planning and high tax rates. Peasants and private sector should be forced by the state to reach enough capital to improve investment levels. Wages also should become controlled by the state. Another opinion was milder way to achieve its aims. Nikolay Bukharin was the main opponent of this thought. He and Stalin, as opponent of this opinion, they represented majority of the party till the late of 1920s. However Stalin left them in the future. Bukharin and his supporters were defined as "right- wingers". According to Bukharin, the biggest obstacle towards socialism was economic underdevelopment of Russia. He defend this thought of left. Bukharin also thought industrialisation was an vital subject(There was not a difference between Bukharin and left thought to reach industrial level, the difference was method between two thoughts).Bukharin did not defend the model of forcing private sector to produce more. He thought consume model should work with working market. He was against the methods of left because of political reasons. According to Bukharin, peasants should like socialism. If the system forced them towards socialism, they were alienated. They began to bear a grudge and, maybe, they revolt at the end. Bukharin thought the way towards socialism should be "peaceful" and "bloodless", it should not be called the voice of metal weapons¹⁰⁶. After that, Stalin changed his position and he supported "left" opinion. Stalin accused Bukharin tried to surrender "capitalist elements"¹⁰⁷. After Lenin's death, Stalin took control of the party¹⁰⁸.

Stalin was different from other Bolshevik figures. Other Bolshevik leaders were more Europeans, they were interested theoretical subjects and also they were superior than Stalin¹⁰⁹. Hovever, firstly, Stalin won power struggle against Leon Trotsky, then he destroyed "right- wingers"¹¹⁰. Stalin returned to Socialist policy again in 1928. NEP was ended and Stalin's collectivize policy started to be implemented. Peasants revolted and they

¹⁰⁶ Risonovksy V. Nicolas, Ibid.,p.529.

¹⁰⁷ Marriman John, A History of Modern Europe, WW. Norton&Company, pp.1096.

¹⁰⁸ Riasonovsky D. Mark- Steinberg V. Nicholas, Rusya Tarihi, İnkilap Yayınevi, pp.530.

¹⁰⁹ Lewin Moshe, Sovyet Yüzyılı, İletişim Yayınları, pp.26.

¹¹⁰ Lewin Moshe, Ibid.,p.531.

began to cut their animals, burned their crops. State used force and rich peasants("Kulaks") were eliminated. Regime repressed the riot ¹¹¹.

Russia did not get from investment abroad, so Stalin wanted Russia to make industry development broadly and to found big army so he needed money to achieve these aims and also he needed to create capital from domestic sources. He wanted to create money and he wanted to send this money from farm to industry. He decided to collectivize agriculture to create money. He decided to force peasants to enter communes¹¹².

Soviet economy after 1928

Before the First World War, Russia was an underdeveloped and industrializing country, Russia lost its limited production capacity during the WW1, 1917 Revolution and Civil War periods and Russia stayed as a rural country in the early 1920. Only 17.9 percent of Russian people lived in town in 1926¹¹³. However after 1928, Russian economy began to perform better, but labor force conditions were in very difficult conditions.

Stalin wanted Russia to make industrialisation¹¹⁴. Stalin believed that socialism could not be fully implemented until the Soviet Union had a stronger industrial base¹¹⁵. Soviet Union evolved from agricultural economy to industrialized economy under Stalin Administration. This success was one of the most important political and economical events of the 20th century. Stalin worked and wanted Russia industrialized country in 1920s and 1930s¹¹⁶.

NEP was finished by Stalin, and instead of NEP, he designed 5 Years Plans. The policy name was "Great Break". Collectivization was an important part of industry policies of Stalin term.

Stalin's policy was to socialize surplus of agricultural sector and subsidize industry sector. The aim of this policy was labor force out of agricultural sector. They wanted labor force leave agricultural sector. Stalin wanted and forced peasants sell their grains to the state

¹¹¹ Keskin F., NEP, Türk Dış Politikası 1. Cilt Der. Baskın Oran, İletişim,p.160.

¹¹² Kennedy Paul,Büyük Güçlerin Yükseliş ve Çöküşleri, İş Bankası Yayınları, pp.388.

¹¹³ Mazat Numa,An Analysis of the Soviet economic growth from the 1950s to the collapse of USSR

¹¹⁴ Cheremukhin Anton, Golosov Mikhail, Guriev Sergei, Tsyvinski Aleh, Was Stalin Necessary for Russia's Economic Development, National Bureau of Economic Reaearch, pp.7.

¹¹⁵ Marriman John, A History of Modern Europe, Norton&Company, pp.1036.

¹¹⁶ Cheremukhin Anton, Golosov Mikhail, Guriev Sergei, Tsyvinski Aleh, Was Stalin Necessary for Russia's Economic Development, National Bureau Economic Research, pp.7.

with lower price than market levels. After that, State sell these goods to industry workers to higher price. State exports grains to buy industry goods. However price scissors created social problems¹¹⁷. Stalin defined industrialization as the key of the future. However peasants pay the price of industrialization¹¹⁸.

Stalin wanted to control how much peasant gets wages he also wanted to determine the prices of goods. So the state stepped in between countryside wages and urban consumers , and state got money from these part of the society. Actually state hardly got this money from these people. They decided to levy a tax on people, and the state also forced people to buy treasury bonds to show their loyalty toward the state. Both peasants and urbanized people were under pressure of the state¹¹⁹. On the other side of the coin, this system worked and Russian economy began to perform better. Russian economy grew faster and the main reason of the growth was capital stock. Investment rates increased very fast in Russia. Investment rate was 8 percent in 1928, but this rate increased from 8 percent to more than 20 percent in middle of the 1930s. Russia increased producer goods in within the frame of "Five Year Development Plans". Russia produced in a large numbers of steel and machinery. State financed heavy industry in Russia in 1920s(All of them are very important for Soviet economy). The second important point was Russia opened agriculture to collectivization also collective farms were used. Stalin forced peasants to produce more agricultural goods in farms¹²⁰. Stalin talked about towards Russian people on 4th February 1931. He said that: "We are behind fifty, a hundred years from the developed countries. We have to close the gap in ten years. We will be either be successful or they crush us ".¹²¹

Rearmament was also important element of Stalin policy. First Development Program was implemented between 1928 and 1932. Second program was implemented between 1933 and 1937, the third one was used between 1938 and 1942. 3. Five Years Development Program was cut by 2. World War¹²².

¹¹⁷ Cheremukhin Anton, Golosov Mikhail, Guriev Sergei, Tsyvinski Aleh, İbid., pp.8.

¹¹⁸ Çaşın Hakkı Mesut, Rus İmparatorluk Stratejisi, Okumuş Adam, pp.154.

¹¹⁹ Kennedy Paul, Büyük Güçlerin Yükseliş ve Çöküşleri, İş Bankası Yayınları, pp.388.

¹²⁰ Allen C. Robert, The Rise and decline of the Soviet economy, The Canadian Journal of Economics, pp.863.

¹²¹ Çaşın Hakkı Mesut, İmparatorluk Stratejisi, Okumuş Adam, pp.223.

¹²² Mark Harrison Mark, Davies W.R, The Soviet military- economic effort during the second five-year plan(1933-1937),Department of Economics, pp.1.

Soviet Union was a minor industrial country in the 1920s. However Soviets was a resource-rich country. The country's agricultural production reorganised. Industrial production doubled, tripled and then quadrupled in this period. By the beginning of the WW2, Soviet Union had become an industrial military power like of the most advanced countries. Nearly 80 % people lived in rural areas in the late 1920s. However, by the early 1950s, the country becoming increasingly urbanised, mobile and educated. Soviet Union spent for education and literacy rate increased very fast. Roads, rail lines, radio began to connect the previously isolated parts of the country. When Stalin died in 1953, Soviet Union was industrial, military and nuclear giant¹²³. Coal production increased from 10 to 73 million tons each year between 1928 and 1940. Iron ore production increased from 1 to 5 million tons in the same term. Russia increased its steel production from 2 million tons to 9 million tons. The Soviet Union was an importer of natural gas before industrial program of Stalin, but Soviets became an exporter of natural gas by 1932¹²⁴. The Second Development Program was very successful program, but ordinary people did not have positive effects of the program. Second Development Program was much more successful the first one¹²⁵.

USSR used 25 percent of its GDP for industry investments and they had enough money for education, science and military power. Agriculture sector of Soviets decreased from 71 percent to 51 percent between 1928 and 1940. The state also gave education to people during this period. These were very important developments. For example Russia was behind from United States for labor educationally. Comparing to United States, Russian industry workers were less educated, even illiterate people and Russia also did not have enough engineers, scientists and executives, and this problem created difficulties to improve manufacturing sector because manufacturing sector needed engineers, scientists and executives, Russia suffered from this problem. However after this period of time, millions of people were educated at either firm schools or technical schools in USSR. Universities were founded in Russia in this term. At last, USSR had enough educational staffs for sustainable economic growth. For example, there were 47.000 engineers in 1928, but this number increased to 289.000 in 1941. Soviet propaganda exaggerated this

¹²³ Suny Grigor Ronald, *The Cambridge History of Russia- Volume Three-* Cambridge University Press, 2006, pp.192.

¹²⁴ Suny Grigor Ronald, *Ibid.*, p.194 .

¹²⁵ Gregory R. Paul, *The Political Economy of Stalinism*, Cambridge University Press, pp.120.

numbers, but Soviet Russia allocated resources for growth, it was indisputable¹²⁶. Russia's economic future began to get better.

After this kind of efforts, Soviet Russia experienced manufacturing efficiency(productivity) and high national income increase in this period. Soviet manufacturing industry production increased during the Great Depression(World economic crisis began in 1929. The crisis began in United States and its expanded to the world economy in the 1930s). Soviet Russia experienced a successful economic performance between 1928 and 1937 in the two five years development programme. National income increased from 24.4 billion Ruble to 93.3 billion Ruble between 1928 and 1937. Steel production increased from 4 million tone to 17.7 million tone. Electricity efficiency(productivity)increased sevenfold. Machine tools increased twenty times, tractors numbers increased forty times. Russian industry efficiency(productivity) reached and passed France, Japan and Italy's levels¹²⁷. Despite difficulties of workers, nevertheless Soviet Union's economic performance was not worsening comparatively. Free health and educational system was universal levels in Russia. This system was the best system of the developing countries. Income discrepancy, corruption and crime rates levels were low comparatively in Russia¹²⁸.

Russian economy began to grow slowly in 1960s.

There are some statistical information about Soviet economic performance. Soviet Union grew 5.8 percent annually between 1928 and 1940. Growth rate was 5.7 percent annually between 1950 and 1960. Russian economy began to grow slowly in 1960s, but nevertheless Russian economic grew 5.2 percent annually in this period. However the main problem of the economy started to be seen in 1970s and 1980s. Russia grew 3.7 percent between 1970 and 1975, this growth performance decreased to 2.6 percent growth rate between 1975 and 1980. When Mikhail Gorbachev was in power in 1985, economy slowed more and growth rate was 2 percent in 1980- 1985 term¹²⁹.

¹²⁶ Kennedy Paul, Büyük Güçlerin Yükselişi ve Çöküşleri, İş Bankası Yayınları, pp.389.

¹²⁷ Kennedy Paul, Ibid.,p.389.

¹²⁸ Popov Vladimir, Is Russian economy likely to become a new "Asian Tiger"? ISPI Analysis- Istituto Per Glistudi Di Politica Interbazional, pp.2.

¹²⁹ Robert C. Allen, The Rise and decline of the Soviet Economy, The Canadian Journal Economics, pp.862.

According to specialists, there is not agreement how fast Soviet economy grew between 1920s and 1991. However, All agree, Soviet industrial economic performance began to decrease in 1960s(There is a consensus about this subject)¹³⁰. There are a big discrepancies between growth rates. Why did not Russia continue better economic conditions after 1970s? Why did Soviet Union collapse? We should examine after 1928 economic conditions of Russia to learn answers this kind of questions.

Russian economic performance was successful in Stalin term. Industrial production advanced, also Russians were able to obtain only limited rewards. 1952's Soviet Industry was 5.8 times bigger than 1928. Steel production eightfold in this period of time. The total steel production was 34.5 million tone. Electric production went up 23 times between 1952 and 1928. In a quarter century, Soviet Union was the second industrial power of the world. Heavy industrial productions were important part of the industrial production. Russia produced more soap, more paper and other materials in this period. On the other side of the coin, Russian people only bought 1.1 a pair of shoes. Russian people bought 10 percent less goods with their wages. And also according to criticism, Russian people produced inferior goods. They werw criticized by the governments. On the other side, Russian people eat more fish, grain and potato between 1952 and 1928¹³¹.

Soviet economy during and after the WW2

Soviet economy changed radically between 1941 and 1945¹³². Soviet industry got stronger. Soviet Union's only eastern side' industrial production was 83 billion dollars. This level was 7.5 times higher than before the Revolution.

Output of high- grade rolled metal - the foundation of the war machine- building industry- amounted in 1940 to 80 times the 1913 figure¹³³. Soviets produced coal 60 times higher Eastern areas in 1943 than in 1919¹³⁴. Soviet production especially increased fast in 1942¹³⁵.

¹³⁰ Goldman I. Marshall, *The Privatization of Russia, Russian Reform Goes Awry* , Routledge, First Publish 2003, pp.47.

¹³¹ Bergson Abram, *Russian Economy Since Stalin*, Foreign Affairs, January 1956
<http://www.foreignaffairs.com/articles/71232/abram-bergson/the-russian-economy-since-stalin>

¹³² N.A. Voznesenk, *Soviet Economy during the Second World War*, International Publishers, New York, Page 7

¹³³ Bergson Abram, *Ibid.*,pp.24.

¹³⁴ Bergson Abram, *Ibid.*,pp.26.

¹³⁵ Bergson Abram, *Ibid.*,pp.28.

Soviet Union won the Second World War, however 25 million people Soviet people died during the war. Even they were alive, these people were weary. Despite these negative developments, Soviet Union mobilized politically and economically¹³⁶.

Despite of big human lost, after the war, Russia began to grow economically. Average Soviet income achieved 1938's situation in 1948. However after the WW1 and Civil War, Russia lost income, and Russia achieved 1913 level between 7 and 10 years¹³⁷. After 1946, Soviet spent money for its military power¹³⁸. Soviet economy won the WW2, but Soviet Union was devastated. 75 percent of capital resources were destroyed. Soviet leader Stalin accepted a limited credit from Britain and Sweden to reach economic growth better. However Soviets did not accept the help from United States in the scope of Marshall Plan. Soviets rejected this offer. However on the other hand The Soviet Union compelled Soviet-occupied Eastern Europe to supply machinery and raw materials. Germany and former Nazi satelllites made reparations to the Soviet Union. Soviet Union struggled a lot to reach heavy industry level. When Stalin died in 1953, Soviet steel production twice higher than 1940's level¹³⁹.

Soviet defense industry began to grow again. After the start of Korean War, Soviets returned to produce mass weapon. Soviets returned their traditional policy¹⁴⁰. Soviet economy grew faster, Soviet Union used command economy¹⁴¹. After the war, Soviet Russia wanted to repair its country, so this situation enable Soviet Union to grow faster. Soviets mobilized its sources to grow faster. Soviet economy grew faster between the late of 1940s and the middle of 1960s¹⁴². Soviets changed growth model structurally. The labor force of agricultural sector was moved to industrial sector between 1950 and 1973. Agricultural sector also progressed in this period¹⁴³.

¹³⁶ Harrison Mark, The Soviet Union after 1945: Economic Recovery and Political Repression, April 14, 2010,pp.1.

¹³⁷ Harriion Mark, Ibid.,pp.2.

¹³⁸ Harrison Mark,Ibid.,pp.4.

¹³⁹ Zickel E. Raymond, Soviet Union- 1945- 1985, Excerpted from the Soviet Union- A Country Study, (Washington, D.C: Federal Research Divison of the Library of Congress, 1989.
http://www.shsu.edu/~his_ncp/Soviet2.html

¹⁴⁰ Harrison Mark, The Soviet Union after 1945: Economic Recovery and Political Repression, April 14, 2010,pp5.

¹⁴¹ Harriion Mark, Ibid.,pp.6.

¹⁴² Harriion Mark, Ibid.,pp.13

¹⁴³ Mazat Numa, Serrano Franklin, An analysis of the Soviet economic growth from the 1950s to the collapse of USSR.,pp.5.

<http://www.centrosraffa.org/public/bb6ba675-6bef-4182-bb89-339ae1f7e792.pdf>

When we look at the 1960s there was not a big discrepancy between Soviets and United States and West in the view of such information. There was also not a very big discrepancy in life expectancy levels between Russian and United States. Soviet's life expectancy level increased to 70 years in 1965 and this level was only two years lower than United States.¹⁴⁴ There was not an unemployment level. Russian people had their jobs. However this term finished in 1970s¹⁴⁵. Economy started to grow slowly. Soviet specialists thought that the reason of the slowdown was technological failure. Innovation was not encouraged and this affected slowing economic rates¹⁴⁶. So that the first reason of the slowing economy was technological failure. Another reasons were investment failures and decreasing capital. There was one more important thing; Soviet economy was extremely big economy and also planned was economy, it was difficult to plan and to manage this kind of big economy¹⁴⁷.

The reasons of the economic failure

There is one more explanation why Russia did not continue its high economic growth in 1970s, and 1980s. There is a link between high economic growth and general productivity increase in economics. There are a few examples that economic growth does not explain the link between high economic growth and fast productivity increase. This kind of examples signals this country will has economically some problems in the future. When Nikita Kruşçev was in power, Soviet Union experienced high economic growth without fast productivity increase in 1950s and the early of 1960s. American researchers said that, Soviet economy was growing fast, but this growth is due to bulk labor force mobility and high investment levels. There was not a total factor productivity. Total factor productivity did not increase, or increased very slowly. So this situation had shown slowing economic growth for Russia in the future¹⁴⁸.

¹⁴⁴ Popov Vladimir, Is Russian economy likely to become a new "Asian Tiger"? ISPI Analysis, Istituto Per Glistudi Di Politica Interbazional, pp.2.

¹⁴⁵ Robert C. Allen, The Rise and decline of the Soviet economy, The Canadian Journal Economics, pp.863.

¹⁴⁶ Robert C. Allen, Ibid.,pp.863.

¹⁴⁷ Robert C. Allen, Ibid.,p.866.

¹⁴⁸ Krugman Paul, Bunalım Ekonomisinin Dönüşü, The Return of Depression Economics,Literatür Yayıncılık, First Edition,Jun 2001, pp.30-31.

Some thinkers said that Soviet system were condemned to fail. Ludwig von Mises and F. Hayek wrote some articles about a planned economy between 1920s and 1940s. They criticized this system(planned economy). They thought system had many Achilles's heels. According to them, rational economical calculation can't make without market(For example how many shirts, skirts, jackets will produce without market decisions. People decide, market decide in capitalist system. If people want to buy more jackets or shirts, firms produce more jackets or shirts to meet the demand of people. They see demands in market. But an authority decide how many shirts, how many jackets has to be produced in planned economy. Especially big Soviet economy could be a problem to balance supply and demand. This is the one of the main criticism of the Soviet system).

According to them, when a state control the economy and resources are not used rationally. Because there are few encouraging factors for the economy use resources rationally. No economy can function if it does not know what is abundant and what is scarce¹⁴⁹.

Economy is an important factor for the collapse of Soviet Union. Soviet economy did not save its power against Western countries. Soviet Union was not comparing with United States or Western European countries in 1980s, Soviet Union was comparing with Southern European countries in 1980s. According to Abram Bergson who is an economist, Russian GDP per head was 38 percent of GDP per head in United States (When income was 100 in United States, this rate was 38 in Russia) in 1980s. Soviet Russia was comparing with like Greece, Portugal and Spain where low income rates of Europe. According to Bergson, Russian GDP was similar to Mexico in 1991 for PPP(Purchasing Power Parity)¹⁵⁰. According to study of World Bank, Russian GDP per head similar to Poland. There were also some problems for the composition of employment levels. 20.1 percent people of Soviets worked for agricultural sector of the total employment. This rate was in 2.9 percent in United States, 5.3 percent in Western Germany¹⁵¹. Soviet Union fell behind Western economies in the view of such information. If agricultural sector is high rate in an economy, it means, this economy has not achieved their aims yet to produce more goods and services. Because an economy has to evolve from agricultural sector to

¹⁴⁹ Gregory R. Paul, *Political Economy of Stalinism*, Cambridge University Press, pp.2.

¹⁵⁰ Fisher Stanley, *Stabilization and Economic Reform in Russia*, Brookings Inst., pp.80.

¹⁵¹ Fisher Stanley, *Ibid.*, pp.80.

industry and service sector. Agricultural sector should become low, and industry and especially services should become high rates for the modern economy.

Soviet industrialization period was an important development of the both Russian and the world history. Soviet Union resisted German attacks. If Stalin had not used this industrialization period, maybe, Soviets would have lost and world history would have written differently.

On the other hand, when we look at the long term, Soviet Union lived problems its economic model. Communist model did not become successful as Capitalist system. Capitalist system was(is) not fair, but it a productive system. Communist system's aim is to reach a fair system, but this system was(is) not productive. One of the biggest reason of Russian lost in Cold War was economy policy of Russia

1.4 GORBACHEV TERM- THE COLLAPSE OF SOVIET UNION AND THE REBIRTH OF RUSSIA

The last term of Soviet Russia was also very important term of the world history. Both it is important to complete the process that started in 1917, and it is important to understand the reborn of Russia, Russian Federation. To understand Perestroika and Glasnost policy is important to understand the last struggle to rescue of Soviet Union. Boris Yeltsin was born as a new figure of Russian political life. It is again, we returned to Soviet history.

It's time to write about political life of Soviet Union. Leonid Brezhnev term finished in 1982. It was the first important development in Soviet Union in 1980s. Leonid Brezhnev was the General Secretary of the Soviet Union between 12th of November 1964 and 10th of February of 1982. Instead of Brezhnev, Yuri Andropov(12th November 1982-10th February 1984), become the General Secretary of the USSR. After he died, Konstantin Chernenko(13th February 1984- 10th March 1985) become the head of the Soviets. But neither Andropov nor Chernenko become effective and determiner like old general secretaries of Soviet Union. One reason is they stayed in power for a short time, the other reason is USSR needed comprehensive reforms. Actually, with another explanation, after Brezhnev term the new term began with Mikhail Gorbachev. He became the general secretary of USSR on 11th in 1985 and this term began¹⁵².

When Gorbachev came to power, he wanted to revive Russian economy and also wanted to transform Russian economy¹⁵³.

USSR needed two main necessity. One of them was economic restructure, and the political transformation. These necessity's meet are very important for USSR to progress. It was the breathing space for USSR before "long haul attack"¹⁵⁴. Actually in this term, Russia did not want to change the system completely, Gorbachev wanted to solve systemic problems in Soviet Union, then he wanted Soviet Union to continue in better better conditions.

¹⁵² Tellal E., Perestroyka, Türk Dış Politikası 2. Cilt Der. Oran Baskın , İletişim,pp,158.

¹⁵³ The Former Soviet Union in Transition- Volume 1, Printed Joint of Economy Committee, February 1993, pp.8.

¹⁵⁴ Tellal E., Perestroyka, Türk Dış Politikası 2. Cilt Der. Oran Baskın, İletişim,pp,158.

There were two important concepts in this term. These were Glasnost and perestroika. Glasnost means openness, perestroika means restructuring. Gorbachev commenced political, economical and social transformation process with glasnost and perestroika.

Gorbachev criticized weakness parts of the of Soviet system in his Perestroika book and he opened it and let people of Soviets to criticize. There were privileged and closed bureaucratic groups and these groups governed Soviet society, but Gorbachev wanted young and talented people to become executive in his Glasnost(openness)policy¹⁵⁵. After becoming of General Secretary of the Communist Party, he mentioned about development of the economic mechanism in his speeches¹⁵⁶. Another important concept was Perestroika. According to Gorbachev, today's production relations(Gorbachev term's economic relations)based on the conditions of 1930s in USSR. So these production relations did not meet today's conditions and perestroika was based on this diagnosis. Reconstruction was necessary because there were some requirement in Soviet Union for reconstruction. USSR had became the part of the capitalist system since 1970s, the aim was to create market instead of planning, private ownership instead of state ownership. He also wanted to make Soviet Union to become integrated with capitalist economy instead of national growth model. Gorbachev also thought fixed wages policy created laziness during the Leonid Brezhnev term. This policy(fixed wage policy) was also implemented before 1931¹⁵⁷. However there is an important thing here. Gorbachev did not change all the system with Glasnost and perestroika in Soviet Union. He did not want to create a new system. He did not want to found a market economy. He did not plan USSR to implement Western style liberal political system. He substantially wanted planed economy and communist ideology to stay, but he wanted a new economic system. He wanted people support his reforms and he wanted people express themselves more openly in this economic system. This economic system enable resources use more productive¹⁵⁸. Actually Gorbachev wanted to achieve this kind of desires.

He began the policy of cleaning bureaucracy and restore discipline in working life in Russia. He wanted to modernize the industry. He needed to increase investment rate to

¹⁵⁵ Sander Oral, *Siyasi Tarih- 2. Cilt 1918-1994*, İmge Kitapevi, pp.492.

¹⁵⁶ Armaoğlu Fahir, *20. Yüzyıl Siyasi Tarihi*, Timaş Yayınları, pp.807.

¹⁵⁷ Tellal E., *Perestroyka, Türk Dış Politikası 2. Cilt* Der. Oran Baskın, İletişim,pp,158.

¹⁵⁸ Yanık Lerna, *Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm*, Şenses Fikret- Öniş Ziya- Bakır Caner - Article, İletişim, pp.221.

modernize industry. After this policy Russian budget deficit began to go up fast. Gorbachev began to loosen central controls towards economy. However budget deficit was massive between 1988 and 1999¹⁵⁹.

Gorbachev firstly put "Government Enterprise Law" into action to make economy better standards on January of 1988. He wanted to reduce direction of planed economy and his aim was to give partially autonomy to executives with this act. According to this act, after government enterprise reach production target, they had a authority(right) to sell their productions to make profit. They could make profit. They had rights to determine prices of their products and determine wages of their workers¹⁶⁰. On the other hand, Gorbachev gave strong signal on 7th of December 1988, he promised they retreats their armament form East Germany, Hungry and Czechoslovakia till 1991.

This decision increased expectations that Russian soldiers did not make any operations. This also gave confidence to reformists to make progress in their liberations plans and by 1989, the market liberation had begun¹⁶¹. Russian democratic powers took courage from the successful movements of democracy in East. They took a major step in 1989, and first multi-candidate parliamentary election were hold on the march of 1989 after 1917. However the real political transition began in 1990 in Soviets¹⁶².

Soviets faced with economic and political crisis in 1989. Economic growth did not increase after Perestroika. There were not both privatization and liberation. Communist Party still saved its political power¹⁶³. So Russia wanted to solve these problems. "Economy Group" was founded to prevent economic problems. "Economy Group" published an a program which divide into two parts in these conditions. (this program divide into two parts). The name of the group was Shatalin Group and Stanislav Shatalin was the head of this group. They planed Soviet economy to make transition from state-directed economy to market-directed economy¹⁶⁴. But there is an important thing here. Shatalin Group's aim was to

¹⁵⁹ The Former Soviet Union in Transition- Volume 1, Printed Joint of Economy Committe, February 1993, pp.9.

¹⁶⁰ Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner, Makale, İletişim, pp.221-222.

¹⁶¹ Dorn A. James, From Plan to Market: The Post Soviet Challenge- From Plan to Market : Cato Journal, pp. 177.

¹⁶² Dorn A. James, Ibid.,pp.177.

¹⁶³ Dorn A. James, Ibid.,pp.78.

¹⁶⁴ Dorn A. James, Ibid.,pp.181.

begin creating the institutions necessary for a free socio- economic system and let the system evolve naturally. Articles of Shatalin program were; 1-) Maximum freedom should provide, 2-) Producers had to compete with each other in business life. The main factor is competition in the market, 3-) Market decide prices, 4-) Soviet economy should become open and should become integrated with the world economic system¹⁶⁵.

Gorbachev accepted this report in principle. However Prime Minister Ryahyou criticized this report openly on the 11th February. Ryahkov wanted a regulated market economy with a strong role for the center. On the other hand, Boris Yeltsin supported this program. Gorbachev had to decide what he would do. There were two choices for Gorbachev. He neither support Yeltsin nor thought about this program again(Gorbachev support this program or think about this program again). Gorbachev decided to go on and stay with Shatalin Plan and he criticized Ryayhkov(He firstly he decided to support this program). 500-Day Program was represented to Supreme Soviet, but Gorbachev was under pressure of conservative¹⁶⁶. Conservative presurre was strong, after this process, he changed the plan because of conservative pressure. He accepted less radical one. Gorbachev began to to move away from radical reforms and supported conservatives inside of the party. He appointed conservative people into critical positions and liberals and centralist people were moved off by him. So many democrats decided there were no chance to cooperate with Gorbachev¹⁶⁷. The biggest rival of Gorbachev was Boris Yeltsin. Yeltsin was elected prime minister of Russia on the May of 1990¹⁶⁸. Yeltsin was more advanced about Glasnost and Perestroika than Gorbachev. He believed Soviet Russia had to enter market economy and there were some disagreements between Yeltsin and Gorbachev. Yeltsin was conflicted with Gorbachev¹⁶⁹. According to Yeltsin, Soviet leader(Gorbachev) did not behave very fast to make Russia to change faster¹⁷⁰. Actually the problem was Russian economy did not give positive signals to Gorbachev's economy politics.

¹⁶⁵ Dorn A. James, Ibid.,pp. 181-182.

¹⁶⁶ Dorn A. James, Ibid.,pp.184.

¹⁶⁷ Riasanovsky V. Nicholas- Steinberg D. Mark, Rusya Tarihi, İnkılap Yayınevi, pp.664.

¹⁶⁸ Hook W. Steven- John Spanier, 2. Dünya Savaşı Sonrasında Amerikan Dış Politikası, İnkılap Yayınevi, pp.169.

