# TURKEY AND IRAN: POLITICAL RIVALRY AND ECONOMIC COOPERATION THROUGH THE AGES

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#### **Abstract**

Turkey and Iran from the ancient times have been experiencing severe confrontation and simultaneously close interdependence in the economic field that has considerable impact on modern international relations in the Middle East and Post-Soviet space. Rivalry of both countries is strengthened by Sunni-Shia divide in Muslim world and support of different sides in Armenia - Azerbaijan conflict. Special importance in the mutual relations of neighbours has competition in the Southern Caucasus, which is important with its energy rich Azerbaijan and creation of land routes for Caspian oil and gas to Europe in order to lessen dependency of the European Union on Russian energy. Using close relations with Azerbaijan, Turkey makes all efforts to become an energy bridge between energy resources of Caspian Sea and European consumers. On the other hand, Turkey is deeply interested in Iranian gas because of the geographic proximity and huge resources of the supplier.

However, despite political rivalry Turkey and Iran have mutually beneficial

cooperation in trade and tourism.

The article covers the development of Turkish-Iranian relations in political and

economic fields since the establishment of modern states. The authors consider different

historic periods of interaction in XX-XXI centuries, the competition of both states for

influence in the Post-Soviet space and the Middle East, the cooperation and rivalry

concerning the unresolved Kurdish question and finally the close economic

interdependence of both neighbours. In order to achieve the research goals of the article

Turkish and Iranian news outlets were used as the main sources of information.

**Key words:** Turkey, Iran, rivalry, cooperation, oil and gas, trade, tourism.

**JEL classification:** F59; L83

Strategically situated on the crossroads of the Middle East and the Caucasus,

the Islamic Republic of Iran and the Republic of Turkey, which share 499-km long

border, have longstanding and complicated relations tracing their origin back to the

medieval confrontation of Ottoman and Persain empires. The heritage of the past is

exaggerated by the Sunni-Shia divide in Muslim world and the intention of both

sides to play the leading transit and economic role in the neighbouring regions. Iran is

the country with general population of more than 77 million people, which includes

the biggest number of representatives of Shia belief in the world. Simultaneously at

least 13 per cent of Iranian citizens are practicing Sunni Islam [1]. Turkey is one of

the demographic leaders among Sunni states with the population of a little more than

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77,6 million, which has only smaller number of Sunni Muslims than Indonesia, India and Pakistan. Unfortunately, this country is more densely populated in the Western areas (Istanbul, Ankara and Izmir), what limits the development of trade and people - to - people exchanges with South-Eastern neighbour Iran [2].

Besides, Turkey enjoys strong historical influence upon Turkish - speaking countries. The Turkish languages represent a family of at least 35 languages with 170 million native speakers, but if to include the second-language speakers, the actual number may exceed 200 million people [3]. This especially important with a regard to Azerbaijan, which simultaneously is Shia - Muslim country like Iran, but has the language related to Turkey. The same linguistic connection also typical for the majority of Central Asian states. Iranian leadership boasts only language links to Tajikistan and Afghanistan. Turkey opened a number of schools in the Central Asia and built numerous mosques. So, the ability to project the soft power is considerably bigger in Turkey than is Iran, hit by the international sanctions and isolated in the world.

Together with Iraq and Syria Iran and Turkey face long - standing Kurdish problem, since Kurds live in South-Eastern Anatolia and in Iranian provinces of Kurdistan, Kemranshah and West Azerbaijan. Iran is populated by 5 million Kurds and Turkey hosts at least 12 million of them [4]. Those people in Iran usually do not conduct guarilla warfare, but in Anatolia they fought for their rights from 1984 in the war of attrition that led to 40 thousands casualities [5]. Moreover, both countries try to influence Kurds in Iraqi Kurdistan as in a strategic region ajecent to their common border. All this creates nessesary preconditions not only for the

cooperation in military operations against the representatives of this restive minority, but also for the economic competition in times of peace.