¹⁶⁹ Armaoğlu Fahir, 20. Yüzyıl Siyasi Tarihi, Timaş Yayınları, pp.840-841.

¹⁷⁰ Hook W. Steven- Spanier John, 2. Dünya Savaşı Sonrasında Amerikan Dış Politikası, İnkılap Yayınevi, pp.169.

There were price control for some goods in that term in Russia. However this policy enabled scarcity of some goods. Consumer began to become worried about the problem of scarcity of goods. Russian life standard went down. Soviet economy was in very bad situation between 1989 and 1990. Soviet GNP(Gross National Product) decreased 2.4 percent in 1990, 8.5 percent in 1991¹⁷¹. Consumers were discontent in economic conditions. Gorbachev wanted to modernize the industry, but industrial modernization means increasing tax for consumers¹⁷².

Star Wars Project and Soviets

There was also one more problem. Soviet Union did not answer the rearmanet process of United States. The President of United States Ronald Reagan initiated Strategic Defense Initiative(SDI) Program. The aim of the program was to achieve nuclear weapons. This program triggered nuclear weapon race between United States and Soviet Union¹⁷³. Star Wars process was the source of concern for Soviet Union. United States economy was stronger than Soviet economy. Arm race affected Soviet economy badly in Strategic Defense Initiative Process. Arm race caused Soviet economy unsustainable process in 1980s¹⁷⁴.

New leader is borning

Boris Yeltsin was the first general secretary of communist party of Moscow in 1985. Yeltsin became an opponent of Gorbachev in a short time, he especially criticized economy policy of Gorbachev. He was the biggest opponents of Gorbachev. However after criticizing him, Yeltsin was sacked from his position. Glasnost and perestroika gave chances political reforms. This time Yeltsin was elected as a representative of Moscow on March of 1989 and Yeltsin became of the president of RSFSC on the June of 1991. Gorbachev was the head of USSR, Yeltsin was the head of RSFSC. Gorbachev and Yeltsin continued to struggle between each other during the last term of Soviet Union. Gorbachev became more authoritarian and conservative both about economic subjects and about

¹⁷¹ The Former Soviet Union in Transition- Volume 1- Printed Joint of Economy Committe,- February 1993, pp.9.

¹⁷² Ibid.,pp.20.

¹⁷³ Stubbs Eric- Nimrody Rossy, The Soviet Response to Starwars, March April 1987/Challenge <http://eds.b.ebscohost.com.lproxy.yeditepe.edu.tr/eds/pdfviewer/pdfviewer?vid=4&sid=c41a389e-7411-444a-8d50-2e80c61ac1aa%40sessionmgr115&hid=106>,pp.21.

¹⁷⁴ Swift John- Doctor John Swift, The Soviet American Arm Race, History Review, March 2009, pp.18.

political subjects of the last two years of Soviet Union. Yeltsin who was the head of RSFSR and he tried to take precautions for market economy. He wanted RSFSR to enter market economy faster. For example, he wanted privatization and market should decide how much is the price for a goods¹⁷⁵. On the other side of the coin, Soviet economy was in very bad conditions and people lived in serious economic problems in this term.

Economy was in very bad conditions in Soviet Russia

Soviet Union, as a personal consumption, was 77th of the world. People were waiting in the queue for hours to buy milk or eggs. Outside Moscow and Leningrad, children grew up without ever seeing steak, an orange, or a banana. In many regions, ration coupons were used for purchase of 900 grams of vile sausage per person per month¹⁷⁶. While very difficult economic conditions were continuing, political competition were going on between Gorbachev and Yeltsin.

Russian economy experienced a sharp decline in real incomes, and production, the latter falling in the USSR as a whole by 17 percent in 1991, and in light industry, hit hardest by the cuts in imports, output fell by 40 percent. In comparison, United States GNP fell by 14 percent in 1932 in Great Depression Term¹⁷⁷.

Yeltsin won the presidency election against a candidate who was supported by Gorbachev on the 12th June 1991. After this election Yeltsin believed, he represented the public opinion. There was also one more important event. Military tried to coup but it did not become successful. Yeltsin resisted attempted coup and he stand on the tank and his popularity increased after this event¹⁷⁸. In spite of all the efforts of Gorbachev, firstly authority of Gorbachev disappeared and then Soviet Union collapsed on the 25th of December 1991 and Yeltsin's position was getting stronger¹⁷⁹. Gorbachev spoke on television on the Christmas Day of 1991. He left the authority to new government. He said that, "We live in a new world. We put an end to Cold War. We put an end to arm race and crazy militarism. There is not a danger of world war". After 74 years of Bolshevik

¹⁷⁵ Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner - Article, İletişim, pp.221.

¹⁷⁶ Aron Leon, Was Liberty Really Bad for Russia?, American Enterprise Institute- Part 1-Summer 2007, pp.3.

¹⁷⁷ Sakwa Richard, Russian Politics and Society, Second Edition, Routledge, 1996 Publishing, pp.233.

¹⁷⁸ Riasanovosky V. Nicholas- Steinberg D. Mark, Rusya Tarihi, İnkılap Yayınevi, pp.674.

¹⁷⁹ Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner - Article, İletişim, pp.221.

Revolution, Soviet Union was erased from the map¹⁸⁰. After the collapse of Soviet Union, Russia's position was compare with Brazil and Indonesia. Actually before the collapse of Soviet Union, the allegation of Russia, they compare themselves with United States. However, on the other side of the coin, Russian Federation had the legacy of superpower and also nuclear power, but Russia became a regional North Eurasian power¹⁸¹. There was not Soviet Union, instead of USSR, there were new countries where would be organized in within the frame of Commonwealth of Independent States¹⁸². Soviet Russia economically was in very bad conditions against West in the last term of Soviet Union. They did not continue this struggle against United States and European countries.

Economic Transition Term of Russian Federation

Russia's GDP is, today, 2013, 2 trillion 200 billion dollars. GPP per head is 15.340 dollar in the same year¹⁸³, however Russia experienced very difficult economic conditions after the collapse of Soviet Union. Today's economic conditions did not come easily in Russia. Russians suffered bad economic conditions a lot after the collapse of Soviet Union. Russian GPP decreased 12 percent, budget deficit to GDP increased to 26 percent. Foreign exchange reserves of Russia had only 60 million dollars and it would only meet country's 10 hours imports. However, on the other hand, Russia made an important step and economical activities were began to freed¹⁸⁴. It was a good step but on the other hand, market reforms creates big economic problems. Production and life standard decreased very fast. Russian GDP decreased 55 percent between 1989 and 1998. It means, 1998's Russian GDP was 55 percent lower than 1989 level. After the collapse of Soviet Union, shadow economy increased and income inequality went up. The Shadow economy's rate to GDP was between 10 and 15 percent in Brezhnev term, but this rate increased to more than

¹⁸⁰ Hook W. Steven- John Spainer, 2. Dünya Savaşı Sonrasında Amerikan Dış Politikası, İnkilap Yayınevi, pp.173.

¹⁸¹ Hosking Goffrey, Rusya ve Ruslar Erken Dönemden 21. Yüzyıla, İletişim Yayınları, First Edition, 2011, pp.841.

¹⁸² Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner,- Article, İletişim, pp.221.

¹⁸³ T.C. Moskova Büyükelçiliği Ticaret Müşavirliği, Aylık Rapor,, pp.1.
<http://www.musavirlikler.gov.tr/detay.cfm?AlanID=2&dil=TR&ulke=RF>

¹⁸⁴ Başaran Ali, SSCB Dış Ticaret Rejiminden, Rusya Federasyonu Dış Ticaret Rejimine Geçiş, Avrasya Etüdleri, 2010, pp.104.

50 percent in the middle of 1990s¹⁸⁵. The level of income inequality is measured by GINI coefficient (changes from 0 to 100, the higher, the higher are inequalities). This rate was 26 in 1986, it was 40 in 2000, it was 42 in 2007. There were not any billionaire in Russia in 1995, but according to Forbes magazine, there were 53 billionaires in Russia in 2007¹⁸⁶. So After Soviet Union, Russia wanted to pass market economy faster, this economy policy created a lot of big economic and social problems.

Boris Yeltsin was in power between 1991 and 1999 and his terms could divide into three terms. First one was between August of 1991 and October of 1993. This term was also defined "first Russian Republic". This term began with radical reforms and polarisation improved and with open conflict finished. The second term was between October of 1993 and August of 1998. Yeltsin's power increased, but there were big problems in reform process. Crisis deepened in this term in Russia. Reform process was disappeared between August of 1998 and December of 1999 and Yeltsin improved his personal power and security¹⁸⁷.

Economic reforms of Yeltsin Era

The first agenda of Yeltsin was economic transition, but he did not know economy very well. Therefore he trusted like Anatoli Chubais, like Yegor Gaidar and like Sergey Kiriyenko, they were reformers, but his trust did not continue for a long time. Strong interest groups were against reforms and this period was a very difficult term both for Russia and for Yeltsin. Therefore he always retreat and tried new things because of the hard opposition. Gaidar, Chubais and other young economists developed a radical program. They developed this program with the helping of Western economic advisers. Actually western economic advisers effected young Russian economist. The name of the new program was "Shock Therapy", and it was put into practice¹⁸⁸. The aim of the plan was to create a country from central planning economic model to market economy. They wanted to make economy liberalized¹⁸⁹. Defense expenditure was decreased to 50 percent by Yeltsin-Gaidar government. Defense expenditure rate was 25 percent to GDP, it was

¹⁸⁵ Popov Vladimir, Is Russian economy likely to become a new "Asian Tiger"? ISPI Analysis- Istituto Per Glistudi Di Politica Interbazional, pp.3.

¹⁸⁶ Popov Vladimir, Ibid., pp.3.

¹⁸⁷ Riasanovosky V. Nicholas-Steinberg D. Mark, Rusya Tarihi- İnkilap, İnkilap, pp.674.

¹⁸⁸ Riasanovosky V. Nicholas, Ibid., pp. 676.

¹⁸⁹ Krupp Corinne - Linz J. Susan, Shock Treapy and the market for foreign exchange in Russia, Comparative Economic Studies, pp.43.

decreased to 2.3 percent in 1999. 2.3 percent was the one-tenth of Soviet term¹⁹⁰. The aim of the Shock Therapy Plan also was to rescue of Russian people from central planning rules and they wanted to stop price control, finish to subsidize to agricultural and industry sectors. So Russian government wanted to decrease budget deficit. Russian government also wanted to privatize industry, finance, agriculture, trade and real estate sectors. Because they created new market system. Yeltsin believed this radical strategy would work, they would achieve rapid results. He always said people, pains of the program would finish between six months and one year. Yeltsin almost believed reforms mystically. He underestimated the role of the state in transition period. He did not see to found institutional framework to create effective market is firstly¹⁹¹. Western advisors, in that time, affected Russian economy negatively. For example IMF politics effected Russian transition term badly¹⁹². However Russian economy substantially liberalized in 1992. Prices were freed. Prices were being in market conditions, but Russian government continued to control bread, milk, electricity, residential rents and utilities, natural gas and retail gasoline prices¹⁹³. Totally, Russia was transforming its economy to market economy, but free market conditions affected Russian economy badly. Prescription's side effects occur for Russian economy. Russians also did not coordinate and did not discuss adequately before beginnig transition program. So the result of the program was disaster¹⁹⁴. Firstly, Russian let prices occur(emerge) in market, they opened prices to occur in market. However, after this decision, prices increased very fast and hyperinflation period began. The savings of the people evaporated, production collapsed and public expenditures decreased and tax increase occured. People were angry against the economy program in first years of the program¹⁹⁵. Inflation was 300 percent only on January of 1992, inflation rate was 800 percent in 1993. However inflation rate was decreased to 22 percent in 1996. Millions of Russian people lost their savings, the value of wages decreased in this circumstances¹⁹⁶. Old Soviet Union republics also experienced in hyperinflation problem.

¹⁹⁰ Aron Leon- Was Liberty Really Bad for Russia?, American Enterprice Institute Part 2, pp.4.

¹⁹¹ Riasanovsky V. Nicholas- Steinberg D Mark, Rusya Tarihi, İnkilap, pp.676.

¹⁹² Başaran Ali- SSCB Dış Ticaret Rejiminden, Rusya Federasyonu Dış Ticaret Rejimine Geçiş, Avrasya Etüdleri, pp.120.

¹⁹³ Rock P. Charles- Solodkov Vasiliy, Monetary Policies, Banking and Trust in Changing Institutions: Russia's Transitions in the 1990s., Journal of Economic Issues- No. 2. Jun 2001., pp.452.

¹⁹⁴ Rock P. Charles, Vasiliy Solodkov- İbid., pp.453.

¹⁹⁵ Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner, Article, İletişim, pp.224

¹⁹⁶ Riasanovsky V. Nicholas- Steinberg D Mark, Rusya Tarihi, İnkilap Yayınevi, pp.677.

Inflation of Latvia was 951.2 percent, Inflation of Russia was 1582.7 percent in 1992¹⁹⁷. High inflation rates increased uncertainty, and this situation created problems for economic activities.

All of the central banks of the world want to prevent the inflation. Why did Russia experience hyperinflation? Because supply did not meet demand. When inflation rate was high, interest rates were also high. When interest rates were high, this problem prevented investments. When Russia tried to make transition of the system, plenty firms and small companies decreased their production and there were goods and services scarcity under this circumstances. This situation created high inflation problem. Russia imported more to meet domestic demand because of scarcity of goods and services in this circumstances. However when Russia imported more, it cause to increase foreign debt of Russia. One of the biggest reason of the inflation was emission in Russia. Russia did not change tax system after Soviet Union and also Russia did not to increase budget revenue. So Russia had to print money to meet government expenditures, but this policy cause high inflation¹⁹⁸. Russia was in big problems in this period of time. Russia imported goods, but people of Russia did not find money to buy these imported goods. For example, people sold their personal goods to find money in cities like Moscow. Homeless and unemployment levels increased. According to some Russian and international critics, if partial reforms had been used in Russia(and it was possible), the effects of reforms would have been less devastating in Russia. Another critics compared Yeltsin's reforms with Stalin's revolutions¹⁹⁹.(Both terms were very difficult in Russia). So after the collapse of Soviet Union, Russian people suffered a lot and Russia should have used milder reforms to make transition of their economy and it was possible to make it.

Russian authorities tried Russian economy to perform better. Russian government and Central Bank provided loans to entrepreneurs via commercial banks. They also provided loans to non-Russian entrepreneurs. People got money and these people (including some entrepreneurs)began to buy dollars with this money, with this funds. Ruble decreased very

¹⁹⁷ Rock P. Charles- Solodkov Vasiliy, Monetary Policises, Banking and Trust in Changing Institutions: Russia's Transitions in the 1990s., Journal of Economic Issues- No.2 Jun 2001 Charles P. Rock, pp.453.

¹⁹⁸ Selçuk Hasan, Türk- Rusya Ekonomik İlişkileri, Tasam Yayınları, pp.22.

¹⁹⁹ Riasanovosky V. Nicholas- Steinberg D. Mark, Rusya Tarihi, pp.677.

fast. Russian production continued decreasing between 1993 and 1994. Inflation continued decreasing in spite of stay high level²⁰⁰.

After the collapse of Soviet Union, There were privatization term in Central and East Europe. Governments faced difficult in this transition term²⁰¹. The problem was not lived only in Russia, the problem lived in pre- Soviet geography. Our focus will be on Russia. Privatizations went on fast in this term in Russia. State companies were transformed to common share firms and bonds were given to people to buy. Actually shares should have bought by workers and executives. However practice of the plan finished very differently. Executives bought shares and a few people began to control shares of the companies. Organized criminal mafia started to become more effective in Russian economy²⁰². Big industry companies were sold to rich people with lower than the real prices. Their logic was politics instead of economics. Authorities wanted Russia to transform capitalist system faster and also they wanted to create loyal and supportive rich class. New rich class emerged in this term. Their name was "New Russian"²⁰³. The one of the biggest privatization effort happened in Russia. And private sector's volume was the 70 percent of the Russian GDP till 1997²⁰⁴. After the collapse of Soviet Union, Russia wanted to establish commercial-economic cooperation with the newly independent republics and integrate them into Russian economic structure²⁰⁵

However economic situation was getting worse.

There was an inflation problem. Russian people had two options to save their wealths against economic problems. First one was to buy dollar against Ruble inflation. The second one was look for some investment opportunities to try to increase the nominal value of their savings.

²⁰⁰ Rock P. Charles- Solodkov Vasiliy, Monetary Policisies, Banking and Trust in Changing Institutions: Russia's Transitions in the 1990s., Journal of Economic Issues- No.2 Jun 2001, pp.453.

²⁰¹ Bennett John, Estrin Saul, Urga Giovanni, Methods of Privatization and economic growth in transition economies- Economic Transition Volume 15(4), 2007, pp.662.

²⁰² Riasanovsky V. Nicholas - Steinberg D. Mark, İnkilap Yayınevi, pp.676.

²⁰³ Riasanovsky V. Nicholas- Steinberg D. Mark, Ibid.,p.676-677.

²⁰⁴ Aron Leon, Was Liberty Really Bad for Russia?, American Enterprice Institute Part 2, pp.2.

²⁰⁵ Çaşın Hakkı Mesut, Russian Challenge to EU: Can Moscow Become a Centre of Gravity to Unify The Commercial Partners, Hazar Strateji Enstitüsü, 2013.

http://hazar.org/UserFiles/Blog/30.12.2013_Mesut_Hoca/CUSTOM_UNION_2013_edited.pdf

Russia entered liberal system very fast, and people of Russia suffered in this period. Maybe the best idea for Russia to enter the new system gradually. Because Russian economy had managed by a state-control system during the communist rejime. After the collapse of Soviet Union, Russia wanted to perform in liberal system as sons as possible. However this policy created problems. Gradual transformation period would have been better for Russia.

Crisis signs of 1998

It is important to understand financial institutions and the relations between these institutions and savers in Russia. New financial institutions were founded under new banking law. New financial institutions promised potantial investors to get big profits from their savings. For example 45 percent, per month, payable in dollars(it was a huge profit). People usually, who lives in cities and savers invested for these foundations. Some of them borrowed from their friends, family members to invest. Some of them made hypothec their home to get big profits from these new foundations. They got money and they invested(However these companies made some cirritical and risky activities). These companies bought foreign currency from currency markets and they make speculations. Actually government wanted to decrease budget deficit with these funds. However funds were ballons²⁰⁶. On the other hand, Russian Central Bank made a deal with International Monetary Funf(IMF) to control inflation. Russian Central Bank decreased money supply to decrease inflation. However this policy created bigger problems for Russian economy.Firstly, tight monetary policy of Russian Central Bank cause collapse of small banks in 1995 and depositors went to oligarchs's banks. This kind of banks banks began to grow in this situation. Another problem was the continuing in Russia. Government was trying to decrease budget deficit with speculative funds. However these funds were ballons and each ballons could explode when the time comes²⁰⁷.

Actually Russia entered in brutal capitalism period. So if we look at our argument again, Russia would have chosen to pass liberal system gradually. However Russia wanted to

²⁰⁶ Rock P. Charles, Solodkov Vasiliy- Monetary Policises, Banking and Trust in Changing Institutions: Russia's Transitions in the 1990s., Journal of Economic Issues- No.2 Jun 2001, pp.453.

²⁰⁷ Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner - Article, İletişim, pp.221

pass liberal system as soon as possible, used brutal capitalism rules or irregularity and Russian economy entered a big economic crisis.

Bubble burst in Russia on August of 1998. Two events triggered Russian economic crisis. First one, after East Asian crisis, people did not want to invest Russian bonds a lot. Demands of investors began to decline to invest Russian bonds. The second one was oil prices. Oil prices decreased in this term. Russia was getting tax from oil export. When oil prices went down, tax income decreased and it was the problem for the budget of Russia. Budget deficit increased because of oil prices. Also balance of payments worsened. The value of ruble went down. The price of bonds were to be paid, but they did not pay bonds when the time of payment came. Russian authorities understood, it was not possible to pay bonds and interest rates and they devaluated ruble on August and Russia used moratorium option against their debts. It was "August 1998 Crisis"²⁰⁸.

Russian economy was in very bad condition for the last nine years of 20th century. Russian GDP decreased 52 percent in this term. Even between 1941 and 1945, Russian GDP decreased 22 percent. Russian agricultural production went down 64.5 percent, industrial production decreased 60.9 percent in this period. Ruble decreased very fast and prices increased more than 5000 times in this period²⁰⁹.

"Russia entered economic crisis on the 17th of August 1998. Russian Central Bank decreased interest rate corridor to save the value of Ruble. It is the de facto devaluation. Central Bank increased ruble corridor from 6-6.3 points to 6-9.5 (It means one dollar could buy 9.5 dollar. Central Bank let investors buy 9.5 Ruble with 1 dollar. Before the crisis, one investor bought 6.3 Ruble with 1 dollar). The second decision was Russia stopped payments of foreign borrowings for 90 days. Another decision, Russia restricted foreign investors to invest for less than one year in Russian Stock Exchange"²¹⁰. Russian economy decreased 5.3 percent in 1998²¹¹. Four government changed in same year in Russia. Consumer price index increased to 84 percent. Actually inflation was decreased from 224 percent in 1994 to 11 percent in 1997 in Russia before the crisis, but after the

²⁰⁸ Yanık Lerna, Ibid., pp.227.

²⁰⁹ Shenming Li, Sovyet Sosyalizmi ve Tarihin Dersi, Canut Yayınları 2013, pp.31-32.

²¹⁰ Başlamış Cenk, Rusya Havlu Attı, Milliyet Newspaper, 18 August 1998

²¹¹ Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner - Article, İletişim, pp.228

crisis inflation began to increase again²¹². 1998 Crisis affected Russian economy very badly. There was a deep effect. Unemployment rate of Russia was between 11.3 and 11.7 percent till the crisis of August 1998. However after the crisis, Russian unemployment rate increased 14.1 percent on February of 1998²¹³.

Economic crisis created big problems in people's life. However, on the other hand, crisis gives chances a country to get better, to solve their problems, to grow faster in better conditions in the future. Russia was also in the same situation and their economy reached rock bottom in 1998. However this crisis triggered reform process²¹⁴. After the crisis Russian economy began to grow faster.

Inflation was controlled after the crisis. Inflation rate of december of 1998 was 84 percent, but it was decreased to 36 percent in 1999. Actually, inflation was decreased fast, but this policy created some problems in people's life. There were many negative effects in socially and economically. Wages began to increase in 2002²¹⁵(Economically, if your country live in a high inflation rate, you should decrease inflation rate to grow faster, longer. However this period is a bit difficult. Because precautions make people's life worse. Money supply are control by the Central Bank. Wages do not increase, but at the end of the program, after low inflation rate, economy had a chance to grow in normal conditions). In spite of all the problems of economics, after the crisis of 1998, Russian economy's way turned into positive direction.

Why did Russia grow faster after the crisis?

According to World Bank and some observers Russian economy were better after the crisis due to some reasons. The decrease of Ruble value cause Russia preferred use import substitution(Because import goods were expensive after the crisis, after the decrease of Ruble value, so Russia had to use domestic production and Russia grew in internal resources). Domestic producers produced manufacturing goods and consumer goods and domestic production began to get stronger. Ruble decreased fourfold against against dolar

²¹² Hanson Philip, The Russian Economic Crisis and Future of Russian Economic Reform, Europe Asia Studies: Volume 21, No.2, 1999, pp.1141.

²¹³ Uegaki Akira, Russian Federation's Foreign Economic Relations- Economic and Social Research Institute, March 2001, pp.26.

²¹⁴ Russia 2013, Insights of the Observatoire Franco-Russe, pp.10.

²¹⁵ Selçuk Hasan, Türkiye Rusya Ekonomik İlişkileri, Tasam Yayınları, pp.23-24.

after the 1998 economic crisis. Russian industrial production increased very fast, process of reconstruction of industry sector accelerated. After the decrease of ruble, this situation cause Russian exporting sector to perform better²¹⁶. The another most important factor was the increase of oil prices. Oil prices were 10 dollars on the december of 1998. The average oil price was 11.80 dollar in 1998. However oil prices increased to 33 dollars per barrel on the September of 2000. When oil prices increase, it means, money injection to the economy (Oil prices increased till september of 2008 economic crisis. Oil price went up to 147 dollar per barrel in the summer of 2008. Consumer goods supply increased because of the increase of industry and agriculture. The increase of oil and natural gas prices also good effected for Russain economy between 1998 and 2008. Russia was the biggest natural gas exporter of the world and second biggest exporter of oil of the world. Oil prieces were 10 dollars in 1999. So conditions also helped Russian economic growth. Petrodollars was an important point of growth of Russian economy. Russian governmet also create a big "Stabilization Fund" to prepare economy against lost oil prices²¹⁷. But this price increased to 147 dollars per barrel in the summer of 2008²¹⁸. Reform policy of Russia also let to recover and economic effectiveness improved after the crisis²¹⁹. Russian economy decreased 5.3 percent in 1998 because of the crisis, but Russia turned into positive economic direction again in 1999. Russia grew 6.4 percent in 1999. Russia went on growing till 2008-2009 economic crisis²²⁰.

Putin Era and growing Russia

Russia caught stability after Vladimir Putin was in power. Putin is the most important political figure of Russia today. There are going to be given some information about him.

Vladimir Vladimiroviç Putin was born in Leningrad October of 1952. According to British Political Scientist Richard Sakwa, Putin was a typical person of 1970s. He was a deeply patriot, but he was not a devoted communist ideologically. After he was elected as president of Russia, he told a journalist: "I was completely and purely product of Soviet

²¹⁶ Selçuk Hasan, *İbid.*, pp.12.

²¹⁷ Riasanovsky V. Nicholas- Steinberg D. Mark, *Rusya Tarihi*, İnkilap Yayınevi, pp.698.

²¹⁸ Hopkins Kathryn, *The Guardian- Fuel Prices Iran Missile Launches send oil to 147 dollar barrel a record*, 12 July 2008. <http://www.theguardian.com/business/2008/jul/12/oil.commodities>

²¹⁹ Hill Fiona, *Energy Empire: Oil, gaz and Russia's Revival*, Foreign Policy Centre, pp.10.

²²⁰ Yanık Lerna, *Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm*, Şenses Fikret- Öniş Ziya- Bakır Caner, Article, *İletişim*, pp.228

Patriot Tend...". He emphasised patriot, instead of communism. He imagined to work for Soviet Intelligence since his childhood. He went to KGB in Leningrad and he asked how he can be ready to work for this job. They recommended him to study law and Putin become a law student of Leningrad University²²¹. He began to study German language at university. Putin admired Petro. After the graduating from university, he joined KGB in 1975. He began to work for Foreign Intelligence Service of KGB because of Putin's German language level²²². He was international relational assistant of Antoli Sobchak who was elected as a mayor. Sobchak was also his old law professor at university. While he was working as an assistant of Sobchak, his name was become famous as a excellent executive. Sobchak resisted attempted coup in 1991 and Putin resigned from his position from KGB. He was with Sobchak. He stayed with Sochak²²³.

Sobchak wanted Putin to organize mild reformist Our Home- Russia party organizations in St. Petersburg. After Sobchak lost the elections in 1996, he resigned from his position. And Yeltsin appointed Putin as a prime minister in 1999 and then Putin was elected vice president(When Putin was appointed by Yeltsin, Putin's name was almost not known by anybody). He won the election 53 percent of the total votes. 53 percent vote was seen as a hope and stability. However, Putin won next election easier. He got 71 percent vote in 2004 elections²²⁴. Putin mentioned legitimization state power²²⁵. Russian economy was showing some recover signs in the late of 1990s. When Putin was the president of Russia, economy was getting better. However after Putin, Russian economy got stronger. Russian economy performed well till 2008 -2009 economic crisis. Russian GDP grew between 6 and 7 percent in Putin Era till the crisis. Real income levels increased between 8 and 14 percent. Inflation rate was 36 percent in 1999, but this rate decreased to 6 percent in 2006. Production investment went up. This rate was 1 percent in 1999, but it was increased to 13 percent in 2006²²⁶. Popularity of Putin increased seriously because of economic success. There was not budget deficit in Russia, now there were budget surplus²²⁷. Another important subject of economy was to found Stabilization Fund. The aim of the foundation

²²¹ Riasanovsky V. Nicolas- Steinberg D. Mark, Rusya Tarihi, İnkilap, pp.168.

²²² Taşar Murat, Kremlin'de Yeni Çar: Vladimiroviç Putin, Kadim Komşumuz Yeni Rusya, Derleyen Tezkan Yılmaz , pp.128-129.

²²³ Riasanovsky V. Nicholas, Steinberg D. Mark, Rusya Tarihi, İnkilap Yayınevi, pp.688.

²²⁴ Riasanovsky V. Nicholas, Steinberg D. Mark, Ibid.,pp.689.

²²⁵ Riasanovsky V. Nicholas, Steinberg D. Mark, Ibid.,pp.690.

²²⁶ Riasanovsky V. Nicholas, Steinberg D. Mark, Ibid.,pp.697.

²²⁷ Hill Fionna, Energy Empire: Oil, Gaz and Russia's Revival, Foreign Policy Centre, pp.16.

of Stabilization Fund was to save economy against fluctuations²²⁸. The burden of tax was decreased because of the increasing oil and gas prices²²⁹.

Putin and oligarchs

Putin's policy was different from Boris Yeltsin. There was a problematical relations between Putin and oligarchs. Russian privatization process was very fast of 1990s. Russian big companies were changed hand in this term. Not so many people or groups bought these big companies. These companies were profitable companies. These people and groups became of oligarchs of Russia in 1990s²³⁰. Putin, like him predecessors, wanted to take control political authority in his hands. However, Putin's situation was different from his predecessors, because he became successful to get the power. According to Putin, oligarchs were interfering politics and he was not pleased with this situation. He wanted to remove these people from Russian political life. This process was named as an "Anti-Oligarch Revolution". First target was Vladimir Guinsky and Boris Berezovsky. These businessmen's broadcasts criticized Putin's politics in their television channels. After these kind of broadcasts, they were under fiscal pressure. They had to transfered their companies and they had to leave Russia. Yukos was also in the similar situation. Yukos was faced with high tax penalty. Russian authorities said Yukos had tax burdens in the past and they had to pay these tax penalty. However Yukos's capability was not enough to pay these debts and Yukos went bankrupt. Yukos was bought by state company Rosneft and this company was nationalised. The owner of Yukos Mikhail Khodorkovsky and his executive Platon Lebedev were put in prison. Also it was a message from Putin to oligarchs. The message was "Yeltsin's term finished. If oligarchs want to save their economic power, they should not manipulate politics. If they continue to do this kind of behaviors, they can not interfere political life, they also lose their economic power"²³¹. Putin made a press conference in Kremlin on the December of 2004 and he said that "We know very well how privatization was made in 1990s. Some market participants controlled billions of dollars of

²²⁸ Russia 2013, Insights of the Observatoire Franco-Russe, pp.47.

²²⁹ Ibid., pp.47-48.

²³⁰ Selçuk Hasan, Türk- Rusya Ekonomik İlişkileri, Tasam Yayınları, pp.19-20.

²³¹ Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner - Makale, İletişim, pp.229

government bonds lawlessly. We closed all ways today. State let only legal market mechanism"²³².

Russia performed very well till 2008 crisis

Russian economy was one of the best performers of the world economy between 1999 and 2008²³³. Russian private and publicly-owned companies were getting bigger in this period of time. Russian multinational enterprises were emerging, Russian companies dramatically internationalized. The biggest 25 companies of Russia bought wealth (assets) 59 billion dollars in 2006²³⁴. Russian economy performed better, and unemployment level decreased. Unemployment decreased from 12.9 percent to 6.3 percent in 2008. Poverty rate of Russia went down from 29 percent to 13 percent in the same period²³⁵. However this economic performance went on till the world economic crisis. The world economy was in big recession after the fall of Investment Bank Lehman Brothers²³⁶. Russia was affected very badly by the world economic crisis.

In spite of Russian economy performed well till 2008, nevertheless Russian's productivity and living standard were behind advanced countries²³⁷, but Russia decreased the gap between developed countries and itself. Russian income per capita 31 percent of OECD average in 2000, but this rate increased to 51 percent²³⁸.

Russian economy was (is) dependent on energy sector. Both this is a advantage and this is a problem. When oil and natural gas prices increased, Russian economic performance was getting better. However when energy prices collapsed, Russian economy was affected badly. For example, world economic crisis began on September of 2008, but the real effect of the crisis was lived in 2009 in the world. All countries affected by the crisis, but Russia affected worse some big countries because of energy prices. Energy prices went down, and energy richer Russia was affected worse.

²³² Selçuk Hasan, Türk- Rusya Ekonomik İlişkileri, Tasam Yayınları, pp.19-20.

²³³ Guriev Sergei- Tsyvinski Aleh, Challenges Facing the Russian Economy after the Crisis, pp.9.

²³⁴ Guriev Sergei- Tsyvinski Aleh, Ibid., pp.12.

²³⁵ Guriev Sergei- Tsyvinski Aleh, Ibid., pp.12-13

²³⁶ Lehman Brothers Files for bankruptcy, Financial Times- 16 September 2008

²³⁷ OECD, Economic Surveys- Russian Federation 2013- 2014, pp.13.

²³⁸ IMF- Country Report, October 2013, pp.4.

Russia is an energy producer, so when energy prices went down and Russian economy were affected badly in economic crisis term. Oil price was 147 dollar per barrel in the summer of 2008²³⁹, but after the crisis oil prices decreased 32 dollars in 2009²⁴⁰.

There was a huge discrepancy between two prices. So Russian economy decreased very fast. There is also one more problem. Even energy prices increase, even in this situation, there are some problems for an energy richer economy. According to "Challenges Facing the Russian Economy after the Crisis" article, when oil price increase and stay in high level, it could be damage Russia because of resource curse. Because when oil prices are high, Russian elites could decide to postpone to configure economy and they also could delay to found economic institutions and pro- growth program²⁴¹. Russian economy decreased 7.8 percent in 2009²⁴². It was the one of the worst economic performance of the world. When Russia decreased 7.8 percent in 2009, United States contracted 2.8 percent. Euro Area decreased 4.5 percent²⁴³. United States and Euro Area does not dependent on energy prices a lot, so both United States and Euro Area decreased lower than Russia in 2009. Despite collapse of Russian economy in 2009, Russia used budget very effectively. So Russia used this budget with very ambitious anti- crisis economy program. Because budget was strong to use to recover Russian economy²⁴⁴. Russia decreased very fast in 2009, but then Russian economy returned economic growth. Despite fast decreasing economic growth, Russia did not decrease civil servant wages, did not experience any bank failures and also did not face rising of foreign debt during the crisis²⁴⁵.

One of the biggest success of Putin term is economics. Russian economy grew 5.2 percent between 2000 and 2011 in Putin era²⁴⁶. Before the the world economic crisis, Russian economy grew 7.7 percent between 2005 and 2007²⁴⁷. Energy prices played a critical role in these results²⁴⁸. However Russia grew faster than developed countries. These results are very good results for Russian economy, but on the other hand Russian economic

²³⁹ Hopkins Kathryn, The Guardian Fuel Prices Iran Missile launches send oil to 147 dollar barrel a record <http://www.theguardian.com/business/2008/jul/12/oil.commodities>

²⁴⁰ Al-Awsat Asharq, Oil Prices Fall Amid Weak Crude Demand, 17 July 2009

²⁴¹ Guriev Sergei- Tsyvinski Aleh, Challenges Facing the Russian Economy after the Crisis, pp.9.

²⁴² Doyle Alister, Recession cuts US and Russia 2009 Greenhouse emissions, Reuters, 15 April, 2011

²⁴³ Real GDP Growth Rate, Eurostat

²⁴⁴ Russia 2013, Insights of the Observatoire Franco-Russe, pp.47.

²⁴⁵ Ibid., pp.47

²⁴⁶ Ibid., pp.10.

²⁴⁷ The Economist, Economic and Financial Indicators, February 15th 2014, pp 20.

²⁴⁸ OECD- Economic Surveys-Russian Federation 2013- 2014- Page 13.

performance was not the best performers of the world economy²⁴⁹. There is one more important factor, after the 2008-2009 world economic crisis, Russian economy lost its momentum. For example, Russia grew similar with global growth rate in 2009²⁵⁰. Russia is dependent on energy prices a lot. According to "Modernising The Economy Better Policies- Series" of OECD, General Secretary of Angel Gurría wrote in the introduction part of the report. He wrote that:

"Russia progressed decreasing the poverty, and made a good progress to catch advanced OECD countries in the last 10 years. However this success happened with rising oil prices despite structural transformation. Inequality stayed in a high level in regional and personal levels. Dependency of Natural Resource should be lowered to continue of life standard's development. Economy should be modernized, sustainable growth rate is necessary. There are some very good process in Russian economy. There is low debt, high employment participation rate, large and abundant energy resources in Russia".²⁵¹

Energy is an important part of the Russian economy, and Russia try to decrease energy dependency.

According to "Küresel Kriz ve Yeni Ekonomik Düzen Book" which was the editor of Fikret Şenses, Russia's budget revenue's 40 percent came from oil export, Russian's GDP's came from 25 percent oil exports between 2006 and 2007²⁵².

Russian energy dependency is a problem and Russian authorities knows it and they want to decrease their energy dependency and they want to increase their productivity. This subject have been discussed between authorities. Russian economy should grow with rising productivity. They want to create better investment climate (But Ukraine and Crimea developments are not creating convenient climate for investments). Human capital and innovation subjects are being discussed by Russian Authorities²⁵³. Russia also needs high capital- intensive industrial investments²⁵⁴. Russia tried to increase productivity rates, they

²⁴⁹ Russia 2013- Insights of the Observatoire Franco-Russe- pp. 26.

²⁵⁰ Ibid.,pp.21.

²⁵¹ Guirria Angel, OECD "Better Policies Series" Russia, Modernising The Economy, April 2013- pp.2.

²⁵² Yanık Lerna, Krizden Krize Rusya'da İktisadi Değişim ve Dönüşüm, Şenses Fikret- Öniş Ziya- Bakır Caner - Makale, İletişim, pp.233.

²⁵³ OECD- Economic Surveys-Russian Federation 2013- 2014,pp.14.

²⁵⁴ Christopher Granville, Economic Weakness will force Putin to seek detente, Financial Times- April 13, 2014

want to increase potential growth rate of Russia. So they want Russia to achieve sustainable growth.

Russian export items are not very largely. Russian exports are coming from sale of crude oils, refined oil production, gas, metal and chemicals productions²⁵⁵. Russia want to increase investment climate. The president Putin, in his "budget speech" which defines the country's strategy in this sphere, promised not to increase the tax burden of sectors of the economy not based on raw materials, at least till 2018. Another important decision was Russia turned budget discipline again in 2013(Because Russia loosened budget discipline after 2008-2009 economic crisis to solve economic problems, and they want Russian economy to return positive direction again. Actually Russia used Keynes economic model to prevent deeper economic crisis, but after the crisis, Russia wanted to return budget discipline again). Russia made a decision and according to this decision expenditures will henceforth be based, not on the expected price of oil, but on its average value over a long period²⁵⁶.

Geopolitical risks and 2014

Macroeconomically, Russian economic growth moved closer high income and emerging countries in Europe in 2013²⁵⁷. Russian economic performance was good for the last more than ten years. However future ten years are not going to be like old ten years for Russian economy. According to projections, Russia will grow between 2 and 4 percent in forthcoming ten years. This rate is better than developed countries, but lower than some developing countries like China²⁵⁸. When we look at the near future, Russian economic expectations are not very bright. Russian economy will have some problems because of Ukraine problem in the near future. According to expectations Russian economy will grow by 0.5 percent in 2014. Earlier projection was 0.9 percent. For the next two years, according to Russian Central Bank, Russian economy will grow between 1.5 and 2 percent²⁵⁹. So Russian economic expectations were revised down because of Ukraine problem. Russian economic growth expectations were revised down from 2 percent and 1.3

<http://www.ft.com/cms/s/0/5b1da88a-c171-11e3-97b2-00144feabdc0.html#axzz3626vwOJJ>

²⁵⁵ Russia 2013, Insights of the Observatoire Franco-Russe, pp.26.

²⁵⁶ Russia 2013, Insights of the Observatoire Franco-Russe, pp.53.

²⁵⁷ World Bank Group, Russian Federation Partnership: Country Program Snapshot, April 2014- pp.1.

²⁵⁸ Russia 2013, Insights of the Observatoire Franco-Russe, pp.10.

²⁵⁹ Kobzeva Oksana, Russian economy to grow by 0.5 percent in 2014, Reuters, 26 May 2014

percent by IMF. According to Reuters News Agency, geopolitics uncertainty increased and this situation could create pressure in financial conditions of Russia. Financial conditions could be tightened and also it could be a problem for capital flow²⁶⁰. According to OECD, Russian economy will only grow 0.4 percent because of geopolitical risks in 2014. 70 billion dollar left the country since Russia annexed Crimea (till May of 2014)²⁶¹. Crimea crisis increased political risks²⁶²

Actually before Crimea and Ukraine problems, expectations of Russian economy was not bad as today's. If Ukraine and Crimea development had not lived, Russian economy would have grown faster in 2014²⁶³.

When we look at the broader picture again, There are some supply-side constraint in Russian economy in medium term perspective. Government increased its existence in like energy and banking sector in key sectors and private investment and the subject of competition were dampened. Russia also is under the influence of negative demographic effects and weak business climate. This kind of problems creates problems for Russian economic performance. Russian economy has been almost working in full capacity. Russian output gap is almost zero²⁶⁴ (Economy seems to operate close to its current capacity limit).

Russian economy management use expansionary monetary and fiscal policies, faster economic growth can not unsustainable under this conditions (If an economy grow close to "output gap" and if your country use expansionary monetary and fiscal policy in this conditions, it create inflation problem. Because economy is working in full capacity and when your country use expansionary policies, supply can not meet demand and prices began to increae. The name of the problem is inflation). Inflation creates high interest rates, so it effect growth rate badly. So expansionary policies have serious side effects²⁶⁵. There is one more reason why Russian economy grew slowly. Russian economy began to grow slowly because of global trade volume lost speed after the economic crisis. Domestic

²⁶⁰ Lidia Kelly, IMF cuts Russia GDP forecast, see downside risk on geopolitical uncertainty, Reuters. <http://www.reuters.com/article/2014/04/08/us-russia-economy-idUSBREA3711220140408>

²⁶¹ Tamer Meral, Rusya Ekonomik Forumu'na amborgalar damga vurdu, Milliyet Newspaper, 23th May 2014

²⁶² World Bank Group, Russian Federation Partnership: Country Program Snapshot, April 2014, pp.1.

²⁶³ OECD, Economic Surveys, Russian Federation 2013- 2014, pp.14.

²⁶⁴ IMF, Country Report, October 2013, pp.4.

²⁶⁵ Ibid.,pp.4.

and foreign demand were weak, investment spending decreased and Russian economy lost momentum. So Russian economy lost steam in 2013²⁶⁶. However unemployment level is not very high in Russia. Unemployment level is one of the biggest aim of macroeconomics. Russian unemployment level is lower than European average unemployment rates. For example Russian unemployment rate is 5.4 percent, but this rate is 6.7 percent in United States. This rate is 11.9 percent in Euro Area. Spain and Greece were affected by the world economic crisis very badly. Spanish unemployment rate was 25.6, this rate is 27.5 percent in Greece²⁶⁷. Turkish unemployment level is 10.2 percent²⁶⁸.

Future projections

Russian economic performance was successful in Putin Era. Russian GDP increased twice in this term. According to Russian projections, oil production will not change a lot in 20 years. Russian production will stay in 510 million tones. So the State revenue's share could decrease to GDP in Russia. It means, sector's share could went down of the economy²⁶⁹.

So in this situation, Russia will make same oil production and energy's share began to decrease. Because Russian economy will continue to grow. When economy grows, it means, GDP grows. Oil production will stay in same levels. If there is not big changes in energy prices, energy's share will decrease of total GDP in the future. Russian authorities know it and Russia want to diversify their economic structure.

Putin prefer dirigism

If we look at the Putin's economy policy, Putin government prefer dirigism. The explanation of dirigism is state direct economy. There is a market in dirigism, but state direct economy. Putin talked about economy policy in economic forum in the Jun of 2005. According to Putin, state should step in economy to save national security and sovereignty of Russia. There were different opinions about direction of the economy before Russian government in 2005. There were two different opinions about Russian economy. One of

²⁶⁶ World Bank, Russia Economic Report, Structural Challenges to Growth Become Binding, September 2013 Executive Summary, pp.4.

²⁶⁷ The Economist, Economic and Financial Indicators, February 15th 2014, pp.20.

²⁶⁸ TÜİK-

<http://www.tuik.gov.tr/Start.do?sessionId=kZ2bT1fJpXyY3l3tDgJ8QQz9R9yX1LfVKGdTJ1z6nZ1mvGzrvJyN!308550094>

²⁶⁹ Russia 2013, Insights of the Observatoire Franco-Russe, pp.49-50.

them was liberal thought, the other one was economic nationalism. After two term of presidency of Vladimir Putin, economic nationalism gained importance²⁷⁰.

Medvedev term- Medvedev 2008-2012

Russian total square measure is 17.1 million square kilometer, but only 5.5 million square kilometer of Russia can use economically. It means Russia only use 30 percent of their lands²⁷¹. It's time to focus on Dmitry Medvedev Term. Dmitry Medvedev who was the president of Soviet Union between 7th of May 2008 and 7th May of 2012. Medvedev was born in St. Petersburg in 1965. He graduated Leningrad Law Faculty. Medvedev studied law like Putin. He also got law P.H.D from St. Petersburg University. He moved to Moscow in 1999. After Putin won the election on 15th of February of 2000, Medvedev stayed in Kremlin. After Putin came to power, Medvedev advanced fast. Medvedev who was the delegate of Russian President in National Bank Council. He was one of closest person of Putin. Medvedev who was First Deputy Managing Director between 14th November 2005 and 7th May 2008 in Mihail Fradkov Government²⁷².

How did Medvedev become the president of Russia?

Medvedev became the president because of law reasons. Putin was the president of Russia between 2000 and 2004, then he was the president of Russia again between 2004 and 2008. According to Russian laws, a president does not become the president consecutively three times in Russia. So in this situation Putin had not right to become the president of Russia between 2008 and 2012. So Medvedev became the president of the Russia. Medvedev became the third president of Russian Federation in 2008²⁷³.

When Medvedev was the president of Russia, world economy was in big trouble. World economic crisis began after the collapse of American Investment Bank- Lehman Brothers- on 15th of September 2008, and it was the biggest economic crisis after the 1929 World Economic Depression. Global economy decreased, energy prices went down because of

²⁷⁰ Cem Mustafa- Ankara Üniversitesi, Rus Dış Politikasında Enerjinin Rolü ve AB Enerji Politikasına Etkisi, Ankara Üniversitesi, Yüksek Lisans Tezi, pp.25.

²⁷¹ Atasoy Emin- Rusya- Demografi, Jeopolitik ve Etnocoğrafya Işığında, Atasoy Emin - Mkm Yayınları, 2011, pp.21- 22.

²⁷² Portre- Medvedev, Al Jazeera- <http://www.aljazeera.com.tr/portre/portre-dimitri-medvedev>, Güncellenmiş hali- 12 April 2014.

²⁷³ Aksay Hakan, Putin'le Medvedev yer değiştiriyor. <http://t24.com.tr/yazarlar/hakan-aksay/putinle-medvedev-yer-degistiriyor>, 4178- 26 September 2011

the lack of demand. When Medvedev became the president, oil prices were increasing. Oil prices was 147 dollar per barrel on July of 2008. However after the crisis, oil prices decreased collapsed, and oil went down to 32 dollars per barrel in the first half of 2009. Russia is a energy richer country, after decreasing of energy prices, Russia was affected very badly.

Russian President Medvedev explained Moscow's new foreign policy on September of 2008. According to Medvedev, there are five core principles in foreign policy of Russia. First one is Russia is respectful for international law. The second one is Russia is against American domination in unipolar system. The third one is Russia want to improve its relations with another countries. The fourth one is defence of the Russian citizens' rights and Russian economic interests. The fifth one is Russia want to create its some interests in some regions in the world.

After the collapse of Soviet Union, Russian Federation policy under the governance of Yeltsin was near abroad doctrine. Medvedev widened near abroad doctrine. Russia's interest is not only regions where near abroad, Russia has interests another regions too. Russia has own interests and zone of interests. Russia does not accept unipolar world system. Russia does not want United States to become only dominant country in the world politics²⁷⁴.

There are some explanations about Near Abroad policy of Russia. Russia has sought to ensure its physical security though its control over neighboring territory during the centuries. Russia's empire notion was different from Britain and France. Britain and France controlled far fields(remote regions). Russia did not use this policy. Rather, For Russia, an empire was built through acquisitions of contiguous territories. Russia has always made the near abroad- as the territory surrounding Russia's borders is called priority²⁷⁵.

²⁷⁴ Kohen Sami, Moskova'nın Yeni Doktrini, 2 September 2008. <http://www.milliyet.com.tr/-/sami-kohen/dunya/yazardetay/02.09.2008/985726/default.htm>

²⁷⁵ Appel Hilary-The National Interest, The Near Abroad Factor: Why Putin Stands Firm Over Ukraine, 23 May- 2014- <http://nationalinterest.org/feature/the-near-abroad-factor-why-putin-stands-firm-over-ukraine-10517>

Medvedev term could be defined Putin term's fallow. Russian general line was not changed. World Economic Crisis hit Russian economy. Russian economy has not been performing like pre- crisis period, nevertheless Russian economy began to grow again after the 2008-2009 economic crisis.

2. CHAPTER

UNDERSTANDING TURKEY- SOVIET UNION ECONOMIC RELATIONS IN THE PERIOD OF 1923-1990

2.1. 1923-1950 TERM- YOUNG TURKISH REPUBLIC- BOLSHEVIKS ECONOMIC AND POLITIC RELATIONS

The relations traced back to hundred years ago. To understand the roots of the relations of two countries gives us to make projections about the future of Turkish-Russian relations. This chapter began the relations between Ottomans and Moscow. Firstly, Ottoman was stronger than Moscow, then Russia began to get stronger. Russian policy made two power's relations as a rivalry, after Bolshevik Revolution two countries's relations turned positive side. WW2 made two countries's relations more complex, and rivalry relations again. However the world policy was different. The word divided two sides. Cold War began after the WW2. Now, it's time to return Turkish- Russian relations again.

Before writing 1923-1950 term between Turkey and Soviet economic relations, there are going to be some evaluations historical political economic relations between two countries. Turkish- Russian economic relations are long, complex and problematic relations. The relations began between Ottoman Empire and Muscovy in 1492. 3. Ivan who was the Grand Duke of Muscovy, he wrote a letter to Sultan Süleyman on 31th of December 1492. Merchants of Muscovy were being harassed and 3. Ivan wrote a letter to Sultan to solve this problem. Muscovy also wanted to make a dialogue with Ottomans with this letter. They wanted to make a connection with Ottomans²⁷⁶. When Ottoman Empire began to lose power in the late 17th century, Europe was getting stronger almost in each areas and Russia was getting bigger power in Europe. Balance of power was worsening against Ottoman Empire in the late of 17th century²⁷⁷. The relations were problematical between Ottoman and Russian Empire and military conflicts were the key determinant between to

²⁷⁶ Kınıkoğlu Suat- Morkva Valariy, An Anatomy of Turkish-Russian Relations, Southeast European and Black Sea Studies, Volume 7, Number 4, December 2007, pp.533-534.

²⁷⁷ Karpat Kemal, Türk Demokrasi Tarihi, Timaş Yayınları, pp.92.

powers. The policy of Muscovy was expanded and this policy made two powers were rivals²⁷⁸.

Two countries's trade relations began in 1739. When Sultan was 2th Mahmud, there was an agreement between Ottoman Empire and Russia on the 3th September 1739. According to 9th article of Belgrad Treaty, The Merchants of Russia won status and they(Merchants) won rights to make trade with Ottoman Empire's Rayah ships in 1739. Russia and Ottoman Empire continued to trade with new modalities in 1782. Russia began to trade with Ottoman Empire with their ships. Russia also used Ottoman Rayah Ships to trade and they exported to Ottoman Empire substantially after the treaty of 1782²⁷⁹. Russia got new rights from Ottoman Empire with this treaty, and Ottoman became open- markets. European countries also started to enter into this market²⁸⁰.

There were 13 wars between Ottoman Empire and Russia during the 400 years. The first war was between 1676 and 1681, the last one was between 1914 and 1917 in the World War 1(WW1). Turkish- Russian history was also a bloody history. Tsardom Russia and Ottoman Empire collapsed during and after the WW1 and Bolshevist Russia and Turkish Republic were founded²⁸¹. After foundation new rejimes, the relations between two countires evolved into positive side. There was a good relations was created between Atatürk and Lenin during the War of Independence. It was a realist foreign policy was founded between two leaders. There was a strong cooperation between two sides. While Ankara Government decelerated independence, Soviet Russia became the first country to recognize Turkey²⁸². Russia and Ottoman Empire were rivals before and during the WW1, but after Bolshevik Revolution, two sides declared peace in Brest- Litovsk Treaty on 15th of December 1917²⁸³. Turkish- Soviet came close to probability worried especially in Britain in the late of 1919, and early of 1920. When Britain and Russia were discussing agreement between two countries, British Prime Minister Lloyd George objected to Soviet

²⁷⁸ Warhola W. James - Mitchell A. William, The Warming of Turkish-Russian Relations: Motives and Implications, Demokratizatsiya, pp.128.

²⁷⁹ Fidan Murat - Tarih Araştırmaları Dergisi, Ankara Üniversitesi Dil ve Tarih Coğrafya Fakültesi Cilt: 18, Sayı: 45, 2009, pp.63 and 65.

²⁸⁰ Fidan Murat, Ibid.,pp.66.

²⁸¹ Kınıkoğlu Suat - Morkva Valariy, An Anotomy of Turkish-Russian Relations- Southeast European and Black Sea Studies, pp.534.

²⁸² Çaşın Hakkı Mesut, Türkiye-Rusya İlişkilerinde Çatırşma Yerine Stratejik Ortaklık ve İşbirliğinin Yeni Boyutları(2008-2012), Türk Dış Politikası, Der. Haydar Çakmak,pp.1063.

²⁸³ Korhan Tuğba, Türkiye Cumhuriyeti'nin ilk yıllarında Türk-Rus Ticari ve Ekonomik İlişkileri Üzerine- Abant İzzet Baysal Üniversitesi, Sosyal Bilimler Enstitüsü Dergisi, pp.91.

help to Kemalists on the May of 1920. Lloyd George wanted Soviets not to help "Kemalists" and he wanted to lay down as a condition for agreement between Britain and Soviets, but Soviets rejected this offer²⁸⁴. There was one more important dimension between Moscow and Ankara. Bolsheviks supported Anatolia movement with money and military vehicles. 11 million golden Ruble and 100 thousand lira was given to Turkey by Bolsheviks between 1920 and 1922²⁸⁵.

Three days after the foundation of Grand National Assembly of Turkey, Mustafa Kemal wrote a letter to Lenin and he wanted to make normal relations between two countries. He also wanted to military and political ally between two countries and also wanted to struggle against imperialism together. After this letter, Soviet Government made a statement toward "Russia and East Muslims" on the 3th of December 1917. This statement was readed in Grand National Assembly with acclaimed on 9th of May 1920. According to this statement Muslim people had to be supported both in Russia and ouf Russia and they called Muslim communities had to revolt against imperialism. Bolshevik Russia did not regognize that Czardom Russia made agreements about break up of Turkey. They also said İstanbul should stay the in the hands of Muslims in this statement²⁸⁶. And then General Ali Fuat Cebesoy was appointed as Moscow ambassador and embassy mission went to Moscow on the 19th February 1921. There is one more important event happened between Turkey and Soviets. Turkish- Soviets Frienship Treaty was signed on 16th February 1921²⁸⁷, and two countries also signed Turkish- Soviets Friendship and Nonaggression Treaty in Paris on 17th December 1925²⁸⁸. Turkish Foreign Minister Tevfik Rüştü and Soviet Foreign Minister Çiçerin Treaty signed this treaty²⁸⁹. However this positive atmosphere changed at the end of 2. World War (WW2). Soviets changed their manners, and two countries's relations turned negative direction again. Soviet Foreign Minister Molotov invited Turkish Ambassador Selim Sarper on 19th March 1945. He said that "Soviets would not renew 1925 Treaty in this condition". This treaty had been continuing for 20 years, it was based

²⁸⁴ Armaoğlu Fahir, 20. Yüzyıl Siyasi Tarihi, Alkım Yayınları, pp.382.

²⁸⁵ Tellal E., Kurtuluş Savaşında Rus Yardımı, Türk Dış Politikası 1. Cilt, Der. Oran Baskın, İletişim, pp.162.

²⁸⁶ Armaoğlu Fahir, 20. Yüzyıl Siyasi Tarihi, Alkım Yayınları, pp.383.

²⁸⁷ Armaoğlu Fahir, Ibid., pp.386.

²⁸⁸ Armaoğlu Fahir, Ibid., pp.399.

²⁸⁹ Korhan Tuğba, Türkiye Cumhuriyeti'nin ilk yıllarında Türk-Rus Ticari ve Ekonomik İlişkileri Üzerine, Abant İzzet Baysal Üniversitesi, Sosyal Bilimler Enstitüsü Dergisi, pp.91.

on Turkish-Soviet relations²⁹⁰. Molotov reinvited Sarper again to talk about renewing treaty conditions on 7th Jun. Molotov said some troubles should be solved before renewing treaty. What were these troubles? According to Soviet demands; first one was Turkey had to change in East frontier(It means Soviets wanted Turkey to leave Kars and Ardahan to Soviets). Second one was Turkey should give USSR base in Bosphorus. According to Soviet thesis, USSR want this to protect Bosphorus together with Turkey. And the other one they wanted to review Montreux again²⁹¹. Turkey rejected these demands of USSR. İsmet İnönü said that: "We have not any gains to transfer Turkey's rights. We live with our honor , We die with our honor"²⁹². After the WW2, Soviets increased pressure against Turkey. United States became economic attraction center in this circumstances. Britain announced they could not continue to make military and economic aid to Turkey and Greece on 21th February 1947 and American Secretary of State recommended President Henry Truman to make 400 million dollars military aid to Greece and Turkey. Because Turkey and Greece were under pressure of Soviet Union. Secretary of State recommended President Truman to make pressure Congress about these aids²⁹³. Truman spoke its message in Congress in accordance with this purpose on the 12th March 1947. This message was known as "Truman Doctrine". Congress negotiate this offer and then Congress gave right to President to give 400 million dollars aid to Greece and Turkey(300 million dollar was for Greece, 100 million dollar for Turkey)²⁹⁴. However after Stalin's death in 1953, Soviets began to use milder politics. Soviet Ministry of Foreign Affairs wanted to decrease international tension. After Stalin, party used "de - Stalinization Program". The aim of the Party was economics. They wanted economy recover and make better relations with West in foreign policy in the framework of de- Stalinization Program and important steps were taken by Soviets between 1955 and 1956²⁹⁵. After Stalin, Turkish- Russian relations also softened. However Turkey was looking at Soviet Russia suspiciously. Soviets took a step to normalize their relations with Turkey. Two countries's relations began to normalize after 1953. Soviets sent a diplomatic note and they gave up of demandings from Turkey that

²⁹⁰ Oran Baskın, Türk Dış Politikası 1. Cilt, İletişim, pp.472.

²⁹¹ Oran Baskın , Ibid.,pp.473.

²⁹² Oran Baskın ,Ibid.,pp.474.