Economically Turkey is in much better shape than Iran. This can be explained by the successful performance of a stable single party government in the last decade, which carried out many mega projects, exported construction services abroad and facilitated the development of international tourism. For many years the country demonstrated 6 per cent growth of GDP and was the second best performer in Asia only after China. During 2008-2014 Turkish authorities created at least 6 millions of jobs. The falling energy prices in position to provide another boost to powerful Turkish economy by saving 25 billion dollars on the import of «black gold» [6]. On the contrary, Iran continues to suffer due to same factor, since sales of oil, gas and petrochemicals provide 70 per cent of export revenues. Unfortunately, this country supplies abroad only 1.3 million barrels daily because of international sanctions [7]. Therefore Islamic Republic is interested in the development of trade ties with its closest neighbours – Iraq and Turkey, which possess economies of size and not shy away from a contraband.

Geopolitically both states are not only complimentary but also competitive. Turkey provides the «window» for Asian countries to Europe, controls Black Sea Straits and simultaneously borders Iran and the Midlle East. Iran, with its long border line in the Caucasus and Central Asia, can be considered a direct competitor of Turkish companies in the Post-Soviet space. On the other hand, both countries exhibit strong interdependence. Iran has one of the biggest oil deposits in the world

(157 billion barrels) and occupies the second place after Russia by the proven reserves of natural gas. For example, the border zone between Iran and Qatar in the Gulf is represented by the huge area of 9700 square kilometres with considerable gas deposits. Qatari part of it bears the name «North Field» and Iranian — «South Pars» gas field. Official Ankara's dependence on Russian «blue fuel» remains substantial, what forces it to look for alternative suppliers in Azerbaijan and Iran. On the other hand, Turkey is the one and only Iranian neighbour with direct land access to Southern Europe and 1,650 kilometers long coastline in the Black Sea region, what represents the commercial interest for Iranian business community in terms of transit of energy resources towards richest market of the world. During the last 10 years «Turkish Petroleum Corporation» (TPAO) conducted research works in the Black Sea, but the results were inconclusive [8].

In 2013 Turkey imported oil, gas and coal to cover 70 per cent of energy demands. The expenses for fuel import constituted 55 billion dollars [9]. The needs of the country remain substantial – fuel has to be provided for «Turkish Airlines», which boast hundreds of planes, to guarantee the work of transport infrastructure catering the tens of millions of international tourists, to generate the electricity for the cities scattered in huge land area. Moreover, the taxation of fuel plays increasingly important role in shaping of budget profits. As a result, the country is notorious for extremely expensive gasoline, since the taxes constitute more than half of the final price [10]. So, Turkey is constantly looking for the suppliers of energy with moderate prices.

Islamic revolution of 1979 in Iran, which destroyed the pro-American regime Muhammed Raza Pahlavi, led to some crucial changes in the field of foreign policy whereas Turkey, as NATO member, continued to support the USA in the region and allowed Israel Defense Forces (IDF) to use its soil for the military maneuvers. On the other hand, Iran, which even used to sell the oil to Jewish state via Red sea route under the regime of Shah, suddenly became the principal advesary of Israel and the USA. Moreover, the Islamic revolution pitted against each other two different ideologies – the one of Turkish military circles, as the protectors of secular regime and executionists of coup d'état against Islamic forces, and another – of new political elite of Iran, represented by fanatical religious establishment, which strived to export Shia revolution to the Greater Middle East.