²⁹³ Sönmezoğlu Faruk, Türk Dış Politikası, Der Yayınları, pp. 37-38.

²⁹⁴ Sönmezoğlu Faruk,Ibid.,pp.38.

²⁹⁵ Caşın Hakkı Mesut, SSCB ile ilişkiler, Türk Dış Politikası, Der. Çakmak Haydar, pp.616

USSR demanded from Turkey after WW2. They announced gave up from these demans on 30th May of 1953²⁹⁶.

First commercial agencies open in 1922

There is going to be focused on economic relations between two countries in this part now. USSR had began to open commercial agencies in Turkey since 1922. These agencies sometimes created problems between two sides, because they were making communist propaganda. There was one more problem, and USSR also restricted for some goods where were coming from Turkey in February of 1926. Odesa Harbour were closed from Turkish goods. This problem were discussed by Foreign Ministers of Russia Çiçerin and Foreign Minister of Turkey Tevfik Rüştü on November of 1926²⁹⁷.

USSR wanted to send some items like oil to Turkey to make trade relations between two countries since political relations were founded. Russians exported mainly oil, sugar, soft goods to Turkey in this term. After the foundation of Turkey, Turkish executives were more brave to trade relations with Soviets. Turkish import from Russia was not very high. Turkey's total import rate from Russia was only 2 percent, but this rate was increased to 3.9 percent. Turkey exported tabocco, mineral and livestock to Russia, Turkey imported oil, food stuff and lighting items from Soviets. There were some problems between two countries in 1926. Some Turkish goods were seized in Russia. However despite of some problems, trade relations continued between Turkey and USSR and both sides wanted to increase their economic relations. Turkish Foreign Minister Tevfik Rüştü and Soviet Foreign Minister Çiçerin made some meetings and after these meetings Turkey and Soviet Union to signed "Trade and Navigation Agreement"²⁹⁸.

According to this aggreement, Commercial agencies of Soviets's status was put in order in Turkey. Commercial Agencies won diplomatic immunity. Decision was made between Soviets and Turks. According to this agreement Soviets would open Commercial Agencies some cities in Turkey. These cities were İstanbul, İzmir, Trabzon, Mersin, Erzurum, Konya and Eskişehir. However Turkey did not let Soviets to open commercial agencies in Kars and Artvin. Second article of the agreement was if a country export goods to third country,

²⁹⁶ Oran Baskın, Türk Dış Politikası 1. Cilt, İletişim, pp.511.

²⁹⁷ Oran Baskın , Ibid.,p.316-317.

²⁹⁸ Korhan Tuğba, Türkiye Cumhuriyeti'nin ilk yıllarında Türk-Rus Ticari ve Ekonomik İlişkileri Üzerine, Abant İzzet Baysal Üniversitesi Sosyal Bilimler Enstitüsü Dergisi, pp. 95.

this country would not pay customs duty. For example USSR could send some goods over Turkey to third country without customs duty (total opposite example was also valid).

Turkish-Russian economic relations were in positive direction, but nevertheless Turkish's Soviet share of Turkish total foreign trade did not pass 6-7 percent²⁹⁹. Turkey had some problems while they were making trade with Russia. This agreement did not solve all problems of Turkey. Both sides wanted to exploit this agreement in the framework of their benefits. Both sides sometimes ignored this agreement. This situation was usually valid for Russia³⁰⁰. However nevertheless Turkish-Russian political relations were good in 1920s, but trade relations were not good as political relations. USSR's share was 4 percent of Turkish import, USSR's share was 3 percent of Turkish export between 1924 and 1929. Czarism Russia's share was 7 percent of Ottoman Empire's import, Czarism Russia's share was 4 percent of export of Ottomans. So after Turkish Republic was founded, after good relations were founded between two countries, despite good political relations, economic relations did not increase very fast. So there was not big difference between two terms about trade relations³⁰¹.

Russian Izvestia newspaper made a news about Trade and Seyrisefain Treaty where it was signed on the 15th of March 1927. According to Russian newspaper, Turkey understood where its economic and political interests are coming from. According Russians, this agreement was a successful agreement. However there were also ideological difference between Turkey and Soviet Russia. According to Soviet Russia, trade should be made by the state, according to Turkey, trade should be made by merchants. Soviets wanted to prevent Turkey to tend toward West. Turkey wanted to continue to make good relations with Russia. There were reciprocal visits between two countries to continue their relations³⁰². There were some positive sides of the agreement of 1927. Consortium was founded by Turkish Government in 1928. Russian Vnestorgbank also joined this consortium and supported Turkish economy. However even economic relations were strong, USSR's share was between 6 and 7 percent of Turkish's foreign trade³⁰³.

²⁹⁹ Oran Baskın, Türk Dış Politikası, İletişim, 1. Cilt., pp.316-317.

³⁰⁰ Şen Cenk, Stalin Döneminde Türk-Sovyet İlişkileri, Yüksek Lisans Tezi, pp.67-68.

³⁰¹ Tezel Sezai Yahya, Cumhuriyet Döneminin İktisat Tarihi, 5. Baskı- Tarih Vakfı Yurt Yayınları, pp.166.

³⁰² Şen Cenk, Stalin Döneminde Türk-Sovyet İlişkileri, Yüksek Lisans Tezi, pp.69.

³⁰³ Şen Cenk, Ibid., pp.68-69.

Turkish-Russian trade covered a distance at the least in 1929. Turkish's total import was 275 million Turkish Lira. 16.467. 000 million lira of 275 million Turkish Lira were coming from Russian import. It was accounted only for 6.43 percent of total import. Turkey's total export was approximately 150 million Turkish Lira. 5.422.000 Turkish Lira were coming from Turkish export to Russia. It was only 3.39 percent of total Turkish export³⁰⁴.

İnönü visited Soviet Russia

There was one more important development was İsmet İnönü's visit to Russia. Turkish Prime Minister İsmet İnönü visited Russia in 1932. Turkey was trying to find some financial and technical help for its State Investment Program so İsmet İnönü went to Soviet Union and Italy in 1932 (At least one of the reasons of this visits was economy)³⁰⁵. İnönü stayed in Soviet Unions for 15 days. İsmet İnönü made this visit to Soviet Russia when Soviets began to misdoubt Turkish-Russian relations. Actually Russian side insisted Prime Minister's visit. Foreign policy was discussed instead of economics³⁰⁶.

Soviet leader Josef Stalin welcomed and got involved personally and he was personally interested with İsmet İnönü during the visit. There was one more reason why Stalin and Soviet policymakers invite Prime Minister İsmet İnönü to Moscow. They invited Prime Minister of Turkey to Moscow to affect Soviet economic level, companies and also they wanted Turkey to continue to make good economic relations with Soviet Unions. Because before the visit, Turkey was trying to make close relations with Western countries³⁰⁷.

When we look at the Turkish side, before Soviet visit of İsmet İnönü, Turkey tried to get loans from West. Şükrü Saraçoğlu went to United States to get between 50 and 100 million dollars loans in 1931. While Turkey was trying to get loans from West, Soviets lended 8 million dollar to Turkey. Soviets did not want interest rates for this lend and Turkey had to pay this lend in 20 years³⁰⁸. After this visit, Soviet group of experts went to Turkey in the

³⁰⁴ Korhan Tuğba, Türkiye Cumhuriyeti'nin ilk yıllarında Türk-Rus Ticari ve Ekonomik İlişkileri Üzerine, İzzet Baysal Üniversitesi Sosyal Bilimler Enstitüsü Dergisi, pp.97.

³⁰⁵ Tezel Sezai Yahya, Cumhuriyet Döneminin İktisat Tarihi, Tarih Vakfı Yurt Yayınları, pp.293-294.

³⁰⁶ Şen Cenk, Stalin Döneminde Türk-Sovyet İlişkileri, Yüksek Lisans Tezi, pp.72-73-74.

³⁰⁷ Ertem Barış, İkinci Dünya Savaşı Sırasında Türkiye- Sovyetler Birliği İlişkileri ve Türkiye ile ABD İle Yakınlaşmasına Etkileri, Turkish Studies, Volume 8/7 2013, pp.159.

³⁰⁸ Şen Cenk, Stalin Döneminde Türk-Sovyet İlişkileri, Yüksek Lisans Tezi, pp.73-74.

same year because of agreement between two sides³⁰⁹. Before they were arriving in Turkey, they sent production means like lorries and tractors as presents to Turkey³¹⁰.

Russian expert staffs went to Eskişehir, Kayseri, Malatya, İzmir to find convenient places to found Cotton Weaving Mills. Experts filed a report to Turkish Committee. According to this report, Soviet experts offered Nazilli and Kayseri where good places to found Cotton Factories. They also offered Turkey to increase cotton production. After they return to Russia, they prepared a report. The name of the report was "Cotton, Ketene, Chemistry, Iron Industry". This report was sent to Turkey. A factory building works began in Kayseri. While the factory building was continuing, some young people were sent to Russia to make training. These young people would work for Sümerbank General Directorate after they returning to Turkey from Russia. 90 young Turkish people to stay to undergo training in Russia. Russian helped Turkey to found some factories. For example, Hosiery Factory was founded with Russian credit³¹¹. Soviets widely interested in sewing cotton, weave in Turkey. Experts suggested Turkish government to make domestic cotton production instead of cotton import. According to experts, these conditions had to be researched in Turkey. According to their study, Turkey would use yarn and cotton fabric for 28 thousand tone in 1933. Turkey would import of 81 percent of these cotton fabric and yarn. If Turkey wanted to rescue from this import, Turkey had to found three combine companies.

Russia contributed Turkish economic growth in this term. Turkey wanted to use Statist Economy Model and Soviets experts contributed Turkey and factories were founded in Kayseri in 1934, Nazilli in 1935³¹². Statist economy model was began to use by Turkish Republic after 1929 economic crisis.

Great War (WW1) was an important term for Turkish- Russian relations. Turkish-Russian relations were milder relations between 1917 and till the WW2. Soveit Union retreated from the WW1, and also they supported Turkish Independent War. Bolshevik Revolution was a very critical term for Turkish Independet Struggle. Firstly, after Soviet retreated from the WW1, Turkey did not have a rival, on the other hand Turkey had a supportive country for its Independence War. 1917, 1921 and 1925 agreements let two countries

³⁰⁹ Sezai Tezel Sezai Yahya, Cumhuriyet Döneminin İktisat Tarihi- Tarih Vakfı Yurt Yayınları, pp.293-294.

³¹⁰ Korhan Tuğba, Türkiye Cumhuriyeti'nin ilk yıllarında Türk-Rus Ticari ve Ekonomik İlişkileri Üzerine, İzzet Baysal Üniversitesi Sosyal Bilimler Enstitüsü Dergisi, pp.99.

³¹¹ Korhan Tuğba, Ibid.,p.99.

³¹² Oran Baskın, Türk Dış Politikası, 1. Cilt. pp.320.

better relations. However after the conditions of WW2, relations turned negative side again. In this situation, Turkey had to create good relations with West against the Soviet threat. Because Soviets did not want to renovate 1925 agreement, this situation pushed Turkey made better relations with West. Soviet Union was an important factor for Turkey to steer its foreign policy.

2.2. 1950-1980 Term- Turkish-Russian economic relations

Actually, this thesis subject is Turkish- Russian economic relations in Putin era. Turkish-Russian relations between 1950 and 1980 was a very critical term for economic relations between two countries. Because first strong economic relations began in 1960s. This term is an also very important term, because after Stalin's death in 1953, Turkish-Russian relations began to go in milder direction. Firstly, there are going to give some information about Turkish political life, then it is going to return Turkish-Russian relations again.

Democrat Party won the general election in 1950, actually there was no difference in foreign policy of Turkey between before 1950 and after 1950. Turkish- Russian relations had serious problems between after the WW2 and 1953. However after Stalin's death, Soviet Union gave up of its demand land from Turkey, it was an important step, but this decision was met with suspicion in Turkey.

Foreign policy of Turkey began to change in the late of 1950s(Actually it did not change, but Turkey began to a bit more close to Soviet Russia in the early 1960s). Turkey needed lend to become an industrialized country. However Turkey's demand was rejected by Western countries. When Prime Minister Adnan Menderes visited Germany, Menderes spoke to German Prime Minister of German Konrad Adenauer in his visit. Menderes talked about Turkey's desire to initiate industrial efforts, but Konrad Adenauer' attitudes negative against this opinion.

West actually did not necessary support Turkey's industrialisation efforts and Turkish authorities thought diversification options its foreign policy. However the most important development happened in 1964. The President of United States Johnson wrote a though letter to Turkish Prime Minister İsmet İnönü. This letter was a very important development for Turkish foreign policy. Turkey did not change its direction, but after 1964 Turkey increased foreign policy options. The biggest option was Soviet Union. Relations began to increase after this letter. Turkish Authorities also knew they did not get enough support from West about industrialisation subject. Turkey began to make good relations with Soviets without damaging Western allies relations. The one of the most important subject was economy between Turkey and Soviet Union in 1960s. Firstly we focus on in the late of 1950s.

Turkish Prime Minister Adnan Menderes went to United States in 1958 and Turkey demanded 300 million dollars lend from United States in this visit. However United States rejectet this offer and they offered Turkey should decrease its growth rate from 7-8 percent to 4 percent. Western countries were trying not to improve standard of Turkish economy. According to Turkish thesis, West wants Turkey as a dependent country. Turkey had disappointment against Western countries. After Turkey did not get enough credit from United States, one more important event happened in 1958. When Prime Minister Adnan Menderes went to Germany, two country's prime ministers talked about Turkish economic direction. Two countries's prime minister's different opinion emerged in this conversation. Menderes and Erhard discussed Turkish economy in the river trip in Germany. According to Erhard, Turkey does not need heavy industry and chemistry capital. Erhard thought Turkey should make intensive farming. So Turkey should become "grain silo" for Europe. Menderes made reaction this opinion. He said people to Turkish Committee: "They want Turkey to stay behind"³¹³. Milliyet newspaper published article series about this subject in 1991. Below, there is a short part of this news from Milliyet.

"Menderes went to Germany to get economic aid. Germany was under the influence of United States. Turkey wanted to become industrialized rapidly. However Germany did not support this policy. Actually, West did not let Turkey to become industrialized. Germany did not support to be founded iron-steel factories, refineries in Turkey. Turkey sometimes wanted Soviets to found this kind of factories in Turkey, and Soviets founded it. There was a conservation between two prime ministers in Germany. Ludwig Erhard asked Menderes: 'Why does Turkey insist heavy industry? Menderes answered 'Dou you still want Turkey to buy your terra-cotta as cement?'. Erhard answered: 'We would not give credit to Turkey, We give advance to Turkey to improve agricultural sector. You should make intensive agriculture. You became "grain silo", vegetable warehouse for European countries"³¹⁴. There was not a big difference between United States and Germany. Milliyet published an article on 11th of January in 1991. This news was about Turkish- American relations about economy, and American' approach to Turkey.

³¹³ Aktaş Melih, Celal Bayar ve Adnan Menderes'in Dış Politika Felsefesi, Türk Dış Politikası, Der. Çakmak Haydar, Barış Kitap, pp.435.

³¹⁴ Derin Mithat, ABD-Menderes Sürtüşmesi, Milliyet Gazetesi- 12.01.1991, pp.13.

"After the WW2, USSR wanted land demand from Turkey. United States supported Turkey against USSR. However, United States determined a roadmap for Turkey socio-economically and politically. Experts of United States arrived in Turkey and they filed a report. According to this report, Turkey should prioritise agriculture and Turkey should restrict industry investment and should give up state investments"³¹⁵. So Prime Minister Adnan Menderes understood attitude of West and he began to think about new foreign policy options. Soviet Union was threatening for Turkey for a long time(But after Stalin's death, Russian policy changed). Menderes sent Dr. Lütfi Kırdar who was the Ministry of Health to Moscow on the 9th December of 1959. It was the first official trip to Russia after 20 years³¹⁶.

While these development were happening, Turkish domestic political life was complicated. And Turkish Military made a military coup on against the Menderes government on the 27th May in 1960. Soviets declared to recognize new Turkish Authority on the 31th of May 1960. Soviet Authorities said that they desired to increase relations between Turkey and USSR like Atatürk- Lenin term. Soviets also repeated economic aid offer for Turkey. Moscow thought, new authority of Turkey could use more independent policy and despite Turkey has good connection with NATO, nevertheless, Turkey could loosen their ties with NATO. So Soviet Russia offered economic aid to Turkey³¹⁷.

27th May 1960 Revolution was a turning point for Turkish domestic political life, but it did not change Turkish foreign policy. It did not change Turkey's relations with United States and NATO radically. For example, firstly, United States recognized new Turkish authority too, United States's military aid was 188 million dollars to Turkey and they increased aid to 237 million dollars in 1963³¹⁸. Cuba crisis was one of the milestones between Turkey and USSR. There were Jupiter missiles in Turkey. These missiles were dismantled unilaterally. United States did not ask to Turkey if Turkey wanted to dismantle these missiles or not(But in that time, there was a war risk between United States and Soviet Russia). Jupiter missiles was the matter of negotiations between United States and Soviet

³¹⁵ Yetkin Çetin, Özen Uğur, Milliyet- 11.01.1991- Türkiye'de Askeri Müdahaleler ve ABD,pp.13.

³¹⁶ Aktaş Melih, Celal Bayar ve Adnan Menderes'in Dış Politika Felsefesi, Türk Dış Politikası, Der. Çakmak Haydar , Barış Kitap, pp.435.

³¹⁷ Selçuk Hasan, Türk- Rusya Ekonomik İlişkileri, Tasam Yayınevi, pp.49.

³¹⁸ Caşın Hakkı Mesut, SSCB ile İlişkiler, Türk Dış Politikası,Der.Yayınları, Çakmak Haydar, Barış Kitap, pp.622.

Russia and United States dismantled these missiles without asking Turkey. It was not a good decision for Turkey³¹⁹.

Economic relations are continuing

Moscow continued open politics with Turkey. There were some modest technical agreements between Turkey and USSR in this term. Railroad agreement was signed on the 27th April 1961. There was a "Wire Telephone Facility Agreement" was signed on 9th of Jun 1962. Mutual Barrage Building was another subject. Turkey did not want to damage its relations with Soviets anymore. Turkey was careful about that. After "Johnson Letter" Turkey wanted to make balance with Turkey and USSR. Turkey did not want to enter under sphere of influence of Russia, Turkey did not want to damage their relations with West³²⁰. The biggest difference of Turkish Foreign Policy was lived after "Johnson Letter".

Why did United States, Johnson, send not so diplomatic, letter to Turkey?

What happened before 1964 between Turkey and United States relations. The problem was Cyprus. Greek Cypriot had began assaults against Turkish people since December of 1963 because they did not carry out 1960 Constitution. "Bloody Christmas" assault was made on the 21th of December 1963. Turkey did not get support from United States. Turkey sent a message to President of Cyprus Makarios, "If assaults continued against Turkish people, Turkey would save security of life and property of Turkish people". Turkey actually wanted Greek Cypriots to think Turkey would make military operation. Because this probability would enable United States to make pressure against Greek Cypriots. It was the aim of Turkey. Grand National Assembly of Turkey gave military operation rights to Turkish government if it necessary³²¹. However, in a not so diplomatic letter was written by President of United States Johnson to Prime Minister İsmen İnönü³²². Johnson wrote in this letter: "If Turkey makes an military operation against Island(Cyprus), it would be a problem between Turkey and Soviet Russia and NATO would not obligated to defence Turkey in this situation"³²³. Johnson Letter was a turning point for Turkish Foreign

³¹⁹ Caşın Hakkı Mesut, Ibid.,pp.630.

³²⁰ Selçuk Hasan, Türk- Rusya Ekonomik İlişkileri, Tasam Yayınevi, pp.50-51.

³²¹ Oran Baskın , Türk Dış Politikası 1. Cilt, İletişim, pp.685.

³²² Kalaycıoğlu Ersin, Turkish- U.S. Relations: Beautiful Life but Ugly Policy, The German Marshall Fund of the United States, October 7 2011, pp.2.

³²³ Oran Baskın, Türk Dış Politikası 1. Cilt- İletişim, pp.686-687.

Policy³²⁴. After the period of this letter, Turkey wanted to improve their relations with USSR and 3th World Countries.³²⁵ It was the biggest problem between Turkey and United States. İnönü spoke to Time Magazine on 25th Jun, he said Time editor, "New world emerge and Turkey take the place of this world". Ankara thought new options to use³²⁶. Turkish- United States relations did not return to old days again after "Johnson Letter". Turkey understood to make tighter relations with Soviets and Middle East countries. Foreign Minister Feridun Cemal Erkin went to Moscow in 1964, this process continued with Soviet Union, after İsmet İnönü turned to opposition part of the Turkish politics. This letter was a turning point of the Turkish Foreign Policy³²⁷. After the visit of Feridun Cemal Erkin who visited to USSR on October and November of 1964, in return, USSR' Supreme Soviet President Nikolayev Podgorniy and his parliament committee arrived in Turkey on January of 1965. Turkish Prime Minister Suat Hayri Ürgüplü and his committee visited Moscow in the same year. These warm relations continued in the following years. The Prime Minister of Soviet Union Aleksei Kosygin visited Ankara in 1966, one year later, Prime Minister of Turkey Süleyman Demirel arrived in Moscow³²⁸.

Demirel and Soviet Union

Demirel supported mixed economy and according to the party program, foreign policy should help country's economic development moves. Demirel was a pragmatic person and his foreign policy understanding was economy centered. Government was pleased to have good relations with Soviet Union, and they want to continue and improve these relations with USSR³²⁹.

When Prime Minister Ürgüplü went to Moscow on August of 1965, there were some principle agreements between two sides. According to this principle agreement, Soviets would found seven industrial plants in Turkey. Soviets gave credit to Turkey. Turkey pay this credit with exporting (Turkey would export its goods to Russia to pay the credit debt).

³²⁴ Erler Özgür, Cyprus Issue in Turkish-Russian Relations, International Journal of Turcoglia, pp.92.

³²⁵ Oran Baskın, Türk Dış Politikası 1. Cilt, İletişim, pp.689-690.

³²⁶ Erol Seyfettin Mehmet, İsmet İnönü Hükümeti Dış Politikası, Türk Dış Politikası, Der. Çakmak Haydar, Barış Kitap, pp.575.

³²⁷ Erol Seyfettin Mehmet, Ibid.,pp.576.

³²⁸ Sönmezoglu Faruk, 2. Dünya Savaşı Sonrası Türk Dış Politikası, Der Yayınları, pp.221.

³²⁹ Seyfettin Erol, İsmet İnönü Hükümeti Dış Politikası, Türk Dış Politikası, Der. Çakmak Haydar, Barış Kitap, pp.575.

Preliminary projects were prepared for seven industrial plants and these industrial plants's construction agreement was signed on the 25th May of March in 1967³³⁰.

"Turkey and Soviet Union signed an agreement yesterday to found industrial plants. According to the agreement, Soviet Union would help to found an aluminium factory, an sulphure acid factory, an plyboard company in Turkey. Soviets also would help to found iron-steel factory where it would produce 1 million tone iron- steel, and a refinery in Turkey. Turkey would pay this credit with exporting farm products and raw materials to Russia³³¹.

It was published by Milliyet newspaper on the 26th of March 1967. This news indicated new economic term with USSR(The Union of Soviet Socialist Republics). Industrial plants were İskenderun Iron and Steel Facilities, İzmir Aliaga Oil Refinery, Seydişehir Aluminium Factory, Paşabahçe Glass Industry, Bandırma Sulphure Acid Factory, Artvin Slab Factory. These facilities were very important for Turkish industry. Soviet government opened 200 million dollars credit to Turkey with 2.5 percent interest rate and redemption date was 15 years. The importance of the agreement was Turkey would export to Soviets to pay credit. 60 percent of this export were Turkey's traditional farm products. Turkey would had important industrial plants and also Turkish traditional farm products entered in Soviet market. All of these factories would opened in the following years³³². The reason of the 25th March 1967 Agreement was Turkey needed credit to become industrialized. Turkey did not get this credit from West Block³³³. After this agreement, 25th March 1967 agreement, Demirel went to Moscow on September in the same year³³⁴.

Turkey wanted to decrease dependency toward West politically and economically. After West rejected Turkish land demands³³⁵, Turkey made closer economic relations with Soviet Union. Even before the agreement between Turkey and Soviet Union, two country's economic relations were getting better. Turkish- Soviet economic volume increased from 17 million dollars to 44 million 500 thousand dollars between 1964 and 1966. There were a

³³⁰ Selçuk Hasan, Türk- Rusya Ekonomik İlişkileri, Tasam Yayınevi, pp.53.

³³¹ Türk Sovyet anlaşması dün imzalandı, Milliyet Newspaper, 3th March 1967
<http://gazetearsivi.milliyet.com.tr/Arsiv/1967/03/26>.

³³² Selçuk Hasan, Türk- Rusya Ekonomik İlişkileri, Tasam Yayınevi, pp.53.

³³³ Aktaş Melih, Celal Bayar ve Adnan Menderes'in Dış Politikası Felsefesi, Türk Dış Politikası, Der. Çakmak Haydar, Barış Kitap, pp.434-435

³³⁴ Aktaş Melih, Ibid.,p.579.

³³⁵ Oran Baskın, Türk Dış Politikası, İletişim- 1. Cilt- (1923-1980), pp.675.

thousand Soviet economic advisors in Turkey in the late of 1960s and Turkey received highest economic aid as a developing country from USSR³³⁶. Turkish export and import to Soviet Union's share increased to 6 percent of total foreign trade in the late of 1960s(1960s are very important term for Turkish foreign policy. Turkey lived some problems with United States and Turkish-Soviet Russian relations began to increase, however import and export sharing of Gross Domestic Product of Turkey was Soviets did not change a lot in the late of 1960s. Soviet's share of Turkish foreign trade was 6 percent, and it was not much higher in 1930s, even from Tsardom Russia term).

Prime Minister Süleyman Demirel said that: "West did not want Turkey to become industrialization or they did not believe Turkey would become industrialization country. The suggested agriculture or light industry. They did not want heavy industry. We negotiated, we began to construct these industrial facilities. They were annoyed. United States Ambassador came to premiership(the prime minister's house) in 1967, he visited me. After coming in the door, he asked me : "'Are you changing axis?". United States was annoyed Turkey's relations with Soviet Union. USSR gave Turkey long-term credit with very low rates. Soviets gave us credit with high added value like mining industry. This kind of credits contributed Turkish economy. Turkey also increased its autonomy against West³³⁷.

1967 Turkish- Soviet economic agreement was the milestone for Turkish- Russian economic relations. Turkey did not get enough credit to initiate industrialisation process, Russia gave this credit. Actually today's strong Turkish-Russian economic relations traced back to 1967 agreement. Turkish- Soviet relations also gave a room for maneuver for Turkish foreign policy. 1960s were very important term for Turkey both economically and foreign policy part. 1967 agreement also gave pave the way for 1984 Turkish- Soviet Natural Gas Agreement. The strong economic relations began after 1960s.

³³⁶ Oran Baskın, Ibid.,pp.782-783.

³³⁷ Oran Baskın, Ibid, pp.676.

2.3. 1980-1990 term- Turkish- Soviets economic relations

Turkish- Russian economic relations have been getting stronger in 2000s. Economy is very important part of the relations between two countries. Natural gas is an important factor of the relations. Natural gas agreement was traced back to 1984 agreement.

Firstly, there are going to make some general explanations about Turkish economy, then Turkish-Russian economy relations are going to evaluate. Because 1980s were transition term for Turkish economy. Turkish economy began to expand international trade in 1980s. When Süleyman Demirel was the prime minister of Turkey, he put a radical stability program on 24th of January of 1980(24 January Decisions). So Turkish economy left import substitution policy in 1980s (Turkish economy implemented import substitution policy in 1970s). Turgut Özal who was undersecretary of prime minister, and he was the responsible for the program. After military coup on the 12th of September, generals accepted this program, and Turgut Özal who was the responsible for the program again. To create export-led economy was one of the most important aims of 24 January decisions in the long term³³⁸.

Turkish export figures began to increase in this term. Turkish export income was only 2.3 billion dollars in 1979, and it accounted for 2.6 percent of the GDP. Export figure increased to 8 billion dollars in 1985, 13 billion dollars in 1990. It means Turkish export was 8.6 percent of the GDP³³⁹.

Turkey grew 5.8 percent between 1980 and 1988. Turkey adopted export- led growth strategy and especially Turkish economy was very successful in the early 1980s. However after 1988, Turkish performance decreased, and Turkey began to grow slowly³⁴⁰. Total export to GDP of Turkey increased from 4.1 percent to 13.3 percent between 1980 and 1988. Total import to GDP of Turkey increased from 11.3 percent to 16.4 percent in the same period of time³⁴¹. Turkish economy began more open economy in this term, and this policy also affected Turkish-Russian economic relations positively. Because Turkey became more open economy, and Turkish- Russian economic relations began to get stronger in this term. However comparing with 90s and 2000s, nevertheless, economic

³³⁸ Pamuk Şevket, Türkiye'nin 200 Yıllık İktisadi Tarihi, İş Bankası Yayınları, pp.265.

³³⁹ Pamuk Şevket, Ibid.,pp.268.

³⁴⁰ Ertuğrul Ahmet-Selçuk Faruk, A Brief Account of Turkish Economy, Russian and East European Finance and Trade, Vol: 37, Number: 6, November-December 2001, pp.8-9.

³⁴¹ Ertuğrul Ahmet-Selçuk Faruk, Ibid,pp.12.

relations stayed in modest levels between two countries in 1980s. But economic relations increased with balanced levels in 1980s. Energy had become very important part of the economic relations between Turkey and Soviet Union since 1980s. Trade volume was 349.636.279 dollars in 1980, and this level increased to 410.777.947 in 1985. It was a modest increase, however trade volume increased to 1.778.575.075 dollars in 1990. Turkish export to USSR was 168 million dollars in 1980, Russian exports to Turkey was 180 million dollars. As we see, trade was balanced between two countries in 1980. Moreover Turkish export to Russia was higher than Russia's export to Turkey in 1981 and 1982. It means, Turkey gave trade surplus with Russia in 1981 and 1982. However after 1982, Turkey usually gave trade deficit with Russia. For example, Turkish export to Soviet Union was 531 million dollars, Turkey's import from Soviets was 1 billion 247 million dollars in 1990³⁴².

So Turkish- USSR economic relations improved before Perestroika policy. This term paved the way of booming economic relations of 1990s and 2000s. 1984 Natural Gas Agreement made a good affect Turkish- Russian economic relations for the future.

After the 12th September Military Coup of Turkey, relations continued between Turkey and Russia. There was an agreement about extending Seydişehir Aluminium Firm on the 10th of March 1981. Turkey and Soviets also signed a protocol on the January of 1982. When Turkey signed a protocol with Soviet Union, United States was trying to implement economic boycott against Soviet Union due to martial law in Poland. So it is an important sign between Turkey and Soviet Russia³⁴³.

There was one more protocol to be signed between two countries to pass free currency in payments on 20th May of 1982. Free currency trade increased trade relations between Russia and Turkey, especially in the second half of the 1980s³⁴⁴. The construction business and energy were the best parts of the economic relations³⁴⁵.

³⁴² TÜİK

³⁴³ Oran Baskın, Türk Dış Politikası, İletişim, Cilt 2, pp.163.

³⁴⁴ Oran Baskın, Ibid.,pp.163.

³⁴⁵ Sönmezoglu Faruk, 2. Dünya Savaşı'ndan Günümüze Türk Dış Politikası, Der Yayınları, pp.453.

After Mikhael Gorbachev's accession to power in the USSR in 1985, Soviet- Turkish tensions began to decrease and two countries's economic relations started to improve³⁴⁶. During the second half of the 1980s, Turkey was able to develop better relations with both the Soviet Union and the western powers , for the first time since the 1930s. Roots of bilateral relations were(are) economy. Trade volume quadrupled between 1987 and 1990. Trade volume was 476 million dollars in 1987, it increased 1.8 million dollars in 1990. The most important element was the supply of Russian natural gas to Turkey, through a pipeline via Bulgaria constructed in 1987³⁴⁷.

Energy relations between two countries

1984 and 1987 were very important date between Turkish-Russian economic relations. Turkey made an agreement with Soviet Union to get natural gas on 18th September 1984. Turkish company BOTAŞ and Soviet compamy Soyuzgazeksport made this agreement for 25 years. Russian Federation- Turkey Natural Gas Pipeline were began to be constructed on the 26th October 1986 and first gas arrived Hamimabat Turkey on the 23th June 1987, gas arrived in Ankara on August of 1988³⁴⁸.

Turkey would pay the price of natural gas with foreign currency. On the contrary Russia would buy goods from Turkey. Russia got money from natural gas agreement, and Russia would buy goods from Turkish goods with this income(Russia bought 70 percent Turkish goods with this income. Income is coming from natural gas agreement). So Turkish companies entered Russian market with the agreement of Natural Gas between Turkey and Soviet Union(So Russia was an important market for Turkish campanies, Turkish goods entered in Russian market. It was an advantage for Turkish companies)³⁴⁹.

If we look at energy again, Turkey began to import 6 billion cubic meter natural gas since 1987. Russian natural gas arrived in Turkey via Ukraine, Moldova, Romania, Bulgaria. This pipeline is defined as a West Line(Pipeline)³⁵⁰. There was one more important

³⁴⁶ Hale William, Turkish Foreign Policy Since 1774, Routledge, pp.207.

³⁴⁷ Hale William, Ibid.,pp.121.

³⁴⁸ Oğan Sinan, Stradigma.com Mavi Akım Projesi - Aylık Strateji ve Analiz e-dergisi, August 2003 Sayı 7, pp.1.

³⁴⁹ Oran Baskın, Türk Dış Politikası, İletişim- 1. Cilt, pp.305.

³⁵⁰ Oğan Sinan, Mavi Akım Projesi- Stradigma.com Aylık Strateji ve Analiz e-dergisi August 2003 Sayı 7,pp.1.

agreement between two countries. Economic relations accelerated after 6th of July 1989 "Frontier and Coast Agreement" . Sarp Border Gate became a moving(live) place and this agreement gave way to "Suitcase Trading" for the future. Turkey imported natural gas and oil from Russia, Turkey exported plastic, leather goods, iron and steel goods and some agricultural products to Russia³⁵¹. Turkish imports natural gas began to increase in 1990s³⁵². Why did Turkey decide to buy natural gas from Russia.

Why did Turkey decide to buy natural gas from Soviets?

There was a big air pollution problem in Turkey in the early of 1980. Advisor Treasury Ekrem Pakdemirli(Turgut Özal who was the prime minister of Turkey between 1983 and 1989, he was the president of Turkey between 1989 and 1993) meet some authorities of United Nations- World Health Organization in 1983. They said Turkey was in real danger because of air pollution. According to United Nations Report, massive deaths could be possible because of air pollution in Turkey in three or four years. Pakdemirli and his friends were shocked by this report. He spoke to the Turgut Özal. They discussed about what can they do. One of the option was Natural Gas. Natural gas was cheap and practical. Özal said that, "Why we did not buy natural gas if the price is convenient"³⁵³. So Turkey talked about natural gas option with Soviets. After getting agreement with Russia about natural gas, the relations of two countries began to get closer³⁵⁴.

Turkish- Russian natural gas agreement economic relations gave the opportunity Turkish companies to enter Russian market. The bases of today's Turkish- Russian economic relations traced back to the last term of Soviet Union. Today's relations's bases to was founded in 1980s.

³⁵¹ Sönmezoğlu Faruk, 2. Dünya Savaşı'ndan Günümüze Türk Dış Politikası, Der Yayınları,pp.453.

³⁵² Oran Baskın, Türk Dış Politikası, İletişim, Cilt 3, pp.547

³⁵³ Gazel Fırat, Mavi Akım, Siyah Beyaz Metis Güncel, pp.14.

³⁵⁴ Gazel Fırat, Ibid.pp.15.

CHAPTER 3

NEW DEVELOPMENTS IN TURKEY-RUSSIA ECONOMIC AND DIPLOMATIC RELATIONS AFTER DISSOLUTION USSR

3.1 UNDERSTANDING TURKISH- RUSSIAN FEDERATION DIPLOMATIC RELATIONS AFTER 1991- PROBLEMS AND SOLUTIONS

1990s was a very important term for Turkish-Russian relations. After the collapse of Soviet Union in 1991, 400 years's Russian threat ended, and Turkish-Russian relations changed dramatically³⁵⁵. Turkish Prime Minister Süleyman Demirel went to Russia on the 25th of May 1992. Demirel and Russian President Boris Yeltsin signed a constituent document between two countries. This agreement entered into force on the 19th July of 1994. The name of the agreement was "Treaty on the Principles of Relations Between the Republic of Turkey and the Russian Federation". 1992 Agreement's meaning similar to 1991 agreement between Turkey and Soviet Union. Prime Minister Turgut Özal went to Soviet Union on the March of 1991 and two sides signed "The Treaty of Friendship, Good Neighbourhood and Collaboration". Both sides defined as a friend with each other. This expression was used firstly after 1925 treaty³⁵⁶. According to retired ambassador to Ayhan Kamel, both 1925 and 1992 treaties have similar features³⁵⁷. After the collapse of USSR, ideological polarization ended between Turkey and Russia. Both countries were in different camp during the Cold War, but after the end of Cold War, this problem was also finished. Both Turkey and Russia had chances to improve their relations in milder atmosphere³⁵⁸. After the 25 May 1992 Treaty, Demirel told "New term was beginning between two countries, the relations of two sides based on democracy, human rights and market economy"³⁵⁹. Ankara and Moscow signed 15 treaties and protocols including economic cooperation, education, shifting of military personnel between 1992 and 1996³⁶⁰. Despite these positive developments, there were also some critical conflicts had been continuing. In spite of economic relations began to get better, foreign policy discrepancy created some problems

³⁵⁵ Aktürk Şener, Turkish Russian Relations After the Cold War(1992-2002)- Turkish Studies- pp.340.

³⁵⁶ Oran Baskın 2. Cilt, Türk Dış Politikası, İletişim, pp.546.

³⁵⁷ Aktürk Şener, Turkish Russian Relations After The Cold War(1992-2002)- Turkish Studies, pp.340.

³⁵⁸ Casin Hakkı Mesut, Türkiye- Rusya İlişkilerinde Çatışma Yerine Stratejik Ortaklık ve İşbirliğinin Yeni Boyutları, Türk Dış Politikası, Der. Çakmak Haydar, Barış Kitap, pp.1054.

³⁵⁹ Başlamış Cenk-Akdemir- Sarov, "Türk Rus Bahar Havası", Milliyet 27.05.1992, pp.7.

³⁶⁰ Aktürk Şener, Turkish- Russian Relations After The Cold War(1992-2002), Turkish Studies, pp.340.

in 1990s. Tension decreased after the collapse of Soviet Union gradually, however, both Turkey and Russia were in different camps in Bosnia, Kosovo, Chechnya conflicts³⁶¹. Kurdish problem of Turkey was also one of the disagreement between two sides. For example Russia did not want to define PKK as a terrorist organization and this situation was a problematic for Turkey³⁶². Another disagreement was Cyprus problem. When Russia had good relations with Greece, Russia has also good relations with Cyprus(South Cyprus). Maybe it was not a big problem for Turkey, but Russia supported Greece's position in Cyprus³⁶³, and Russia sold S-300 air defence system to Cyprus. This situation caused serious tension between Ankara and Moscow³⁶⁴. South Cyprus Foreign Minister Alecos Michailides signed a contract with Russian Rosvooruzheniye company and South Cyprus declared they would buy S-300 missile system. After that, Turkish Foreign Minister Spokesman Ömer Akbel made a comment about this subject. He said that: "We will not tolerate any developments that will change Turkish- Greece balance in East Mediterranean. We are protesting Russian Federation". Russia had a different opinion. According to Russian Foreign Minister Andrey Kozirev, this is a very profitable weapon negotiations between S. Cyprus and Russia. According to him, Turkish reaction was overreaction³⁶⁵. On the other side of the coin, Turkey had improved its relations with Israel, especially in military field, since 1996. Turkish- Israel relations discomforted Russia³⁶⁶. There was one more problem between two sides. Russia was anxious about if pan- Turkism was getting stronger in Central Asia where Turks lived in this area in Soviet Union term³⁶⁷. After the Soviet Union collapse, Turkey began to make good relations with Turkic Republics. Turkey wanted to create sphere of influence in this region, because Turkic Republics were there. On the other side, Russia did not want to lose its effect towards this area after the collapse of Soviet Union.

³⁶¹ Demiryol Tolga, Does Economic Interdependence Promote Political Cooperation?, Political Economy of Russian-Turkish Energy Relations, pp.4.

³⁶² Weitz Richard, Mediterranean Quarterly: Summer 2010, Russian- Turkish Relations: Steadfas and Changing- pp.62.

³⁶³ Hegedüs Kristina, Russia's Relations: The Turkish- Greek- Cipriot Triangle, International Relations Quarterly Vol.1. No.2(Summer 2010), pp.1.

³⁶⁴ Sezer Bazoğlu Duygu, Turkish-Russian Relations, Turkish Studies, Spring 2010, pp.61.

³⁶⁵ Akgün Mensur- Aydın Turan, Türkiye-Rusya ilişkilerinde yapısal sorunlar ve Çözüm Önerileri, Jun 1999, TÜSİAD, pp.24- 25.

³⁶⁶ Sezer Bazoğlu Duygu, Turkish- Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partner, Turkish Studies, Spring 2010, pp.61.

³⁶⁷ Weitz Richard, Summer 2010, Russian- Turkish Relations: Steadfas and Changing, Mediterranean Quarterly,pp. 62.

According to some academists and popular writers knew Turkey had been struggled to influence Central Asia and Caucasus regions. For example Turkey was the first country in the world who recognized Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan³⁶⁸. Russia was anxious about if pan- Turkism was getting stronger in Central Asia where Turks lived in this area in Soviet Union term³⁶⁹. Demirel said that "A Giant Turkish World is emerging from Adriatic to Chinese Wall" on February of 1992. Demirel went to Turkic Republics between 27th April and 3th May. He also invited Nationalist leader Alparslan Türkeş to his committee³⁷⁰. West and especially United States supported Turkish policy. According to Washington, after the collapse of Soviet Union, there was a vacancy in the region. There were two countries had chances to fill this vacancy. One of them is Turkey, the other one is Iran Islamic Republic. United States saw second option as a disaster. So United States supported Turkey to make connections with new states in this circumstances. Turkey was also a secular country, market economy and was experiencing multi-party system. According to United States, Turkey was an example country for the region, and Turkey carried out a very active foreign policy in the region. More than 300 agreements were signed between Turkey and Turkic republics in this term³⁷¹.

Demirel went to Central Asia in 1992 and talked about probability of Turkish United States. He also talked about the possibility of Central Asian countries's leave Ruble Area. According to Demirel, they could these countries to leave Ruble Area³⁷². According to "Turkish- Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partner" article where it was written by Duygu Belezoglu, Turkey's desire to create Pan-Turkism in the region. On the other hand, new sovereign countries said that, there was not articles in their ajanda³⁷³.

Another problem was Chechen problem. Caucasin diaspora who lived in Turkey. They supported Chechens actively who fight against Russian army. Russia did not ratified with

³⁶⁸ Aktürk Şener, Turkish Russian Relations After The Cold War(1992-2002), Turkish Studies, pp. 341 and 345.

³⁶⁹ Weitz Richard, Mediterranean Quarterly: Summer 2010, Russian- Turkish Relations: Steadfas and Changing:, pp.62.

³⁷⁰ Purtaş Fırat , Süleyman Demirel'in Dış Politika Felsefesi, Der. Çakmak Haydar, Türk Dış Politikası, Barış Kitap, pp.583.

³⁷¹ Zürcher Jan Erik, Modernleşen Türkiye'nin Tarihi, İletişim Yayınları, 28. Baskı- 2013, pp.470- 471

³⁷² Aktürk Şener, Turkish Russian Relations After The Cold War(1992-2002), Turkish Studies, pp.345,

³⁷³ Bazoğlu Bazoğlu Duygu, Turkish- Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partner, Turkish Studies 2010, pp.64.

these kind of actions. On the other hand, Russia let PKK's activities do in its territory. Actually Russia let PKK's activities pass unchallenged in its territory³⁷⁴. Thus political tension increased between Turkey and Russia due to Kurdish and Chechen problems between 1995 and 1999. When Turkish and Russian foreign politicians meet together, terrorism was the main subject³⁷⁵. Both Ankara and Moscow criticized each other because they were supporting ethnic discrimination³⁷⁶.

Turkey understood despite all its efforts, its abilities were limited in Central Asia. Above all, On the one hand Russia retreated, but on the other hand, Russia's strength did not finish. There were links between Central Asia and Russian Federation economically. For example Central Asian countries's transportation and communication links were very strong with Russia. If they had loosen these links with Russia, It would have been a disaster for Central Asian countries. Central Asian Countries's import from Soviet Union was between 80 and 86 percent. Central Asian Countries's export to Soviet Union was between 85 and 98 percent in 1990. There was one more important part of relations. Political elites of Central Asia Republics were educated in Moscow and political culture of Central Asian Countries were more similar to Russia than Turkey³⁷⁷. After this kind of problems, Turkish-Russian relations began to get stronger in the late of last decade of 20th century. Russians understood Turkey's limited ability's to create sphere of influence in the Central Asia or Black Sea Region and so Turkey's ability was not enough to decrease influence of Russian Federation in the region.

1998 economic crisis of Russia was also one of the reasons softened relations between Turkey and Russia. Russia was trying to solve economic problems and trying to recover from the crisis. Russia wanted to improve economic relations with Turkey³⁷⁸. Economic activities were(are) very important parts of the relations. Trade is means also a demand for Russian goods and services. Economic relations were (are) useful both for Russians and Turkish businessman. Turkish businessman wanted to be integrated with the world

³⁷⁴ Aras Bülent, Seta Analiz, Türkiye ve Rusya Federasyonu- Çok Boyutlu Ortaklık, Sayı 10- August 2009, pp.5.

³⁷⁵ Gürtuna Anıl, Turkish-Russian Relations in the Post- Soviet Era- From the Conflict to Cooperation?, January 2006, ODTÜ Yüksek Lisans, pp.34-35.

³⁷⁶ Sezer Bazoğlu Duygu,, Turkish- Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partner, Turkish Studies, pp.64.

³⁷⁷ Zürcher Jan Erik, Modernleşen Türkiye'nin Tarihi, İletişim Yayınları, 28. Baskı, 2013, pp.471 - 472.

³⁷⁸ Weitz Richard, Mediterranean Quarterly: Summer 2010, Russian- Tukish Relations: Steadfas and Changing; Richard Weitz, pp.62.

economy. They needed to find new markets for their goods and services to achieve to be integrated with the world economy, so economy help Turkish- Russian economics better³⁷⁹.

1997 was an important year for the relations between Turkey and Russia. Russian Prime Minister Viktor Chernomyrdin visited in Turkey on the 16th and 17th December of 1997. This visit was an important visit for Turkish- Russian relations. The main agenda of this visit was economy, energy, and the aim was to improve economic relations. The agenda of this visit was Russian natural gas was going to be transported from under Black Sea to Turkey. The name of the project was(is) Blue Stream. There were not any countries between Russia and Turkey in Blue Stream, Russian natural gas would go from Russia to Turkey directly. Another countries were by-passed. Russian Prime Minister Viktor Chernomyrdin and Turkish Prime Minister Mesut Yılmaz signed this agreement³⁸⁰. Chernomyrdin said that "Our agreements would accelerate our relations. This cooperation serve our strategic interests. This relation could go to strategic cooperation"³⁸¹. Milliyet newspaper Foreign News writer Sami Kohen wrote an article about Turkish-Russian economic relations. He said that: "Nobody estimated Turkish-Russian relations achieved this level ten years ago (1987)"³⁸². Chernomyrdin said "If Turkey shakes the hand extended by Russia, we shall become strategic partner in the economy in the 21th century"³⁸³.

On the other side there were severe critics against this agreement in Turkey. Because Turkey became more dependent on Russia after Blue Stream. However Turkish government did not give up Blue Stream project³⁸⁴. Both Chernomyrdin and Yılmaz declared to respect their territorial integrity. Both prime ministers emphasized confidence, instead of suspicion and competition but, nevertheless, both prime ministers saw some issues from different perspective. According to Chernomyrdin , economic relations should

³⁷⁹ Sezer Bazoğlu Duygu, Turkish- Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partner, Turkish Studies, pp.61.

³⁸⁰ Aras Bülent, Seta Analiz, Türkiye ve Rusya Federasyonu, Çok Boyutlu Ortaklık, Sayı 10, August 2009.

³⁸¹ Kohen Sami, Milliyet, Bir Stratejik Ortaklık Daha, 17 Aralık 1997.

<http://www.milliyet.com.tr/1997/12/17/>.

³⁸² Kohen Sami, Ibid.,22 Aralık 1997 <http://www.milliyet.com.tr/1997/12/17/>.

³⁸³ Bazoğlu Duygu , Turkish- Russian Relations: The Challenges of Reconciling Geopolitical Competition with Economic Partner, Turkish Studies, pp.64.

³⁸⁴ Aras Bülent, Seta Analiz, Türkiye ve Rusya Federasyonu, Çok Boyutlu Ortaklık- Sayı 10- August 2009- pp.5.

play as a vital role to improve their political relations. However according to Mesut Yılmaz, the improvement of political relations was important to improve economic relations³⁸⁵. Despite some different point of views, Turkish- Russian economic relations grew stronger in the late of 1990s in the grand scheme of things. Turkey and Russia made positive steps to solve ethnic discrimination subjects³⁸⁶. However the milestone of relations came after Turkish Prime Minister Bülent Ecevit arrived in Moscow in 1999. Ecevit visited Moscow on the 5th and the 6th November of 1999, while Russian army was in war in Cheshnya³⁸⁷. This visit caused Turkey's attitude change about Chechen problem. Turkey defined Chechen problem as a domestic problem of Russia, and also Russia began not to interfere Kurdish problem³⁸⁸. Ecevit declared Chechen terrorists would send back to Russia. Russia closed offices of PKK in Moscow. Russia wanted PKK leader Abdullah Öcalan to leave the country³⁸⁹.

There were a series of agreements were signed between two countries. One of them was Declaration on Joint Anti-Terrorism, it was signed on 5th November in 1997³⁹⁰. Turkey and Russia solved their main foreign policy differences in the late of 1990s.

There was one more important treaty between Turkey and Russia in 2001. Turkish Foreign Minister İsmail Cem and Russian Foreign Minister Igor Ivanov signed a treaty in the framework Eurasia Action Plan in 2001 and political relations deepened. Two countries wanted to improve their relations in soft subjects like trade, culture and tourism in the framework of this plan. Mutual consultancy activities were started between two countries. After that, tourism, energy and defence parts of the relations have improved. Increase of trade and energy relations eased deeper political relations³⁹¹. After AKP came to power in 2002, Russian and Turkish relations began to get better³⁹². Two country's leaders often

³⁸⁵ Gürtuna Anıl, Turkish-Russian Relations in the Post- Soviet Era From the Conflict to Cooperation?, January 2006, ODTÜ Yüksek Lisans, pp.36.

³⁸⁶ Aktürk Şener, Turkish Russian Relation After The Cold War(1992-2002), Turkish Studies, pp.345.

³⁸⁷ Gürtuna Anıl, Turkish-Russian Relations in the Post- Soviet Era- From the Conflict to Cooperation?, January 2006, ODTÜ Yüksek Lisans, pp.36.

³⁸⁸ Aras Bülent, Seta Analiz, Türkiye ve Rusya Federasyonu- Çok Boyutlu Ortaklık, Sayı 10, Ağustos 2009, pp.6.

³⁸⁹ Aktürk Şener, Turkish Russian Relations After The Cold War(1992-2002), Turkish Studies, pp.345.

³⁹⁰ Gürtuna Anıl, Turkish-Russian Relations in the Post- Soviet Era- From the Conflict to Cooperation?, January 2006, ODTÜ Yüksek Lisans, pp.36.

³⁹¹ Kınıkoğlu Suat- Morkva Vlariy, An Anatomy of Turkish-Russian Relations, Southeast European and Black Sea Studies, pp.535.

³⁹² Weitz Richard, Russian- Turkish Relations: Steadfas and Changing: Richard Weitz-Mediterranean Quarterly pp 62, Summer 2010

began to meet. For example President Putin and Prime Minister Erdoğan met four times in 2005. One of them was two leader discussed subjects for 7 hours in Black Sea³⁹³.

President Putin visited Turkey on the 6th of December 2004. It was the first the top of the Russia arrived in Turkey after 32 years³⁹⁴. Turkish President Ahmet Necdet Sezer and President Putin signed an agreemet between Turkey and Russia. The name of the agreement was "Joint Declaration on the Deepening of Friendship and Multidimensional Partnership". Putin and Sezer signed an agreement including energy, finance and defence subjects³⁹⁵. French Newspaper Le Figaro defined this visit title, "Old enemies are very good friends"³⁹⁶. When foreign policy difference emerge between two countries, two sides took care of not to harm their relations. For example, Turkey was anxious about South Caucasus region disagreements, because these agreements could create unbalance situation in the region. However when between Russia and Georgia were in high tension, Turkey did not criticize Russia so much³⁹⁷.

Turkish President Abdullah Gül went to Russia on the February of 2009. Businessmen and politicians joined this visit. Russian President Dmitry Medvedev defined the relations between Turkey and Russia as a "multifaced cooperation and multidimensional partnership"³⁹⁸.

There is a short summary in this part of the thesis. Turkish Russian relations firstly became competitive in the early 1990s. There were conflict of interests between two countries. But then conflict of interest decreased and two countries relations began to get better, especially the late of 1990s. Turkey wanted to be effective in Turki Republic geography, but Russia did not want to to control of the region. It was the first problem between two countries. However Russia's efficiency was stronger than Turkey in this region, and this rivalry finished in 1990s.

³⁹³ Kınıkoğlu Suat, Valeriy Morkva, An Anatomy of Turkish-Russian Relations- Southeast European and Black Sea Studies, pp.535.

³⁹⁴ Kınıkoğlu Suat, Morkva Vlariy,İbid.,pp.535.

³⁹⁵ Weitz Richard, Mediterranean Quarterly: Summer 2010, Weitz: Russian- Turkish Relations, pp.63.

³⁹⁶ Eski düşmanlar çok iyi ortak: Milliyet Gazetesi, 6 Aralık 2004-
<http://www.milliyet.com.tr/2004/12/06/son/sondun10.html>

³⁹⁷ Demiryol Tolga, Does Economic Interdependence Promote Political Cooperation?, Political Economy of Russian-Turkish Energy Relations, Kemerburgaz Üniversitesi, pp.6.

³⁹⁸ Weitz Richard, Mediterranean Quarterly: Summer 2010, Russian- Turkish Relations, pp.66.

Another problem was both Turkey and Russia interfered their domestic policies. Actually when Turkey supported Chechens, Russia used some supportive policy towards Kurdish. However, after that, both Turkey and Russia gave up of doing their policies. After the 1984 agreement, and after Blue Stream Agreement, Turkish-Russian relations began to get stronger. 2002 was a more convenient year to make better relations between two countries compare to 1990s.

3.2 ECONOMIC RELATIONS BETWEEN TURKEY AND RUSSIAN FEDERATION

Economy is a key factor of the relations of two countries. Two countries behave pragmatic way in their relations. There are mutual interest, and energy is an important element of the economy. Economic relations are very important link between Russia and Turkey. Economy leads the relations between two countries. In this part of the thesis are going to explain economic relations of two countries.

Turkish- Russian economic relations's new era began in 1992, after the collapse of Soviet Union³⁹⁹. However the milestone of economic relations were coming from middle of 1980s in Soviet Union Era. Turkey and Soviet Union signed Natural Gas Agreement" in 1984 and according to this agreement Turkey guaranteed to buy natural gas from Soviet Union for 25 years⁴⁰⁰. However Natural Gas began to be sent by Soviet Union from via Ukraine, Romania and Bulgaria to Turkey in 1987⁴⁰¹, and energy became an important part of the Turkish- Russian relations. Actually new economic term began after 1984 Natural Gas Agreement. There was a very important article of the Natural Gas Treaty for Turkish exporters in this agreements. According to this article, Turkey would export goods and services to Russia to pay 70 percent of the natural gas prices. So Turkish goods began to enter into Russian market with helping of this agreement. However, Russian government lifted this practice unilaterally and Turkish export level decreased to Russia after this decision⁴⁰².

After the collapse of Soviet Union, this new situation was consisted of both hope and dangers for Turkey. When Gorbachev wanted to open Soviet Union, the relations between Turkey and Soviet Union increased fast, especially economically... Turkey and Soviet Union made 30 different agreements between two sides between 1987 and 1990⁴⁰³. Trade volume increased in this term. Trade volume was 476 million dollars in 1987, however it

³⁹⁹ Oğuz Binhan, Bölgesel Ekonomik Büyüme Ortaklığı ve İşbirliğine Bir Örnek: Türkiye- Rusya-Ukrayna- İstanbul Ticaret Odası, November 2003, pp.42.

⁴⁰⁰ Gürtuna Anıl, Turkish-Russian Relations in the Post- Soviet Era- From the Conflict to Cooperation?, January 2006, ODTÜ Yüksek Lisans, pp.77.

⁴⁰¹ Çelikipala M., Türkiye'nin Doğalgaz İhtiyacı/İthalatı ve Rusya Federasyonu, Türk Dış Politikası 3. Cilt, Der.Oran Baskın- İletişim, pp.545-546.

⁴⁰² Oğuz Binhan, Bölgesel Ekonomik Büyüme Ortaklığı ve İşbirliğine Bir Örnek: Türkiye- Rusya-Ukrayna- İstanbul Ticaret Odası, November 2003,pp.42.

⁴⁰³ Zürcher Jan Erik, Modernleşen Türkiye'nin Tarihi- Erik Jan Zürcher, İletişim Yayınları, 28. Baskı- 2013,pp. 470.

increased to 1 billion 707 million dollars in 1991⁴⁰⁴. However economic conditions got worse in Russia after the collapse of Soviet Union. Both Russia and new independent countries suffered from severe economic conditions. It was a potential problem for Turkish economy, especially export side of Turkish economy due to new hopeful markets were in trouble. Turkish economy were affected negatively by Russian economic crisis in 1993-1994⁴⁰⁵.

Trade relations decelerated between Turkey and Russian Federation in the short term because of Russian economic problems in the early 1990s. For example Turkish- Russian trade volume was 2 billion dollars in 1993, but trade volume decreased to 1.8 billion dollars in 1994⁴⁰⁶. However Turkish- Russian economic relations began to get stronger in the grand scheme of things in 1990s. If we look at the economic figures between two countries, trade volume was 1 billion 400 million dollars in 1992(1992 was the first year of Russian Federation)⁴⁰⁷.441 million dollars of Turkish export to Russia, 1 billion dollars of Russian export to Turkey of total 1 billion 400 million dollars total trade volume. Before the Russian 1998 economic crisis, two countries trade volumed increased to 4 billion dollars in 1997. However crisis affected Turkish export side⁴⁰⁸. Ruble devaluated 75 percent in Russian economic crisis in 1998. It affected purchasing power of Russian households. So Turkish export was affected badly. Russia began to use production movements after the crisis. Russia wanted to produce food, textile, ready-made clothing more in domestic market of Russia. Turkey was strong about these production Russian authorities decided to be produced these products more in domestic market. So decision was a problem for Tuskish export⁴⁰⁹. Turkish export to Russia decreased 34.4 percent in 1998, 56.3 percent in 1999⁴¹⁰. However, especially, after 1998 Russian economic crisis, two countries's trade relations accelerated. Remarkable difference began to be seen after 1998 Russian economic crisis⁴¹¹. Suitcase trading was an important part of the trade

⁴⁰⁴ TUIK

⁴⁰⁵ Zürcher Jan Erik, Modernleşen Türkiye'nin Tarihi- Erik Jan Zürcher, İletişim Yayınları, 28. Baskı, 2013, pp.470.

⁴⁰⁶ TUIK

⁴⁰⁷ Oğuz Binhan, Bölgesel Ekonomik Büyüme Ortaklığı ve İşbirliğine Bir Örnek: Türkiye- Rusya-Ukrayna- İstanbul Ticaret Odası, November 2003,pp.42

⁴⁰⁸ TUIK

⁴⁰⁹ Oğuz Binhan, Bölgesel Ekonomik Büyüme Ortaklığı ve İşbirliğine Bir Örnek: Türkiye- Rusya-Ukrayna- İstanbul Ticaret Odası, November 2003, pp42.

⁴¹⁰ TUIK

⁴¹¹ Oran Baskın, Türk Dış Politikası, İletişim- 3. Cilt,- pp.543.

relations in 1990s, but economic and trade relations of two countries were began to put in the institutional framework in 2000s. Trade volume increased to 38 billion dollars in 2008, before the world economic crisis and it was the record trade volume between Turkey and Russia. Turkish export to Russia was 6.483.003.596, Russian export to Turkey was 31.364.476.862 in 2008⁴¹². When we examine trade relations between two countries Turkey had(also has) a big external deficit against Russia because of Turkish import energy.

Turkey was also in big economic crisis in 2001. 2001 crisis was the opposite affect to Turkish-Russian economic crisis. Turkish export to Russia increased very fast after the devaluation of Turkish lira. Turkish export to Russia increased 43.3 percent in 2001. Devaluation increased Turkish competition power in the international markets⁴¹³.

Suitcase trading and problems

Suitcase trading was one of the most important items between Turkey and Russian Federation, especially during the 1990s. The Essential part of this suitcase trade was consisted of Russia. Suitcase trade numbers increased 8.8 billion dollars and broke a record in 1996. However this volume decreased to 3-4 billion dollars in the early of 2000s. According to data of Central Bank of Republic of Turkey, Turkish export of the suitcase trading was 3- 4 billion dolars in the first years of in 2000s⁴¹⁴. In spite of some positive effects of suitcase trading, there were some negative effects too. Some poor quality of Turkish products entered Russian market with suitcase trading in 1990s . There were some negative image about Turkish products in Russian market. It was a problem for competition of Turkish companies in the long-term⁴¹⁵. However after 2001 economic crisis, more Turkish goods began to enter Russian market because of competitive advantage (Turkish lira devaluated after 2001 crisis and the prices of Turkish export goods decreased. It was an advantage to sell these goods in international markets because of

⁴¹² TÜİK.

⁴¹³ Gürtüna Anıl, Turkish-Russian Relations in the Post- Soviet Era- From the Conflict to Cooperation?, ODTÜ Yüksek Lisans, pp.77-78.

⁴¹⁴ Özdal Habibel- Özertem Selim Hasan - Has Kerim- Demirtepe M. Turgut,, Türkiye- Rusya İlişkileri: Rekabetten Çok Yönlü İşbirliğine, USAK(Uluslararası Stratejik Araştırmalar Kurumu), pp.41.

⁴¹⁵ DEİK/Türk-Rus Konseyi-Rusya Federasyonu Ülke Bülteni 2012, pp.24.

competitive advantage). Competency of Turkish firms increased after the crisis and trade volume increased between two countries⁴¹⁶.

Turkish- Russian economic relations made headway during the 1990s, however institutional framework were provided between two countries in 2000s⁴¹⁷. One of the most important date was the December of 1997 between Turkish- Russian economic relations. Russian Prime Minister Viktor Chernomyrdin arrived in Turkey and the new progress began and natural gas became the most important part of the economic relations⁴¹⁸.

Economic relations were not competitive, it was supplementary

When we look at the structure of Turkish- Russian economic relations, we see, two countries' economic relations were not competitive, it was supplementary⁴¹⁹. Turkey need energy, Russia want to sell its natural gas and oil. Russia also want to make shipment via reliable countries like Turkey. Turkish companies have been operating in Russian market. Developing Turkish economy is also an important market for Russia. So there are mutual interests between two countries.

There were(are) cooperation opportunities between two countries commercially and economically. Trade volume was 38 billion dollars in 2008, but after the economic crisis this volume decreased to 23 billion dollars(The World economic crisis hit the world trade, because of collapse of demand. Energy richer country Russia was affected by the economic crisis severely because decreasing of energy prices. So this conditions hit Turkish-Russian trade volume)⁴²⁰. However after world economy began to recover, trade volume began to get better. This figure, trade volume, increased to 32 billion dollars at the end of 2013)⁴²¹. Turkey gives trade deficit against Russia because of energy. Turkish rate of export meeting

⁴¹⁶ Gürtuna Anıl, Turkish-Russian Relations in the Post- Soviet Era, From the Conflict to Cooperation?, ODTÜ Yüksek Lisans, pp.80.

⁴¹⁷ Oran Baskın , Türk Dış Politikası Baskın 3. Cilt, İletişim, pp.543.

⁴¹⁸ Çaşın Hakkı Mesut, 2008 Rusya- Gürcistan Savaşı ve Karadeniz'de Yükselen ABD Bayrağına Rus Tepkisi, Türk Dış Politikası, Der. Haydar Çakmak, Barış Kitap, pp.1074.

⁴¹⁹ Rusya Ekonomisinin Temel Durumu ve Türkiye ile Ekonomik- Ticari İlişkileri, T.C. Moskova Büyükelçiliği ve Ticaret Müşavirliği, pp.3.

⁴²⁰ Ibid.,pp.3.

⁴²¹ TÜİK.

imports with Russia was 25 percent between 2003 and 2012. It stayed averagely stable during the ten years⁴²².

Turkey's trade deficit has been increasing against Russia. Turkey wanted to close this deficit to sell some goods to Russia when Turkey buy natural gas. When Turkey bought more natural gas, Turkey wanted to right to re-export these gas to different countries. Because according to natural gas agreements, Turkey has to buy more gas than its needs. Turkey presented these solution options to Russia, but Turkey did not receive satisfactory answer from Russia⁴²³.

While Turkey and Russia have been trading, they have a chance to to trade with Turkish lira and Ruble. It was an important step was taken and legal modification was made on the May of 2009. According to legal modification, both Russia and Turkey use Ruble and TL, while they are trading. Both sides show their goodwill to improve their relations. Turkey and Russia traded totaly 1 billion dollars in their local currency at the end of 2011. 800 million dollars' trade was made with Ruble, 350 million dollars' trade were made with Lira. Both countries want to increase trade volumes. President Medvedev arrived in Turkey on May of 2010. He declared the aim of the bilateral trade volume would increase 100 billion dollars in five years.⁴²⁴

If we look at the total figures of import and export, Russian total export was 526 billion 392 million dollars, total import was 317 billion 806 million dollar at the end of 2013. Russian export to Turkey was the fifth place of the total export list of Russia. Turkey's share was the thirteenth place in the Russian import list⁴²⁵.

Import and export items of Turkey with Russia

Turkey's export items are textile, ready- made clothing, consumer goods like fruit and vegetable, means of transportation. These goods's price elasticity is high. Turkey's import items are natural gas, oil and coal, iron and steel. Turkish firms's fields of activities are

⁴²² Demiryol Tolga, Does Economic Interdependence Promote Political Cooperation?, Political Economy of Russian-Turkish Energy Relations, pp.12.

⁴²³Oran Baskın, Türk Dış Politikası Baskın Oran 3. Cilt, İletişim, pp. 543- 544.

⁴²⁴Oran Baskın, Ibid.,p.543.

⁴²⁵ T.C. Moskova Büyükelçiliği Ticaret Müşavirliği-Türkiye- RF Dış Ticareti
<http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=125&dil=TR&ulke=RF>

infrastructural investments, housing, shopping malls, airports. The construction business is the key activity of Turkish firms in Russia.

There are some trade figures of 2013 between Turkey and Russia. The biggest item of Turkish export to Russia was textile industry- Weaving industry. It was the 16.6 percent of the total Turkish export (It was the biggest item of Turkish export to Russia). Second biggest item was food products were 15.7 percent of total Turkish export to Russia at the end of 2013. The third one was automotive industrial commodities, and the rate was 14.4 percent of total Turkish export. On the other side, energy items are very important part of Turkey's import from Russia. The biggest item was petroleum gases and natural gases. It was the 42.2 percent of total Turkish import from Russia. Second one was petroleum and petroleum products. It was the 20.6 percent of the total import from Russia. Iron-steel was the third one and it was the 8.6 percent of the Turkish import from Russia⁴²⁶.

Turkish and Russian companies's activities in Russia and in Turkey

There are going to be explained Turkish and Russian companies' activities in Russia and in Turkey. As we know, energy is an important part of the economic relations and there is an important nuclear power plant agreement between Ankara and Moscow. The name of the project is Akkuyu Nuclear Power Plant.

Akkuyu Nuclear Power Plant are going to be constructed by Russians in Mersin so economic relations will be continued between two countries in the future. There are long-term agreements between Turkey and Russia. However Nuclear Power Plant Project is a debated subject. There are some resisting against the project, because Fukushima Nuclear Power Plant disaster renovated concerns against nuclear energy in Japan, but the government spurt this project⁴²⁷. Russian company Rosatom General Manager of Rosatom S. Kiriyeenko arrived in Ankara to visit Taner Yılmaz who is the Energy Minister of Turkey to talk about nuclear power plant project. After the negotiations, Rosatom emphasised 8 million dollars investment with Turkish companies in Turkey. According to Kiriyeenko, Akkuyu Nuclear Power Station will be in active between 60 and 80 years. Kiriyeenko said that total investment volume is 20 billion dollars in this project. Kiriyeenko think this

⁴²⁶ Ibid, <http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=125&dil=TR&ulke=RF>

⁴²⁷ Rusya Ekonomisinin Temel Durumu ve Türkiye ile Ekonomik- Ticari İlişkileri, T.C. Moskova Büyükelçiliği ve Ticaret Müşavirliği, 2013, pp.139.

project will be chance to improve cooperation opportunities with Turkey. This power plant has been constructing and Rosatom will cooperate with local Turkish companies in this project He also said 40 percent of the business will be done with Turkish local companies within the scope of the project⁴²⁸.

Tourism facilities have been increasing too. According to Russian Institute of Statistics, Russian tourists visited Turkey mostly in 2013(Turkey was the first country for Russians to visit as tourist in 2013). 3.8 million Russian tourists visited Turkey in 2013, 1.9 million Russian tourists went to Egypt, 1.1 Russians tourists visited Greece⁴²⁹.

Russian companies wanted to make more investment in Turkey. There are more Russian firms are interested in investment activities in Turkey. For example Russian Yandex are interesed in making investment in Turkish communication sector. Yandex opened an office in İstanbul in 2011. Yandex's market share was not high yet. Yandex's share was only 1 percent in Turkish Search Engine Market⁴³⁰.

Russia has taken an interest in banking and communication sectors in Turkish markets in recent years. On the other hand, Turkish firms have interested different sectors in Russia. Hundreds Turkish companies have been in active in Russian market⁴³¹. For example Boydak Holding made an 35 million dollars investment for furniture sector. Hayat Holding made a 500 million dollars investment for timber and paper sectors in Tatarstan⁴³². Construction sector is one of the most important sector for Turkish companies in Russia. Turkish- USSR Natural Gas Agreement played a critical role in this subject. One of the most important part of the "Natural Gas Agreement" was Turkey had a chance to pay money of natural gas with selling Turkish goods and services to Russia, and Turkish goods entered into Russian market, also Turkish Construction Companies began to be active in Russia⁴³³. First projects of these companies to construct houses of Soviet soldiers who

⁴²⁸ T.C. Moskova Büyükelçiliği Ticaret Müşavirliği, pp 5.

<http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=369&dil=TR&ulke=RF>

⁴²⁹ İbid.,pp.5. <http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=369&dil=TR&ulke=RF>

⁴³⁰ Özdal Habibe - Özertem Selim Hasan- Has Kerim- Demirtepe M. Turgut, Türkiye- Rusya İlişkileri: Rekabetten Çok Yönlü İşbirliğine, USAK(Uluslararası Stratejik Araştırmalar Kurumu), pp.42.

⁴³¹ Rusya Ekonomisinin Temel Durumu ve Türkiye ile Ekonomik- Ticari İlişkileri- T.C. Moskova Büyükelçiliği ve Ticaret Müşavirliği, pp.70.

⁴³² Özdal Habibe - Özertem Selim Hasan- Has Kerim- Demirtepe M. Turgut, Türkiye- Rusya İlişkileri: Rekabetten Çok Yönlü İşbirliğine, USAK(Uluslararası Stratejik Araştırmalar Kurumu), pp.44.

⁴³³ Rusya Ekonomisinin Temel Durumu ve Türkiye ile Ekonomik- Ticari İlişkileri, T.C. Moskova Büyükelçiliği ve Ticaret Müşavirliği, pp.70.

returned to their home from East Germany. 46 thousand houses were constructed by construction companies between 1993 and 1995. 15 thousand of 46 thousand were constructed by Turkish construction companies⁴³⁴. Project amount of Turkish companies undertake was 2.5 billion German mark⁴³⁵. However trade relations did not always go very well. For example Turkish construction companies affected badly because of 1998-1999 Russian economic crisis, but after the crisis, Turkish companies got projects a lot and these companies have been in active in the late of 1980s.

Construction companies and Russia

There are going to be explained some statistical information about Turkish companies how they operated in Russia. Turkish construction companies took in charge 1.310 number projects, and the total value of these projects were 36.4 billion dollars in Russia. Turkish companies took in charge 56 projects, total value was 746 million dollars, in 2004 in Russia. The value increased to 2.5 billion dollars, total 70 projects, in 2005. Projects of total value increased 2.7 billion dollars in 2006. Turkish companies took in charge 61 projects in Russia in 2006. Value increased 5.9 billion dollars in 2007. Total projects were 101 in 2007. However after 2007, total value of projects and project numbers began to decrease dramatically because of the world economic crisis(The world economic crisis began on the 15th of September of 2008, after the collapse of American Investment Bank, Lehman Brothers. 2009 was a very difficult year for the world economy. So Turkish-Russian economic relations were also affected by the crisis). Turkish companies took in charge 43 projects, and total value of the projects was 2.8 billion dollars. These figures decreased faster in 2009. Turkish companies got 21 projects, the total value of projects were 1.8 billion dollars. Total value of projects were 1.3 billion dollars in 2010, 2.1 billion dollars in 2011, 2.9 billion dollars in 2012. Turkish companies took in charge 34 projects in 2010, 74 projects in 2011, 69 projects in 2012⁴³⁶. Turkey has been the first country among foreign construction companies in Russia since 1990⁴³⁷. Turkish construction companies also worked for infrastructure activities for Sochi Olympics Games. On the

⁴³⁴ Gürtuna Anıl- Turkish-Russian Relations in the Post- Soviet Era- From the Conflict to Cooperation?- January 2006- ODTÜ Yüksek Lisans, pp.82.

⁴³⁵ Rusya Ekonomisinin Temel Durumu ve Türkiye ile Ekonomik Ticari İlişkileri, T.C. Moskova Büyükelçiliği ve Ticaret Müşavirliği, 2013, pp.71.

⁴³⁶ Rusya Ekonomisinin Temel Durumu ve Türkiye ile Ekonomik Ticari İlişkileri, T.C. Moskova Büyükelçiliği ve Ticaret Müşavirliği, pp.71.

⁴³⁷ Ibid.,pp.72.

other hand, Russian investors make 843 million dollars investment activities in Turkey in 2013⁴³⁸.

Banking sector is also very critical sector

Another important sector is a banking sector between two countries. Turkish investors have focused on banking sector in Russia in the recent term. Seven Turkish banks have been making banking operations in Russia. These are Yapı Kredi Bank Moscow, Garanti Bank, Denizbank(Denizbank merged with Russian state bank Sberbank), Credit Europe Bank(The old name of the Credit Europe Bank was Finansbank), Ziraat Bank, ProCommerce Bank and Türkiye İş Bank(CJSC Sofia Bank)⁴³⁹.

Efes Pilsen is an effective company in Russia

Turkish companies have been operating in different sectors in Russia. These companies are Efes Pilsen, Ruscam(Şişecam), Enka, Vestel, Beko, Zorlu Energy. Turkish banks and companies of Turkish owners' investment passed 9 billion dollars in Russia. Big Turkish enterprises have been operating in Russia, but also small and medium-sized enterprises have been operating and investing too⁴⁴⁰.

In addition to trade, Turkish business world made 7.3 billion dollars direct investment in Russia in 2011. Similarly, Russia have been making investments too in Turkey. These investments noteworthy made in energy sector in Turkey. Turkey wanted to become energy hub, so Turkey needs high investment for infrastructure, pipelines, refineries, storage facilities, power stations⁴⁴¹.

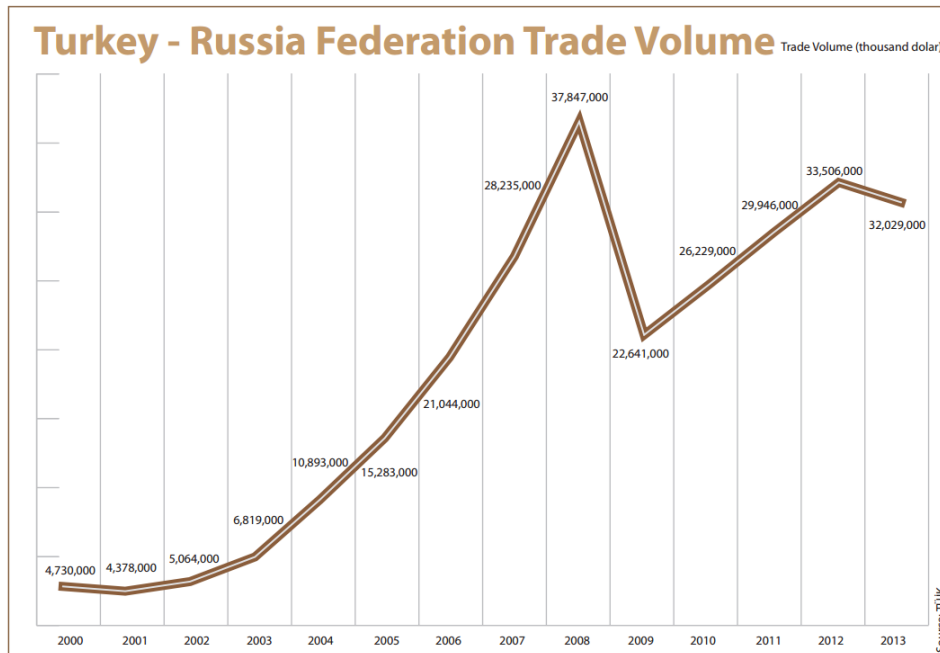
If we look at the trade volume figures in Putin Era, we see huge increase Turkish-Russian relations. There is diagram(graph)below between Turkish- Russian economic relations in the Putin Era.

⁴³⁸ Adilgizdi Lamiya, Russian investors poured 843 million dollars into Turkey in 2013, Al Jazeera.com- Old Rivals- Regional Partners - <http://www.aljazeera.com/indepth/opinion/2014/03/old-rivals-regional-partners-r-2014315144016585481.html>

⁴³⁹ Özdal Habibe - Özertem Selim Hasan- Has Kerim- Demirtepe M. Turgut, Türkiye- Rusya İlişkileri: Rekabetten Çok Yönlü İşbirliğine, USAK(Uluslararası Stratejik Araştırmalar Kurumu), pp.42.

⁴⁴⁰ Rusya Ekonomisinin Temel Durumu ve Türkiye ile Ekonomik- Ticari İlişkileri, T.C. Moskova Büyükelçiliği ve Ticaret Müşavirliği, pp.139.

⁴⁴¹ Demiryol Tolga, Does Economic Interdependence Promote Political Cooperation?, Political Economy of Russian-Turkish Energy Relations, pp.15.



Energy is very critical part of the relations, but other sectors are also very important between Turkish-Russian relations. So mutual interests are the key element of the relations. So if there are some foreign policy differences, Turkey and Russia try to stop in a point. They do not want to harm their relations. Increasing trade volume and strong energy links help better and stronger relations between two countries.

3.3 Energy Policy - Developments of energy sector

Turkish economy has been growing. So energy demand has been increasing. And Turkey are meeting this demand form Russia.

Turkey has an energy deficit, but Turkey is also transit country between energy richer and high energy demanding countries. According to U.S. Energy Information Administration, Turkey is a center of energy transit area and the increasing importance of Turkey will continue in the future⁴⁴². Turkey is crossroads between oil richer like old Soviet countries and Middle East countries and huge demand European countries towards oil⁴⁴³(So Turkey's geographic place is veyy critical for energy market). Turkish energy demand will go up, annually, 5.9 percent till 2025. So Turkey need additional measures to meet its energy demand⁴⁴⁴. Turkey imported 93 percent of oil, 97 percent of natural gas that Turkey used⁴⁴⁵. Turkey imported 56 percent natural gas from Russia, 18 percent from Iran, 8 percent from Azerbaijan, 16 percent (LEG) from Algeria, Nigeria, Qatar, Egypt and Norway⁴⁴⁶. Turkey imported 35 percent oil from Iran, 17 percent from Iraq, 13 percent from S. Arabia, 10 percent from Russia⁴⁴⁷.

Before focusing on energy subject, there are going to be given some information about Russian energy policy of Putin Term. After Vladimir Putin became the president of Russian Federation, Russian government began to emphasize Russian control above energy resources like oil and natural gas. Putin governance see energy resources are very important for Russian national security. After the collapse of communism, Boris Yeltsin initiated privatization wave in Russia. Putin does not support this policy. Putin said that, Russia would rescue from the negative effects of privatization wave. Putin explained his thesis in St. Petersburg in 1997. According to Putin's point of view, Russia needed competitive companies both in dometic market and and foreign markets in reconstruction period. On the other hand, Putin seized Russian energy companies and he wanted Russian

⁴⁴² U.S. Energy Information Administration Turkey 2014, pp.2.

⁴⁴³ Ibid.,pp.4.

⁴⁴⁴ Bilgin Mert, Turkish Policy Quarterly- Energy and Turkish Foreign Policy: State Strategy, Regional Cooperation and Private Sector Involvement, pp.82.

⁴⁴⁵ Bilgin Mert, Ibid.,pp.83.

⁴⁴⁶ U.S. Eenergy Information Administration-Turkey- 2014,pp.9.

⁴⁴⁷ Ibid.,pp.4.

energy companies to become capable to compete against foreign energy companies like Exxon-Mobil and Shell⁴⁴⁸.

Energy is an important part of Turkish- Russian relations

Turkey has been demanding more energy because of its economic growth. Turkey's primary energy consumption was 88.4 bcm/year in 2000, it increased to 143 bcm/year. Natural gas demand has been increasing faster than other categories of energy. Total natural gas consumption's share was 17 percent of total energy consumption in 2000, it increased 35 percent in 2011. Expectations are natural gas's share will reach 50 percent. Turkey imported 98.3 percent of the natural gas that Turkey used. Turkey import 55 percent of natural gas from Russia⁴⁴⁹ (Different sources give different figures because of year differences, but Turkey import natural gas from Russia between 55 and 60 percent). So the most important part of Turkish- Russian relations are energy. According to 2012 of WEC- TNC Energy Report, Turkey imported 58 percent of natural gas from Russia, 12 percent of natural gas from Russia. Turkey's foreign energy resources dependence on 72 percent. This rate indicated weakness of Turkish economy⁴⁵⁰. However, on the other hand, Both Turkish executives and EU energy executives see Turkey is a very important transit country. So many Turkish people want to see Turkey is a a energy hub in Eastern Mediterranean⁴⁵¹. Russian authorities see Turkey is the main partner of Russia in Eastern Mediterranean Sea ⁴⁵². After Blue Stream, Turkish- Russian economic relations accelerated⁴⁵³.

Turkish- Russian energy relations began after 1984 Natural Gas Agreement, this agreement also enabled more intense economic relations between Turkey and Russia. However there was one more important natural gas agreement between Ankara and Moscow. The name of the project was Blue Stream.

⁴⁴⁸ Ünal Cem Mustafa, Ankara Üniversitesi, Rus Dış Politikasında Enerjinin Rolü ve AB Enerji Politikasına Etkisi- Ankara Üniversitesi ,Yüksek Lisans Tezi, 2011, pp.24.

⁴⁴⁹ Demiryol Tolga, Does Economic Interdependence Promote Political Cooperation?, Political Economy of Russian-Turkish Energy Relations, pp.17.

⁴⁵⁰ Ünal Serhan, Uluslararası Hukuk ve Politika Cilt: 9, Sayı: 26, 2013 Potential Effects of An Energy Transition on Turkish-Russian Relations, pp.73-84.

⁴⁵¹ Weitz Richard, Mediterranean Quarterly: Summer 2010- Weitz: Russian- Turkish Relations, pp.66.

⁴⁵² Weitz Richard, Ibid.,pp.66.

⁴⁵³ Oran Baskın, Türk Dış Politikası 3. Cilt, pp.546.

What is Blue Stream?

Turkey wanted to rescue from transit countries and get direct pipeline with Russia. Russian natural gas has been coming under Black Sea to Turkey with this project. Pipeline was founded by Blue Stream Pipeline B.V Consortium. This consortium was composed of Russian Gazprom and Italian ENI companies. The length of pipeline is 1200 kilometer. 380 kilometer of 1200 are passing under Black Sea. The cost of this project was 3.3 billion dollars. Turkey and Russia made an agreement in 1997. Blue Stream was officially opened on the 17th of November 2005. According to agreement of 1997, Turkey would get annually 16 billion cubic meter during 25 years. According to BOTAS, Turkey got 1.3 billion cubic meter in 2003, 3.2 billion in 2004, 5 billion in 2005, 7.4 billion in 2006, 9.3 billion cubic meter in 2007 from this pipeline. Turkey has approximately been getting annually 10 billion cubic meter. If there is a natural gas cut of other pipelines, Blue Stream will be like insurance for Turkey. Blue Stream will be consisted of of 16 billion cubic meter natural gas after the pipeline reach full capacity⁴⁵⁴. On the other hand, two countries agreed to increase Blue Stream's capacity and Blue Stream's capacity will be increased to 19 billion cubic meter⁴⁵⁵. After Blue Stream, Turkey became more dependent on Russia. Despite increasing trade of two countries, trade volume have been increasing against Turkey. So Turkish specialists are worried about trade deficit of Turkey against Russia (The most important reason of the trade deficit is energy). Turkish-Russian economic relations were more balanced in 1990s. However scissors opened in trade relations in 2000s.

Gap widening between Turkey and Russia

Trade relations changed in favor of Russia. The first reason of the gap widen, Turkey signed Blue Stream Agreement in 1997, this agreement came into force in 2005 and Turkey began to get more natural gas from Russia and dependency of Turkey would increase. Second one was oil and natural gas prices went up after 2002. Turkey is an energy importer country and Turkish energy bill would increase due to higher energy

⁴⁵⁴Çelikpala M., Mavi Akım, Türk Dış Politikası 3. Cilt, Der. Oran Baskın, İletişim, pp.535.

⁴⁵⁵Karan Ceyda- Başlamış Cenk - Pamir Necdet, Rusya'nın Sesi- Rusya ve Çin arasında "zamanlaması manidar" işbirliği, 2th of Jun 2014. http://www.rsfnradio.com/2014_06_02/rusya-ve-cin-arasinda-zamanlamasi-manidar-isbirligi/.

prices. The last one Russia covered a distance to reach market economy and Russian market became more competitive so Turkey began to compete with some countries like Germany and China⁴⁵⁶. Russia is a energy richer country and energy supplier of Europe. Russian biggest customers are Germany, Turkey and Italy⁴⁵⁷.

Why did Turkey prefer Blue Stream?

Turkey had some problems while getting natural gas via Ukraine and Balkan countries. Some countries were getting our natural gas before natural gas arrived in Turkey. Turkey complained about this problem and Russia offered natural gas agreement to Turkey. According to this offer, Russia would send natural gas to Turkey directly. Turkey accepted this offer and Blue Stream emerged. BOTAS's General Manager Gökhan Yardım spoke about this subject on November of 1999. He told Turkey rescued from transit countries with this agreement. Before this agreement, Turkey paid money to Russia to get natural gas, but some countries(For example Ukraine and Bulgaria) got Turkey's natural gas before natural gas arrived in the country. So Blue Stream Project was accepted by Turkey⁴⁵⁸.

There are going to be given some general information about Russian natural gas figures now. Russia produced 670.01 billion cubic meter natural gas in 2011. Russia exported 509.01 billion cubic meter natural gas. Russia also imported 42.3 billion cubic meter natural gas in 2011⁴⁵⁹. Russia is the biggest natural gas producer of the world, and Russia consumes more than two of three (2/3)of natural gas that Russia produce. Russia import natural gas from Central Asia to balance element in consumption- production period. Russia exported most of this natural gas to Europe.

Turkey consumed 45.2 billion cubic meter natural gas in 2012. Russia sent 27.02 billion cubic meter to Turkey in same year. 27.02 of 45.2 billion cubic meter were sent from Russia to Turkey⁴⁶⁰. Republic of Turkey of Energy and Natural Resources determined some strategic aims. One of them aim is to reduce dependency of Russian Natural Gas. Turkey decreased Russian natural gas dependency from 66(the year was 2005) percent to

⁴⁵⁶ Özdal Habibe- Özertem Selim Hasan- Has Kerim - Demirtepe M. Turgut, Türkiye- Rusya İlişkileri: Rekabetten Çok Yönlü İşbirliğine, USAK(Uluslararası Stratejik Araştırmalar Kurumu, pp.44.

⁴⁵⁷ Özdal Habibe - Özertem Selim Hasan, Has Kerim - Demirtepe M. Turgut, İbid.pp. 49.

⁴⁵⁸ Gazel Fırat , Mavi Akım- siyah beyaz Metin Güncel, pp.16-17.

⁴⁵⁹ Özdal Habibe- Özertem Selim Hasan- Has Kerim - Demirtepe M. Turgut, Türkiye- Rusya İlişkileri: Rekabetten Çok Yönlü İşbirliğine, USAK(Uluslararası Stratejik Araştırmalar Kurumu, pp.44.

⁴⁶⁰ Özdal Habibe - Özertem Selim Hasan -Has Kerim - Demirtepe M. Turgut, İbid.,pp.50.

59 percent in 2012. Actually Turkey decreased to import natural gas proportionally from Russia. However Turkey's natural gas importation increased from 18 billion cubic meter to 27.2 billion cubic meter in this period. According to these statistical informations, Turkish natural gas consume increased and Turkey wanted to diversify its energy suppliers to reduce risks. However, it does not mean, Turkey did not to reduce to buy natural gas from any countries. On the contrary, When Turkish energy consume increase, Turkey looked for new suppliers. According to these figures, we could estimate, Russia will continue as an important energy suppliers for Turkey⁴⁶¹. Turkey imported 19.5 million ton oil in 2012. Turkey imported mostly Iran, Iraq and Suudi Arabia. According to statistical information of 2012, the fourth biggest oil supplier is Russia and Turkey imported 2.1 million tone oil from Russia. Russia's share was 11 percent of total oil import⁴⁶².

If we look at the prices of natural gas, natural gas prices usually are kept confidential. However nevertheless there are information about gas prices. Turkey averagely pay 423 dollar each thousand cubic meter Iran, 428 dollar for Russia, 282 dollar for Azerbaijan⁴⁶³.

According to BOTAŞ, Turkey imported half billion cubic meter natural gas in 1987, but Turkish natural gas import have been increasing gradually since 1987. Turkey imported 5 billion cubic meter natural gas in 1994. It increased to 10 billion cubic meter in 1998, it increased 20 billion cubic meter natural gas 2003, it increased 30 billion natural gas cubic meter natural gas in 2006, it increased 30 billion cubic meter natural gas in 2006. Turkey imported 39.7 billion cubic meter natural gas in 2011⁴⁶⁴. Natural gas has been the most important part of Turkish- Russian relations. Turkey was the second biggest customer for Russia after Germany⁴⁶⁵.

According to BOTAŞ statistics, there were two natural gas agreements between Turkey and Russia. One of them is West Line (Pipeline), the other one is Black Sea (Blue Stream). Turkey made an agreement with Russia for 25 years for Blue Stream on the 15th

⁴⁶¹ Özdal Habibe - Özertem Selim Hasan -Has Kerim - Demirtepe M. Turgut, Ibid.,pp.50.

⁴⁶² Özdal Habibe - Özertem Selim Hasan -Has Kerim - Demirtepe M. Turgut, Ibid.,pp.52.

⁴⁶³ Çelikpala M, Türkiye'nin Doğalgaz İhtiyacı/İthalatı ve Rusya Federasyonu, Türk Dış Politikası 3.Cilt, Der. Oran Baskın, İletişim, pp.545.

⁴⁶⁴ Çelikpala M, Ibid.,pp.545.

⁴⁶⁵ Çelikpala M, Ibid.,pp.546.

December 1997. Turkey also made an agreement for West Line(Pipeline) on the 15th February 1998⁴⁶⁶.

Turkish- Russian Nucler power plant is also very important part of the relations. The cost expectations of the agreement will be 20 billion dollars. Turkey's state- owned electricity corporation has guaranteed that it will purchase a fixed amount of electricity produced at the plant in the first year 15 years of its operation⁴⁶⁷. Turkey's first nuclear power plant will be Akkuyu and total capacity of Akkuyu will be 4.2 gigawatts⁴⁶⁸. So all these information show us there are strong links between Turkey and Russia and it is long- term relations. Two countries' authorities to found this relation for a long time.

⁴⁶⁶ Botaş Resmi Site, Doğal Gaz Alım Anlaşmaları. <http://www.botas.gov.tr/index.asp>

⁴⁶⁷ Sidar Cen& Winrow Gareth ,Turkey&South Stream: Turco-Russian Rapprochement and The Future of Southern Corridor- Turkish Policy Quarterly- Turkey and South Stream- Summer 2011- pp.54.

⁴⁶⁸ U.S. Eenergy Information Administration- Turkey- 2014- pp.7.

CHAPTER 4

TRANSFORMING FROM COMPETITION TO COOPERATION

4.1 Competition, or cooperation?

Turkey and Russia usually were rivalry relations historically. Turkish-Russian relations sometimes close relations. For example Turkish-Russian relations were very good between 1917 Bolshevik Revolution and WW2. Today's relations are also good relations. Are relations competitive, or mutual cooperation? How can we define Turkish-Russian relations as strategic partnership or multidimensional cooperation. There are going to be some explanations in this part. Today's relation's definition is going to be explained.

Firstly, there are going to be given summary again, and then there are going to be focused on projections of two countries' economic relations and there are going to be answered which way Turkish-Russian relations will go in the visible future.

The Treaty on the Principles of Relations between The Republic of Turkey and Russian Federation which was signed by the Prime Minister Süleyman Demirel and Russian President Boris Yeltsin on 25-26 May 1992 and legal ground was founded by two countries. This agreement let two countries lay the foundations of rooted relations. Turkish- Russian economic relations have been getting stronger since Russian Federation emerged. Economy is a very important link between Turkey and Russia and energy is an important part of the economic and political relations. Turkish- Russian Natural Gas Treaty was signed in 1984, and it entered into force in 1987. It was a very critical step to improve relations between two countries. When this treaty combined with 1997 Blue Stream Treaty, Turkish-Russian relations became, mainly energy, economy- centered relation. Turkish-Russian relations have got momentum after this two important treaties. Trade volume was 1.4 billion dollars between Turkey and Russia in 1992, and it increased to 38 billion dollars in 2008. Both side talk about the aim of 100 billion dollars trade volume. However, on the other side of the coin, there have been some foreign policy differences between two countries. The question is what will be between Turkey and Russia in the visible future? How can we define relations as a strategic partnership, or not? And the most important question of our thesis, Will economic relations absorb foreign policy differences between Turkey and Russian Federation?

There was an important development between Turkey and United States on March of 2003. American forces wanted to make an operation via south of Turkey against Iraq. However Turkish member of parliaments rejected this offer in Turkish Grand National Assembly on 1th of March 2003. Actually there was not a direct link between Turkey and Russia, but Turkish Grand National Assembly's attitude helped Turkish- Russian relations to continue better. Russian President Vladimir Putin gave an interview, and spoke about Turkish Grand National Assembly' attitude. He said that: "Moscow extenuated Turkey in the past, Russians spoke to Americans regularly, not Turks. However Turkish Parliament did not let American soldiers to use Turkish land to enter Northern Iraq, Turkish Grand National Assembly's attitude was surprise for Moscow" ⁴⁶⁹. Turkish Grand National Assembly's attitude affected Russia, and this decision enable Russia to think if Turkish foreign policy independent or not again.

Putin talked about Turkish- Russian relations and he said that "there was not left commitments between blocks in our relations. We began to think our interests. There is no reason for the competition"⁴⁷⁰. The relations were mainly defined the concept between NATO and Warsaw Pact. Direct links were limited technical links. Soviet Union enabled economic and technical support. After the Cold War, parameters changed and Ankara and Moscow began direct relations⁴⁷¹. Turkey and Russia prioritized economic relations. Turkish economy has been growing, and Turkey needs energy, it means, oil and natural gas, Russia is a energy richer country. Turkey also wanted to sell its industrial goods in big Russian market. On the other side of the coin, Russia wanted to diversify its economy partners, and they did not want to be limited with only European countries.

These are very strong links between Turkey and Russia to improve their relations, but when we look at the non- economic side of the relations, we see Turkish- Russian foreign policy differences. Turkey and Russia have different point of view especially about Georgia, Armenia, Azerbaijan, The Balkans subjects. However, both countries prevent relations getting worse and they prefer close trade relations to continue⁴⁷².

⁴⁶⁹ Al Jazeera Center for Studies, pp.3.

⁴⁷⁰ Casin Hakkı Mesut, Türk-Rus İlişkilerinde Yeni Ufuklar, Tarihi Fırsatlar ve Rekabetçi İşbirliği.

⁴⁷¹ Sezer Duygu, Naumkin Vitaly, Turkey and Russia: Regional Rivals, Vitaly Naumkin, September 1997.

⁴⁷² Al Jazeera Center for Studies, pp.3.

Turkish- Russian economic relations have been getting stronger. However, on the other hand, Turkey and Russia have had some different kind of foreign policy point of views. The question is will these foreign policy differences create big problems between two countries, or not? On the one hand, these foreign policy differences could create serious disagreements, and it could be serious problems between Russia and Turkey in the future? On the other, The roots of Russian-Turkish relations and economic cooperations are strong. So foreign policy differences will not create very serious problems, and economy will lead the relations of two countries.

Turkish- Russian trade volume was 32 billion dollars at the end of 2013. This figure was 1.4 billion dollars in 1992. There is a huge raise in 20 years. Economic relations have been in very good shape, but there are some foreign policy differences between Turkey and Russia. Russian foreign policy have been governed by pragmatic way in Putin term.

Russia did not pursue adventurous foreign policy. Putin usually prefer interest foreign policy. Putin's policy based on "strong state", "patriotism" and "social solidarity". These were traditional Russian values⁴⁷³.

Syria was a big political difference between Turkey and Russia

The biggest disaccord was Syria between Turkey and Russia. Syrian President Beşar Esad used tough policies against opposition in Arab Spring period, and Civil War broke out in Syria. Russia, China and Iran support Esad governance⁴⁷⁴. Turkey's position was very clear. Turkey wanted to topple Esad. Turkey also support actively opposition elements during the Civil War in Syria⁴⁷⁵. So Russia and Turkey completely used different foreign policy in this subject. The main difference was Turkey strongly wanted Syria to reach solution without Esad, on the other hand Russia support Syrian solution with Esad⁴⁷⁶. Turkish Foreign Minister Ahmet Davutoğlu criticized Esad's regime. He spoke on Geneva

⁴⁷³ Sönmez Siat - Putin Dönemi Rus Dış Politikası, T.C. Türk İşbirliği ve Kalkınma Dairesi Başkanlığı, Avrasya Etüdleri- pp.41-42.

⁴⁷⁴ Kamel Ayhan, 1923'ten günümüze Türk Dış Politikası, İnkılap, pp.228.

⁴⁷⁵ Kohen Sami, Suriye ile çatışma büyür mü?, 25.03.2014. <http://dunya.milliyet.com.tr/suriye-ile-catisma-buyur-mu-/dunya/yarday/1856753/default.htm>

⁴⁷⁶ Kohen Sami, Türkiye- Rusya İlişkilerine Suriye Gölgesi, 17.07.2012- <http://dunya.milliyet.com.tr/turk-rus-iliskilerinde-suriye-golgesi/dunya/dunyayazarday/17.07.2012/1567930/default.htm>

and he said Esad's regime had used systematic killings⁴⁷⁷. The argument of Turkey, human right abuses have been implemented by Esad regime, so Esad should be toppled. However Russia have continued its diplomatic relations with Esad regime. Russia's reason of the support Esad was, Esad regime of Syria has been a long strategic partner of Russia in Middle East. Their relations have been continuing since Soviet term. Russian armada in Tartus in Syria, this armada has been in operational since 1971⁴⁷⁸. Russia faced its strategic partner could collapse in Syrian problem, and it was a danger for Russian foreign policy. If Esad regime had collapsed, Russia's long term position would have been affected badly in Middle East⁴⁷⁹. According to some informations, Russia helped Syrian regime. For example, Qasary is an strategic place in Syria. Qasary is Russian naval base and a strategic location for Russia. According to some scholars, Moscow helped Syrian powers to recapture this city. Russia gave military materials to Syria between 2005 and 2010. The value of these military materials were 3-4 billion dollars. On the other hand, Turkey tried to topple Esad, so there was a huge discrepancy between Turkish and Russian foreign policy about Syria. While Civil War was continuing severely, Turkish- Russian relations were tested⁴⁸⁰. Relations were affected negative direction in this situation⁴⁸¹. If countries have big problems in international relations, relations could be affected badly. When Syrian problem deepened, disaccord of two sides also deepened⁴⁸². Turkish Foreign Minister Ahmet Davutoğlu spoke to Russian authorities about Syrian problem. Davutoğlu tries to reach common ground with Russia. Turkish Prime Minister Erdoğan also spoke to Putin about Syrian problem⁴⁸³.

⁴⁷⁷ Caşın Hakkı Mesut, How will the Syria's Future be shaped after Geneva- 2: Time to Alter War to Peace?, Hazar Stratejik Enstitüsü, 28th January 2014 http://www.hazar.org/analizdetail/analiz/how_will_the_syria%E2%80%99s_future_be_shaped_after_geneva_%E2%80%93_time_to_alter_war_to_peace__554.aspx

⁴⁷⁸ Erşen Emre, Emerging Problemsin the Ankara- Moscow Axis: The Syrian Crisis and NATO Missile Defence, Ortadoğu Analiz, pp.49.

⁴⁷⁹ Bacık Gökhan, Turkey and Russia in the Arab Spring: Straining Old Rifts Further, German Marshall Fund of the United States, pp.1.

⁴⁸⁰ Erşen Emre, Emerging Problems in the Ankara- Moscow Axis: The Syrian Crisis and NATO Missile Defence, Ortadoğu Analiz, pp.49.

⁴⁸¹ Kohen Sami, Türkiye- Rusya İlişkilerine Suriye Gölgesi, 17.07.2012- <http://dunya.milliyet.com.tr/turk-rus-iliskilerinde-suriye-golgesi/dunya/dunyayazardetay/17.07.2012/1567930/default.htm>

⁴⁸² Kohen Sami, Ibid <http://dunya.milliyet.com.tr/turk-rus-iliskilerinde-suriye-golgesi/dunya/dunyayazardetay/17.07.2012/1567930/default.htm>

⁴⁸³ Erşen Emre, Ortadoğu Analiz- Emerging Problemsin the Ankara- Moscow Axis: The Syrian Crisis and NATO Missile Defence, pp.49.

While these problems were continuing, Turkish jets forced Syrian passenger plane that was travelling from Moscow to Damascus to land in Ankara⁴⁸⁴. According to Turkish authorities, weapons were carrying to Esad regime by Syrian passenger plane. Turkey forced this plane to land in Ankara⁴⁸⁵. In parallel with these developments, Putin delayed his November visit to Turkey, and this visit was made in December by Putin. According to some Russian press, this delay was due to last development, "plane crisis", between two countries. According to this allegation, It was a reaction. Vladimir Putin arrived in Turkey on the 3th of December 2012. Two countries signed some agreements. Among these agreements consisted of economy, finance, security, trade, cultural cooperation. Putin's Turkish visit passed with warm atmosphere. Despite Syrian policy differences, Ankara and Moscow attitudinized to improve their relations⁴⁸⁶. According to some considerations, Turkish- Russian relations stronger than Turkish- Russian foreign policy differences. For example, Mehmet Ali Birand who was the famous Turkish journalist, wrote an article for Posta newspaper. He spoke to higher-up authority for making article about Turkish-Russian policy differences. This authority said that: "Syria is small inside of Turkish-Russian relations"⁴⁸⁷.

Both Turkey and Russia are very important countries. Turkey sent Russia natural gas through Black Sea to Eastern Europe. Russia attached the importance to Turkey. So Putin behaved tolerantly against Turkish foreign policy about Syria. Their aim is to increase the bilateral trade volume to 100 billion dollars in 2020. Nobody want to lose this resource in Ankara. Because Turkey imported energy substantially from Russia⁴⁸⁸.

When Putin arrived in Turkey in 2013 for one day, he spoke to Erdoğan about Syrian problem. However two leaders also compromised not to harm Turkish- Russian trade relations due to Syrian policy differences⁴⁸⁹. When we look at the broad picture of Russian foreign policy, Russia's increasing effectiveness were(are) felt in Syria policy. Russia's

⁴⁸⁴ Erşen Emre İbid.,pp.48.

⁴⁸⁵ Erşen Emre,İbid.,pp.49.

⁴⁸⁶ Erşen Emre, İbid.,pp.49.

⁴⁸⁷ Biran Ali Mehmet, Suriye konusu Türk-Rus ilişkilerinde Küçük Kalır, <http://hurarsiv.hurriyet.com.tr/goster/haber.aspx?id=21008276&tarih=2012-07-18>

⁴⁸⁸ Behestipour Hassan- Russia prefers economy over politics in Turkey: Analyst <http://www.presstv.ir/detail/2012/12/10/277290/analysis-of-putins-visit-to-turkey/>

⁴⁸⁹ Ergin Evrim- Korsunskaya Darya, Russia, Turkey agree to differ over Syria conflict, Reuters. <http://www.reuters.com/article/2012/12/03/us-turkey-russia-idUSBRE8B211O20121203>

gravity were felt in world political system⁴⁹⁰. Despite of all of the problems of Syria, Esad saved its regime⁴⁹¹. Lastly, Turkey and Russia were in different directions about Syrian policy, but both Russia and Turkey prefer pragmatic policy, and they prioritized economy and Syrian problems did not harm the relations.

So Syrian example show us Turkish-Russian relations are strong and economy is a very important part of the relations. So even some foreign policy differences, two countries relations will go on in positive direction. When the policy differences emerge, both sides know where they stay. They do not want to harm their relations. Another example is Ukraine problem.

Turkey found itself in dilemma in Ukraine problem

Another foreign policy difference was lived between Turkey and Russia about Ukraine. Ukraine found itself between West and Russia in Crimea Crisis⁴⁹². Turkey found itself in dilemma, while the problem was continuing between Russia and Ukraine(also West). Turkey was concerned deeply about Russian military incursion in Crimea. Ankara was respectful territorial integrity of Ukraine. Erdoğan talked to German Prime Minister Angela Merkel about the importance of territorial integrity of Ukraine. On the other hand, Ukraine should not be confused with Syria. According to some specialists, Turkey pursued more balanced foreign policy in Ukraine problem. According to International Relations Professor Emre İşeri who is working for Kadir Has University said that, Turkey's economic relations are important with Russia and this situation does not let Turkey make more things in Ukraine problem. İşeri said that: "Turkish construction sector is very active in Russia. Turkey's energy dependence on Russia is an important factor. When we think 'Nuclear Plant Project- Akkuyu', Turkey should pursue balanced foreign policy in Ukraine"⁴⁹³. So Turkish- Russian relations, long term agreements are very important and two countries want to continue their good relations. Turkey and Russia put aside their

⁴⁹⁰ Doster Barış, The US- Russia Competition in Syria and its Reflections, Ortadoğu Analiz- December 2013,pp.63.

⁴⁹¹ "Suriye'de sandıktan Beşar Esad çıktı!"Milliyet gazetesi, 5 Haziran 2014.

⁴⁹² Adilgizi Lamiya, Al Jazeera.com- Old Rivals- Regional Partners.
<http://www.aljazeera.com/indepth/opinion/2014/03/old-rivals-regional-partners-r-2014315144016585481.html>

⁴⁹³ Economic Ties with Russia restrict Turkey's diplomatic efforts, Today's Zaman Ankara, April 20, 2014
<http://www.todayszaman.com/news-345609-economic-ties-with-russia-restrict-turkeys-diplomatic-efforts.html>

differences to improve or save economic relations"⁴⁹⁴. Turkey did not want object to Russia a lot. Turkey preferred this problem to be solved with diplomacy⁴⁹⁵. Turkey did not want Russia to control Crimea, and also Turkey defended Ukraine's territorial integrity, but Turkey avoid though criticize against Russia. Turkey expressed its political approach, but did not insist on its policy. At the end of the problem, Crimea became a part of Russia.

Another problem was NATO Patriot Missiles Project. This project also overshadowed to Turkish- Russian relations⁴⁹⁶. NATO Patriot Missiles wanted to be deployed in Turkey. Russia was not content about this project, but Patriots were deployed on November of 2012 in Turkey. The Russian officials, expressed their deep concerns about Ankara's decisions to deploy NATO Patriot Missiles in the Turkish- Syrian border in November 2012. This period of time also create some problems between Turkey and Russia, but this period did not create big problems as salient as Syrian crisis⁴⁹⁷. Turkey remained close to United States and West⁴⁹⁸. Russia was against NATO Patriot Missiles, but according to United States, they want to deploy patriots against Iran and North Korea⁴⁹⁹. However there are similar point of view too between two countries.

There are foreign policy differences, but there are similar approach too. After the Cold War, Turkey and Russia have sometimes same point of views in foreign policy. For example, Turkey support Russian weapons sales network policy. West countries sometimes hesitated selling weapons to Turkey. However Russia did not only sell weapons, also make technology transfer to Turkey in the field of military industry. So Turkey does not dependent on West, Russia is a another producer, and this is an advantage for Turkey. Turkey wanted to diversify military materials producers. On the other side, Russia wanted multi polar world system instead of unipolar system. Turkey is also against

⁴⁹⁴ Adilgizi Ramiya, Al Jazeera.com, Old Rivals- Regional Partners.
<http://www.aljazeera.com/indepth/opinion/2014/03/old-rivals-regional-partners-r-2014315144016585481.html>

⁴⁹⁵ Kohen Sami, Ukrayna Türkiye'yi zorluyor, <http://dunya.milliyet.com.tr/ukrayna-krizi-turkiye-yi-zorluyor/dunya/ydetay/1868787/default.htm>- 18.04.2014

⁴⁹⁶ Erşen Emre- Emerging Problemsin the Ankara- Moscow Axis: The Syrian Crisis and NATO Missile Defence, Ortadoğu Analiz, pp.45.

⁴⁹⁷ Erşen Emre, Ibid.,pp.49.

⁴⁹⁸ Erşen Emre- Emerging Problems in the Ankara- Moscow Axis: The Syrian Crisis and NATO Missile Defence, Ortadoğu Analiz, pp.45-46.

⁴⁹⁹ Rusya Türkiye'de Füze Kalkanı İstemiyor, 18.05.2012, Radikal
http://www.radikal.com.tr/turkiye/rusya_turkiyede_fuze_kalkani_istemiyor-1088417).

unipolar world system. So both Turkey and Russia have similar idea about the world system⁵⁰⁰.

Syrian crisis shoved limits of the relations

Turkish- Russian relations have been affected regional and international events. However Turkey and Russia tried to solve their problems with diplomatic relations. For example two countries wanted to reach common ground about Central Asian and South Caucasian politics. This kind of efforts contribute Turkish-Russian relations. However Syria and North African problems, especially Syrian problem, showed some limits of Russian-Turkish relations⁵⁰¹. However, on the other hand, the situation also showed some strong part of the relations.

Both Syria crisis and NATO Patriot Missiles created some problems, but nevertheless economic cooperation prevented relations getting worse. Turkish- Russian economic relations have continued bilateral interests. For example, when Syrian crisis began in 2011, Turkish- Russian trade volume was 30 billion dollars, two years later this figure increased to 32 billion dollars in 2013⁵⁰². So two countries saved their economic relations, and trade volume continued to increase. According to some specialist, trade relations is an important factor to ease their political cooperation⁵⁰³. Guide is the economy between Turkey and Russia. Even their foreign policy differences, both countries have economic interests and their relations have been continuing on track.

Russian foreign policy after the collapse of Soviet Union

How can we define Russian- Turkish relations? Is it strategic partnership or multidimensional cooperation? There are going to be some explanation about Russian foreign policy, then Turkish- Russian relations will be examined. There will be answer if Turkish- Russian relations are strategic or multidimensional partnership. How can Russian

⁵⁰⁰ Aktürk Şener, A Realist Reassessment of Turkish- Russian Relations, 2002-2012, From the peak to the dip?, Capian Strategy Institute, pp.12.

⁵⁰¹ Erşen Emre- Emerging Problems in the Ankara- Moscow Axis: The Syrian Crisis and NATO Missile Defence, Ortadoğu Analiz, pp.45.

⁵⁰² TÜİK

⁵⁰³ Demiryol Tolga, Does Economic Interdependence Promote Political Cooperation?, Political Economy of Russian-Turkish Energy Relations, Kemerburgaz Üniversitesi- pp.7.

foreign policy principles are going to be summarized, after the collapse of Soviet Union? There are going to give some information about Russian foreign policy.

Russian foreign policy

Putin criticizes unipolar system of the world. According to him, unipolarity means unipolar world, only one power center, only one master. Putin thinks, unipolar system does not accepted in today's world. He also thought this situation is not sustainable. According to him, this is impossible⁵⁰⁴. Russian official foreign policy was defined by Putin on the 7th May 2012. According to foreign policy doctrine, the first one is to define the country when the country was under the foreign threat. The second one is use of force. If it needs, military could use this. According to Putin, weak one is suppressed. This thought is shared by so many elite of Russia. Old Soviet countries are important for Russia for its regional priorities⁵⁰⁵

Firstly, Russia want to save its sphere of influence and also continue its privileged position in Central Asia, Caucasus and Black Sea Areas in old Soviet lands. However Russia also knows, they lost absolute influence against Poland, Hungary and The Czech Republic(These countries were satellite in Soviet Union). On the other hand, Russia have been using its influence against Belarus. Russia also has a strong influence Armenia and Ukraine. Second part of the post- Soviet foreign policy, Russia is against the expansion of NATO. According to Russian perspective, the expansion of NATO is an approach against Russia, and this approach continue even after the Cold War in NATO countries. United States and NATO want to deploy missile defense system in East of Europe, and Russia was against this strategy. When the president of United States was George W. Bush(2001-2009), United States wanted to deploy missile defense shield in Poland, The Czech Republic. Russia was not content for this kind of efforts. These countries were under control of Soviet Russia term both politically and militarily. Russia see this kind of actions against themselves. Russia see this kind of attitudes as hostile attitudes. On the other hand, according to United States, American missile field was not against Russia, was against Iran. However Poland and The Czech Republic are very far away from Iran, but close to Russia. So Russia is right about its suspicious thoughts. Another important foreign policy

⁵⁰⁴ Çaşın Hakkı Mesut, Türk-Rus İlişkilerinde Yeni Ufuklar, Tarihi Fırsatlar ve Rekabetçi İşbirliği, pp. 3-4.

⁵⁰⁵ Çaşın Hakkı Mesut, Ibid, pp. 14.

subject of Russia's transportation of natural gas and oil to Europe. Russia is in favor of being the origin and the transit route of the oil and natural gas that European countries receive⁵⁰⁶.

Natural gas is a very important part of Russian foreign policy. Natural gas is a product, but it is also a tool for political manoeuvre of Russia. Europe tries to find new resources, and Russia found new customers. There was an important treaty between Russia and China on May of 2014. According to this agreement, Russia will give annually 38 billion cubic meter to China during the 30 years. This move is a strategic move against Europe. After this agreement Russia got a power against Europe, because Russia made an agreement with new customer. Russia had been negotiating with China for the last ten years. Russia show to Europe they have an alternative market. China is the most populous country. China has been growing very fast for the last thirty years. China is an economically very active country. Russia has a very important item(product)- natural gas, and also Russia has alternative markets to sell this product. China pay 350 dollars for thousand cubic meter, West Europe pay 380 dollars, and Turkey pays 420 dollars⁵⁰⁷. Russia uses natural gas as a weapon when the conditions are valid.

When we return Turkish- Russian relations again, Turkey and Russia have some different point of views about foreign policy of Russia. Turkey was against "Near Abroad" doctrine of Russia. According to this doctrine, Russia see itself as an arbiter and policy maker in old- Soviet lands, regions(at least some of the lands). For example, Azerbaijan's some lands was the occupy of Armenia. Russia is against Turkish foreign policy in Nagorno-Karabagh problem. Turkey also defend territorial integrity of Georgia. However Russia wanted Abkhazia and South Ossetia to leave politically, economically and militarily from Georgia.

Another subject is Ukraine. Turkey defend territorial integrity of Ukraine, including Crimea. Russia wants to continue its political, military and cultural presence. Turkey was against this policy too. Turkey's policies toward the post-Soviet "Near Abroad" appear to be the polar opposite of the Russian policies in principle. However Turkey did not want to

⁵⁰⁶ Aktürk Şener, A Realist Reassessment of Turkish- Russian Relations, 2002-2012, From the peak to the dip?, Capian Strategy Institute, pp. 7-8.

⁵⁰⁷ Çetingüleç Mehmet, Rus doğalgazına güçlü bir alternati,- Al Monitor, 26 Mayıs 2014. <http://www.al-monitor.com/pulse/tr/originals/2014/05/turkey-azerbaijan-pipeline-russia-alternative.html>

clash with Russia over these conflicts in the post- Soviet states. Turkey almost always retreating or conceding to Russia whenever a serious problem appeared⁵⁰⁸.

However, on the other side of the coin, Syrian problems shows some limits in Turkish-Russian relations. According to Emre Erşen who wrote "Ankara-Moscow Axis: The Syrian Crisis and NATO Missile Defense" article for "Ortadoğu Analiz" magazine, political, economical and cultural relations of Turkey and Russia enable people to think two countries' relations began to emerge as a strategic partnership in the early 2000s. However, especially after Syrian crisis and NATO Patriot Missiles disagreements, it was(is) difficult to describe Turkish- Russian relations as a strategic partnership⁵⁰⁹. After all this information, two countries' relations could be defined as multidimensional partnership instead of strategic partnership⁵¹⁰. Relations are more tactical between two countries. Strategic partnership needs more cooperation, and countries also pursue same foreign policy subjects. Similar aims are important thing to define countries as a strategic partners in foreign policy. Turkey and Russia usually are not in common agenda in foreign policy, they usually look differently⁵¹¹. On the other side, Turkish- Russian trade relations has been getting stronger, and good economic relations let better political relations⁵¹². Turkey also promotes itself as an alternative route to Russia for the EU which is looking to diversify its energy sources⁵¹³.

When we look at the greater picture, When Turkey and Russia think differently, countries do not harm their relations. Turkish- Russian leaders, foreign ministers have been meeting, and discussing policy differences and they have been trying to reach common ground. There are bilateral interests between Turkey and Russia. Official meeting often make and

⁵⁰⁸ Aktürk Şener, A Realist Reassessment of Turkish- Russian Relations, 2002-2012- From the peak to the dip?, Capian Strategy Institute, pp.9-10.

⁵⁰⁹ Erşen Emre- Emerging Problemsin the Ankara- Moscow Axis: The Syrian Crisis and NATO Missile Defence, Ortadoğu Analiz, pp.44.

⁵¹⁰ Kınıkoğlu Suat, The Anatomy of Turkish- Russian Relations, The Brookings Institution, pp. 2.

⁵¹¹ CSIS, THE Turkey, Russia, Iran Nexus: Economic and Energy Dimensions- Proceedings of International Workshop Ankara, TEPAV, 24 MAY 2012, pp.2.

⁵¹² Kınıkoğlu Suat, The Anatomy of Turkish- Russian Relations, The Brookings Institution, pp.2.

⁵¹³ Altınışik Benli Meliha, Turkish Foreign Policy in the 21th Century- Emergence of pragmatism, CIDOB, International Yearbook 2011, Country Profile Turkey, pp.199.

this meetings enable two sides to discuss subjects and try to understand each other⁵¹⁴. These official meetings lets bilateral relations to improve in multidimensional way.

Economic relations of two countries

It is time to return economic relations again. Turkish export to Russia is 4.68 percent of the total Turkish export. Turkish import from Russia is 11.26 percent of total Turkish import in 2012. Germany is the first country of Turkish total export. Russia is the 6th place in this list and Russia is the first country that Turkey import from in 2012⁵¹⁵.

When we focus on economic relations, Turkey and Russia customs duties were softened in goods traded. This favors Turkish products exported to Russia. Russian money goes to Turkey through private sector and public. Russian people find Turkish market is confident. Russians also get profitable returns from Turkish market. When European and Cyprus market were in trouble after the 2008-2009 economic crisis, Russians preferred Turkey to save and get high-return from their investment. Turkey was one of the most important market for Russian to save their money⁵¹⁶. After the world economic crisis, American and European Central Banks decreased interest rates to improve economic activities. Interest rates were (are) very low in developed countries. Turkish interest rates were higher than developed countries. This situation gave chances foreign investors to make higher profit in Turkey. If some investors want to save or get higher returns from their investment, Turkey gives good opportunities. For example, 10 years Turkish Treasury Bond's interest rate went to 10 percent, when the interest rate was 2.62 percent in United States, 1.47 percent in Euro⁵¹⁷. So when Turkey stayed in politically stable, Turkish market gives changes to foreign investors.

Are we going to or are we in relations between Turkey and Russia from competition to cooperation?

⁵¹⁴ Karayel Gülperi, Bilgi Üniversitesi- Rivals or Partners?, Turkish- Russian Relations in the Greater Black Sea Region since 1999, pp.66.

⁵¹⁵ Kartal Burak, Examining the Turkish- Russian Trade Relations after Russia's World Trade Organization Accession, International Conference Euroasian Economies 2013, pp.446.

⁵¹⁶ Al Jazeera Center for Studies, Turkey and Russia: economic convergence but political divergence, May 2013, pp.4.

⁵¹⁷ The Economist, Economic and Financial Indicators, April 19th- 25th 2014, pp.80.

This is a critical question and the answer is "Yes". Two countries have been in cooperation between each other. The main factor is economy in Turkish- Russian relations. According to a number of experts, economic pass political contacts in terms of importance⁵¹⁸ . Two countries' natural gas agreements are long- term agreements. Akkuyu Nuclear Power Plant is also very long term agreement. If two countries had not seen their relations as a long-term cooperation, they would have not made these agreements.

Also Turkey and Russia has a long- term interests and agreements, and so both Turkey and Russia do not want to harm their relations. They stop when they have to stop.

⁵¹⁸ Ulchenko Natalia, What is So Special About Russian- Turkish Relations, Russian Analytical Digest No 125, 25 March 2013, pp.5.

4.2- Turkish-Russian relations between sectors

Which sectors are further sectors of the economy? Turkey is an important country for Russia, Russia is an important country for Turkey. So to understand economic relations better, for example which Turkish companies are operating in Russia? It is an important question. Turkish-Russian sectoral relations are going to be examined in this part.

Construction, food, textile, tourism, energy sectors are the very important parts of Turkish-Russian economic relations⁵¹⁹. Trade relations give opportunities to both Turkey and Russia. According to estimations, Russian investment is 12 billion dollars in Turkey, and Turkish investment is also close to 12 billion in Russia⁵²⁰. Despite foreign policy differences, economic relations did not slow down between two countries. Turkish business has been investing food, beverage, bottle, glass, white goods and brown goods and another sectors in Russia⁵²¹. Energy is an important part of the relations, but construction have also been playing an important role.

Turkish construction sector played a pioneer investment sector in abroad. This sector has been operating from Balkans to Central Asia, from Russia to Middle East. Construction sector has been operating well in Russia⁵²².

Turkish construction companies began to operate in foreign countries in 1972. However These companies began to work in Russia in 1988. BAYTUR and ENKA were first companies began to operate in Russia. Turkish companies have got 1.481 project, and the total value of these projects were 49.382.401.985 dollars in Russia between 1988 and 2013. Russia's share is 18 percent as total project cost between 1972 and 2013. Russia is the first place for Turkish contractor as the construction business. Turkish companies got 48 projects, and the total value of 5.649.198.824 in 2013 in Russia⁵²³. Turkish companies have operated in infrastructure and superstructure activities in Russia so far. These are urban infrastructure, purifying, pipelines, trade center, military installation, tourism

⁵¹⁹ Karayel Gülperi, Bilgi Üniversitesi, Rivals or Partners?, Turkish- Russian Relations in the Greater Black Sea Region since 1999, pp.99.

⁵²⁰ Girgin Kemal, Ruslarla Kavgadan Derin Ortaklığa, ilgi kültür sanat Yayınevi, pp.490.

⁵²¹ Kamel Ayhan, Türk Dış Politikası, İnkilap- pp.181.

⁵²² Kamel Ayhan, Ibid., pp.160.

⁵²³ Türkiye Müttehhitler Birliği

facilities, health facilities⁵²⁴. Turkish companies have been operating successfully for the last twenty years. There is a huge discrepancy in 20 years.

15 Turkish construction companies were operating in the first term of Russian Federation. 15.000 Turkish workers were working in this sector in Russia. However today, more than 50 Turkish construction companies have been operating in Russia in 2013. Thousands of Turkish workers and hundreds engineers are working construction sector in Russia. Which sectors was constructed by Turkish companies in Russia? 79 percent of Turkish construction companies construct buildings in Russia. 16 percent of them construct industrial installations. 2 percent of them construct transportation facilities. 1 percent of Turkish construction companies construct waterworks in Russia(2 percent is others)⁵²⁵. The main of Turkish construction are ENKA, ANT Yapı, Rönesans, Tekfen, GAMA, Alarko, Üçgeni Nuro, Yenigün, Kolin in Russia. The pioneer Turkish construction company is ENKA in Russia. ENKA has approximately finished 160 projects in Russia. ENKA got shares from these jobs and ENKA is owner of some of these jobs. Economic return of this job is using materials are coming from Turkey. The other one is Turkish workers have a chance to work in Russia⁵²⁶

Tourism is in important part of the relations

The other important sector is tourism. Tourism is one of the most important sectors of Russian-Turkish economic relations. Turkey is a tourism country and Russia is an important customer. Before explaining Turkish-Russian relations in tourism sector, Firstly there are some general information about Turkish tourism performance generally. According to World Bank figures, Turkey is one of the favorite tourism destination in the world. Turkish tourism performance has been getting better for the last 20 years. 7.1 tourists arrived in Turkey in 1995. However this figure increased to 35.7 million visitors in 2012. Turkey is the 6th tourism destination that visitors prefer in 2012. Russia is, in this list, 9th tourism destination in the world. 28.2 million visitors came to Russia in 2012⁵²⁷.

⁵²⁴ Ibid.

⁵²⁵ Girgin Kemal, Ruslarla Kavgadan Derin Ortaklığa, ilgi kültür sanat Yayınevi, pp.486.

⁵²⁶ Girgin Kemal, Ibid.,pp.487-488.

⁵²⁷ Wen Wendy- Huang Dee, International tourism data top destinations,

<http://blogs.worldbank.org/opendata/international-tourism-data-top-destinations-number-arrivals-and-more>

Turkish- Russian tourism figures have been increasing, but both countries want to improve figures higher. Turkish Culture and Tourism Ministry signed a joint action plan with the Russian Federal Agency for Tourism on March to increase cooperation to increase tourism figures between 2014 and 2016. According to Federal Agency for Tourism (ROSTURIZM) statistics, Turkey is the first touristic destination for Russians. Russians firstly prefer Turkey to go on holiday. 4.2 million Russian tourists arrived in Turkey in 2013. Comparing with 2012, it is a 28 percent increase⁵²⁸. According to Turkish Deputy Minister of Tourism Özgür Özaslan, more Russian tourists are going to arrive in Turkey in 2014. According to expectations, this figure is going to increase from 4.2 million to 4.5 million tourists in 2014⁵²⁹. When we look at the historical data, there is a huge touristic figures rise. For example, 500 thousand Russian tourists arrived in Turkey in 1999, but this figure increased to 2.4 million visitors in 2007, it increased to 3.1 million people in 2010. 3.6 million Russian visitors came to Turkey in 2012. After increasing Russian tourists, Turkish visitors also began to go to Russia more⁵³⁰. 8 million Turkish citizen went to abroad in 2013. 380 thousand visitors of total figure went to Russia in 2013⁵³¹. Turkey and Russia signed an agreement on May of 2010. According to this agreement, if a Russian or Turkish tourist arrive in Turkey or in Russia, if his/her trip does not pass one month in three months, he/she will not need any visas. So this decision is a very big advantage for tourism sector between two countries⁵³².

More Russian tourists have been going to Turkey each year. Mediterranean coast is the favorite place for Russian tourists. Especially Russian tourists prefer Antalya and Belek in Turkey⁵³³. Some analysts explain this situation humorously. Russia had an important aim after Great Peter. Russian aim was to reach hot waters during the centuries, and at last, Russia reached this aim. Turkish tourism sector is satisfied with Russian tourists.

⁵²⁸ Turkey, Russia sign tourism action plan, Moscow, Anadolı Agency.
<http://www.hurriyetdailynews.com/turkey-russia-sign-tourism-action-plan.aspx?pageID=238&nID=63701&NewsCatID=349>

⁵²⁹ İTAR TASS, Number of Russians spending holidays in Turkey to grow to 4.5 million, <http://en.itar-tass.com/non-political/724373>, 19 March 2014.

⁵³⁰ Akkuyu, NPP construction was discussed at the meeting of the Russia, Turkey High Level Cooperation Council- 27/11/2013, NPP Akkuyu Press Office-
<http://www.rosatom.ru/en/presscentre/news/b436ae8041fb45a281fdd5b32a194887>

⁵³¹ İTAR TASS, Number of Russians spending holidays in Turkey to grow to 4.5 million. <http://en.itar-tass.com/non-political/724373>- 19 March 2014

⁵³² Özdal Habibe, Türkiye-Rusya İlişkileri : Sınırlı Stratejik Ortaklık, Analist, Page 56, Nisan 2011

⁵³³ Şahin Levent- Akça Hasan - Effects of Russia's economic growth on Turkey's tourism sector- International Conference on Eurasian Economies- 2013- pp.76.

According to people of Turkish tourism sector, Russian tourists are more generous than Europeans when they spend money⁵³⁴.

The key sector is energy

Turkish- Russian energy relations have been getting stronger. Russia will construct Akkuyu Nuclear Power Plant in near Mersin in Turkey⁵³⁵. There have been discussing about Nuclear Power Station in Turkey for the last thirty years due to Turkey's increasing energy demand, but after discussion 30 years, Turkey decided Russia to construct Nuclear Power Plant. Costs and technology will be met by Russia⁵³⁶. Russia made an agreement with Turkey and according to this agreement, Russia will undertake all of the 20 billion dollar costs of this project⁵³⁷. Turkey received 1.39 billion dollars from Russia to construct Akkuyu Nuclear Power Plant in the first quarter of 2014. According to expectations, Akkuyu NPP project's cost will be 20 billion dollars. 3.5 billion dollars of 20 billion dollars is worth of equipment are going to be used in construction process. If the project license is approved, reactor construction will be in 2016⁵³⁸.

Russian specialists and also Turkish people are going to work in power plant. 50 young Turkish people have been working with nuclear science scholarship in Russia now. They have also been taking power plant education there. In addition to, 100 young Turkish people chosed to go to Russia to get education about this subject in the autumn of 2014. Costs of power plant will be paid with selling of electricity of this power plant. Power plant will be in active in 60 years. First reactor will step in 2018. Total of installed power of Akkuyu will be 4800 megawatt⁵³⁹.

Turkish and Russian policy encourage companies, investors to improve two countries' economic relations. For example, Russian President Medvedev arrived in Turkey in 2010. Some (important) agreements were signed between two countries. One of the agreement is two countries agreed to lift visa for short visits. Second agreement was Turkey and Russia signed a nuclear power plant deal which will be built by a Russian company, will be

⁵³⁴ Kınıkoğlu Suat, *The Anatomy of Turkish- Russian Relations- The Brookings Institution-* pp.16.

⁵³⁵ Dombay Daniel- Closer Charles - *Russia and Turkey focus on economic ties-* December 3, 2012- <http://www.ft.com/cms/s/0/6ed0bba8-3d7c-11e2-b8b2-00144feabdc0.html#axzz34vuuMxgb>)

⁵³⁶ Girgin Kemal, *Ruslarla Kavgadan Derin Ortaklığa, ilgi kültür sanat Yayınevi,* pp.480.

⁵³⁷ Girgin Kemal, *Ibid.*pp.481.

⁵³⁸ *Turkey's first Nuclear Plant received 1.39 bn from Russia-* Anadolu Agency 11-04- Daily Sabah- 2014 <http://www.dailysabah.com/nation/2014/04/11/turkeys-1st-nuclear-plant-receives-139bn-from-russia>

⁵³⁹ Girgin Kemal, *Ruslarla Kavgadan Derin Ortaklığa, ilgi kültür sanat Yayınevi,* pp.481.

Russia's first built by a Russian company and owned foreign power plant. In addition, Turkey and Russia maintain their military and defense industry activities. The most limited area is politics between two sides⁵⁴⁰.

Big Turkish companies are operating in Russia

Energy, tourism and construction are very important sectors between Turkey and Russia. However these sectors are not enough to explain Turkish-Russian economic relations. Turkey's important companies have been operating in Russia for a long time.

According to official figures, There are 3.641 Turkish companies in abroad in 2011. 265 companies of 3.641 are in Russia. For example Şişe Cam has constructed one of the biggest industrial plant in Russia. Efes Pilsen, Enka, Eczacıbaşı, Koç Group, Zorlu Group, Adopen, Merinos Halı have been operating in Russia. These big companies have been making direct investment in Russia. Only Şişe Cam's investment is close 1 billion dollars in Russia. Şişe Cam gives 3500 employment opportunities to people. For example Şişe Cam's glass container production capacity is bigger than its capacity in Turkey⁵⁴¹. Şişe Cam founded a company with 750 million dollars investment. Şişe Cam reached between 6 and 7 billion turnovers in Russia⁵⁴².

Turkish banks and Russia

Turkish financial institutions have also been operating in Russia. These are Yapı Kredi, Garanti Bank, Denizbank, Finansbank, Ziraat Bank. Moreover Fiba Group bought Russian Credit Europe Bank. Credit Europe Bank is one of the biggest bank of Russia⁵⁴³. İş Bank bought Bank Sofia in 2011, and İş Bank began to operate in Russia⁵⁴⁴.

Turkish ready wear companies have been operating in Russia. Some of them are Colin's, Ramona Botta, Gizia, Adil Işık, Giovane Gentile, Wenice, Rmsey, Balizza, Perspective, Damat Tween, Suvani, İpekyol. Ayva⁵⁴⁵. Automotive sector is a white hope sector in

⁵⁴⁰ Altunışık Meliha, Turkish Foreign Policy in the 21th Century, Russia- Emergence of pragmatism, CIDOB, International Yearbook 2011, Country Profile Turkey, pp.199.

⁵⁴¹ Kartal Burak, Examining the Turkish- Russian Trade Relations after Russia's World Trade Organization Accession, International Conference Euroasian Economies 2013, pp.449-450.

⁵⁴² Girgin Kemal, Ruslarla Kavga dan Derin Ortaklığa, ilgi kültür Yayınevi, pp.483.

⁵⁴³ Kartal Burak , Examining the Turkish- Russian Trade Relations after Russia's World Trade Organization Accession, International Conference Euroasian Economies 2013, pp.449-450.

⁵⁴⁴ Girgin Kemal, Ruslarla Kavga dan Derin Ortaklığa, ilgi kültür sanat Yayınevi, pp. 485.

⁵⁴⁵ Girgin Kemal, Ibid.p.483.

Russia. According to Republic of Turkish Export Platform, Russia was the second biggest automotive market after Germany in 2012. Russian automotive sector's value is 40 billion dollars. There were 8 Turkish companies in Russian market and 20 more companies attempted to make investment in Russia. Turkish companies should compete with Japanese, Korean, Chinese and European companies⁵⁴⁶. Big Turkish beer company is Efes Pilsen. Efes Pilsen is very active in Russia. Efes produced and sell its beers in Russian market. Efes's investment was 120 million dollars in 2003, but Efes's Russian investment increased to 700 million dollar⁵⁴⁷. Efes made cooperation with SABMiller, and their place is 2th plane in market. Efes was the forth before making cooperation with SABMiller⁵⁴⁸.

Tukish companies have been investing in Russia. For example, Efes founded a company with 700 million dollar, and Vestel founded a company with 40 million dolar. Eczacıbaşı founded a tile company in Russia⁵⁴⁹. Koç Group made a 500 million dollars investment including Ramstore and Ramenska in Russia. Arçelik(Beko) company made an 90 million Euro investment for the production of white appliances⁵⁵⁰. Vestel founded its television company with 40 million dollar investment in Russia, and Vestel sell its productions to Russian consumers. Industry company Gama constructed steel company for 1.5 billion dollars in Vyksa in Russia⁵⁵¹.

Russian companies have also been investing in Turkey. According to Turkish Economy Ministry, 1484 Russian capital companies have been operating in Turkey. These companies mainly have been operating in wholesale and retail trade, transportation-communication- storage services, hiring sector. Some of these companies' capital is consisted of Russian and Turkish people⁵⁵². Russian investments are in Turkey, these are Russian Alfa Group/Altimo made 3 billion dollars investment for Turkcell. Russian

⁵⁴⁶ Kartal Burak, Examining the Turkish- Russian Trade Relations after Russia's World Trade Organization Accession, International Conference Euroasian Economies 2013, pp.448.

⁵⁴⁷ Girgin Kemal, Ruslarla Kavgadan Derin Ortaklığa, İlgi Kültür Sanat Yayıncılık, pp.484.

⁵⁴⁸ Kartal Burak, Examining the Turkish- Russian Trade Relations after Russia's World Trade Organization Accession, International Conference Euroasian Economies 2013, pp.449-450.

⁵⁴⁹ Girgin Kemal, Ruslarla Kavgadan Derin Ortaklığa, İlgi Kültür Sanat Yayıncılık,pp.488.

⁵⁵⁰ Girgin Kemal, Ibid.,pp.489.

⁵⁵¹ Girgin Kemal,Ibid.,pp.484.

⁵⁵² Girgin Kemal, Ibid.,pp. 490.

Sberbank bought Denizbank for 3.5 billion dollars. Russian citizens bought properties in Antalya and Alanya. Lukoil oil company made an investment for dealership in Turkey⁵⁵³.

⁵⁵³ Girgin Kemal, Ibid.,pp.491.

CHAPTER 5

Conclusion- Potential Developments

Turkish-Russian relations have been evolving from the competition to cooperation. Turkey and Russia have made long-term agreements, and these relations force two countries solve their foreign policy differences and prioritize economic cooperation. Both two countries use pragmatic way in their relations. For example, when Russia has some problems in Ukraine problem with West, Turkey did not want to criticize Russia openly. Turkey implemented same method in Georgia crisis in 2008. Turkey avoided criticizing Russia transparently. Both countries' relations have been continuing well with each other. They prioritize bilateral relations. Economic interests are more important than different political opinions both for Turkey and for Russia. They did not want to harm their relations. They centered economy, trade relations, agreements. If foreign policy differences does not go abnormal ways, economy centered relations will continue, they limit their criticism against each other in international subjects, and our projection that they will not harm their relations in the visible future. For example, Turkey had some different perspective with Russia about Syria, NATO Missile Defense System, but these disagreements did not break Turkish-Russian economic relations. Economic interests are more important in the long term, but there could be some foreign policy differences in the short term between two countries.

When Russian Prime Minister Viktor Chernomyrdin arrived in Turkey on December of 1997, He described what should be Russian-Turkish relations in the future. He said that; "economy should become in front, and politics should follow economy". As it were Russian- Turkish relations have been continuing like Viktor Chernomyrdin's appraise. Economy is two countries' priority. When they have some different appraise about foreign policy. They try not to harm their relations.

Turkish economy has been growing, and energy demand of Turkey has been increasing. Erdoğan and Putin see great benefits in sustaining their special relations for advancing their respective geopolitical visions. Actually Turkey wants to reduce natural gas dependence on Russia. However Russia is a energy richer country and Turkish energy demand has been increasing. So both Turkey and Russia want their relations on track, and

the answer of the big question is foreign policy differences could not seriously affect two countries' relations.

World energy consumption has been increasing gradually. Energy is an important material both economically and politically. Energy producer country wants to control roads of energy shipment. They want to use energy as a press tool like in Russian example (For example, Russia is an energy producer country and Russia sometimes uses energy as a press tool). On the other hand, Energy consumer country wants to diversify both source country and shipment roads to reach energy security. If energy consumer country reaches his aim, consumer country also avoids pressure of energy producer country. Turkey's relations are very important with Russia to achieve long term aims of energy policy within this framework. Turkey is an important country for energy security for Russia, so in this situation, both countries can absorb their foreign policy differences.

Why Russia is important?

Russia is a very important country in energy market. Russia has the second biggest natural gas reserves, after Iran, in the world. According to BP figures of 2012, Iran had the 18 percent of the proven natural gas reserves of the world, Russia had 17.6 percent proven natural gas reserves of the world. As we see, there is not big difference between Iran and Russia. Both countries have similarly same proven natural gas reserves. Russia had 5.2 percent of the proven oil reserves. On the other hand, Iran and Qatar, natural gas richer countries, does not export like Russia. So Russia has an important effect to energy market.

When we look at the Turkish energy consumption, Turkey's total energy consumption's 31 percent is consisted of natural gas. Turkey exports 97 percent natural gas that Turkey consume. Turkey's highest energy consumption is natural gas. Turkey bought between 55 and 60 percent natural gas from Russia. Turkey bought this natural gas from two different pipelines. One of them is coming from Russia via Ukraine, Moldova, Romania and Bulgaria to Turkey. This natural gas feeds Marmara Region and Istanbul. The other one is coming from under Black Sea. The name of the Natural Gas Pipeline is Blue Stream. According to Black Sea Agreement, Turkey should buy 16 billion cubic meter from Russia, but two countries made agreement to increase capacity of Blue Stream from 16

billion to 19 billion cubic meter and Turkey's dependence on Russia increased after this agreement. There is also one more important agreement between Turkey and Russia.

According to expectations, Turkish demand of energy resources will increase because of economic and social development aims. Turkey meets 26 percent of energy requirement from its own resources. Turkey meets different energy resources from outside. Turkey bought 58 percent natural gas of total natural gas requirement, 11 percent oil of total oil requirement from Russia in 2012. Especially after the opening of Blue Stream, Turkish-Russian energy cooperation became remarkable (salient). So it create trade surplus for Turkey. Blue Stream intensified Russian-Turkish energy relations. Turkey also has a very important agreement with Russia. According to this agreement Russia will built Nuclear Reactor near in Mersin in Turkey. Despite some different political approach of two countries, Turkey and Russia have both long-term energy agreements and new agreements like Akkuyu. So both Ankara and Moscow have a long-term politics. There are strong links between two countries. Turkey's energy relations has been getting stronger after Akkuyu Nuclear Power Plant Project.

Why Turkey is important in energy market?

Turkey is not a energy richer country, but Turkey is a crossroad country between energy exporters and energy importers. Turkey is an important energy crossroad country. Turkey want to become a rich energy distribution hub in the region. When viewed from this aspect, Turkish- Russian relations is important for the long term aims. Turkey's location is important as geostrategic, Turkey is in between energy richer countries who has 75 percent of the proven oil and natural gas reserves of the world and European markets. This privileged natural bridge position gives Turkey opportunities in energy security. Turkey want to become the fourth artery after Russia, Norway and Algeria in Europe. Turkey want to become a confidential transit country and dynamic energy terminal. Turkey is a integral part of the global energy market. Turkey likes to portray itself as an energy transit country and a energy hub for Europe. On the other side, Russia's presence in Turkey give chance to Moscow to enter Greece, Spain, Italy and even North African countries. Turkey is an important energy importer country. So both Russia and Russia have interests to make cooperation between each other in energy market. Developing Turkish market for an important place for Russian companies. So both Russia and Turkey are important partners.

There is not a big risk that Turkey and Russia will have serious problems in the visible. For example, Russia decreased natural gas shipment to Ukraine in 2006, this kind of risk is not seeing in Turkish- Russian relations.

Turkey gives energy deficit with Russia because energy

According to TÜİK(Turkish Statistical Institute) Turkish- Russia trade volume was 32 billion dollars in 2013. Russia gives trade surplus, Turkey gives trade deficit with bilateral relations. The reason is energy spending of Turkey. Turkish export to Russia was 6.965 billion dollars, Turkish import from Russia was approximately 25 billion dollars. Russia has an advantage against Turkey because of energy card. Turkey is mainly dependent on Russian import and this situation leave Turkey in a difficult way to make free manoeuvre capability. On the other side, There is economic interdependence between two countries. Both countries have made important agreements, and so Turkish-Russian relations are strong. Turkey and Russia have long term agreements, and this agreements show us two countries' relations will continue in track even if they sometimes have political differences.

Expectations of relations

Turkish- Russian relations will proceed in positive direction in the light of these development. If abnormal developments do not happen, Turkish- Russian relations will continue in positive way, pragmatic way. As we know, Turkey and Russia look at foreign policy from different windows. For example Syrian problem is a good example. Turkey and Russia also had disagreements about Georgia and Ukraine problem. However Turkey did not criticize Russia clearly. Both Ankara and Moscow attach importance to bilateral relations. There is one more important factor between two countries' relations. Foreign policy differences of 2000s are different of 1990s foreign policy differences between two countries.

After the collapse of Soviet Union, Turkey and Russia were in competition in Turkic Republics. Turkey wanted to create zone of influence in this region, Russia did not want to lose its control in this area. Another subject was Chechen problem. Turkey sympathized Chechens, on the other side of the coin, Russia behaved Kurds warmly. Both Kurdish and Chechen problem inside problems of Turkey and Russia. Kurdish problem was inside of Turkish problem, on the contrary, Chechen problem was inside of Russian problem. So

Russia's Kurd policy was not welcomed by Turkish Authorities, Turkey's Chechen policy was not welcomed by Russian Authorities. When we look at today, Turkey did not interfere Ukraine and Georgia problem directly. The biggest problem between Turkey and Russia was Syria in 21th century. Turkey and Russia do not interfere its domestic conflicts and there is not a competition like Turkic Republic subjects today. So there is not seeing big problems that damage two countries' relations. Akkuyu Nuclear Power Plant also show us both side see long-term relations and Akkuyu also have been creating closer relations between Turkey and Russia.

In conclusion, Turkey and Russia see long-term relations. Economy leads Turkish-Russian relations. Energy is an important part of the relation. Turkey is an energy dependent country. Turkey only meet 26 percent of its consuming energy. Turkey imported 97 percent of natural gas of total consumption and Turkey bought between 55 and 60 percent natural gas of total importation from Russia. On the other side of the economy, Turkey is a confident shipment area for Russia. Turkey is a developing country. According to Eurostat, Turkish economy has been growing 5 percent since big recession of 2001 crisis. It means Turkey is a developing market. It gives chances for Russian companies and investors. Economic interests are more valuable in today's world. So there is not seeing big break up between two countries relations in the visible future in spite of foreign policy differences. If policy differences emerge, both sides put on the brake to save their relations.

Construction sector is also a very important sector for Turkish companies. After Turkish construction companies had difficulties when Libya was in domestic disturbance, Russia became more important for Turkey as a construction market. Russians are content with Turkish construction companies too. When Prime Minister Erdogan went to Russia for Sochi Winter Olympic Games, he met Russian President Vladimir Putin. Putin praised Turkish construction companies. Putin said that Turkish construction companies have had 50 billion dollars operation in Russia since the early 1990s. He said, "All of our experts are satisfied with Turkish construction companies". Turkey bought 55-60 percent natural gas, and 12 percent oil of total importation from Russia. Turkey dependent on these resources. Erdogan's foreign policy attitude sometimes severe, but he behaves carefully against Russian President Vladimir Putin.

Russian and Turkish diplomatic problems are secondary importance to economic relations. Even Syrian problem, Erdogan and Putin came together. Historian professor William Hale

told there are reciprocal dependence between Turkish and Russian relations. Turkey is a dependent country as a natural gas, but Turkey also is a valuable customer of Russia. So both countries do not want to harm their relations.

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