Nevertheless, despite the mutual distrust, international events suddenly led to the temporary reconciliation of both neighbours. Turkey became isolated after the invasion of Cyprus in 1974 and the creation of de-facto pawn state of Northern Cyprus in areas, which encompassed the lands with abundant rainfall and harvests of wheat, famous resort town of Varosha, huge port of Famagusta and only international airport in Nicosia. This led to the immediate deterioration of relations of official Ankara with the Western countries and introduction of international sanctions against Northern Cyprus. To add insult to injury, the army orginazed the coup in September 1980. Under those conditions Turkey decided not to take sides in the regional conflict of Iraq and Iran in 1980-1988, but rather to capitalize on it economically due to shared border with both countries. Official Ankara considered the war as the opportunity to get profits from

warring sides, used to high levels of consumption and isolated from European markets due to the hostilities in the Gulf. As a result, Turkey provided its territory for the import of essential Western non-military goods and agricultural commodities for the adversaries in exchange for their oil. Both Iran and Iraq also received lavish credits, intended to help them to buy Turkish consumer goods and produce of agriculture. This happened despite the open belligerence of the USA towards official Tehran and cooperation of Pentagon with the regime of Saddam Hussian [11].

After the demise of the Soviet Union the West decided to turn Turkey into the main middleman in the relations with new countries of Central Asia and Southern Caucasus in order to free them from excessive Russian influence. In this respect official Ankara supported oil and gas-rich Azerbaijan and Iran instead sided with Armenia, since the regime of President Abulfaz Elchibey put forward claims to areas populated by ethnic Azerbaijani people in Iran. Official Ankara became more successful than Tehran in the Caucasus because of the immediate border with Georgia and pro-American policy, which emphasized the creation of land routes for Caspian oil and gas to Europe via that country in order to lessen dependency of the European Union on Russian energy. In addition its economy was in position to cater the needs of new Post-Soviet states in different fields. For example, Turkish companies prevailed in textile industry, taking into consideration well-established local cotton economy and their own expertise. Construction companies also took the advantage of huge demand for housing and vanity buildings in Azerbajian and Central Asian states. They carried out some of large-scale building projects of political elite in cities of Ashgabat,

Astana and Awaza. Turkish sea resorts with «all-inclusive» hotels also hosted millions of tourists from Post-Soviet states and local companies were engaged in «shuttle» trade with the former republics of the Soviet Union. The Turkish export commodities were textile, leather, golden jewellery and foodstuffs. Tehran was only able to improve relations with empoverhised mountionous Tajikistan due to language affinity and with Armenia by providing the isolated country with transport corridors towards the Gulf and satisfying her energy needs [12].

The competition in the Caucasus expressed itself in the fact that both countries took diferrent sides in Armenia - Azerbaijan conflict. In this respect it should be noted that there are several factors that define complicated relations of Tehran and Baku: 1) President Ilham Aliyev invites Western corporations to exploit natural resources of Caspian Sea, parts of which are adjacent to North-Western Iran; 2) Azerbajian has a secular and Western-oriented regime with many liberties for the local population; 3) several years ago Azerbajian and Israel became close partners in military field and Jewish state even constructed several military factories in Azeri land. On the other hand, Turkey considered President Ilham Aliyev a time-tested ally and contributed heavely to the economy of Azerbajian. For example, 36 per cent of foreign companies investments in this country are of Turkish origin and more than 2000 Turkish companies operate here [13].

Using close relations with Azerbajian, Turkey makes all efforts to become an energy bridge between energy resources of Caspian Sea and European consumers.

The 1,768-km long Baku –Tbilisi–Ceyhan (BTC) oil pipeline from the Azeri –Chirag

– Guneshli oil field in the Caspian Sea to the Mediterranean Sea via Tbilisi, the capital of Georgia was introduced in 2005 and became a successfull step in this direction. Another strategically important 3500-km-long pipeline is called The Trans Anatolian Natural Gas Pipeline (TANAP) and it can be used to transport gas from the second phase of the Shah Deniz gas field to Greece already in 2019. To implement the project Turkey may use the experience it gained during the construction of the gas pipeline Baku–Tbilisi – Erzerum, which became operational in 2006 [14].

On the other hand, Turkey is deeply interested in Iranian gas because of the geographic proximity and huge resources of the supplier. 2577 kilometers long pipeline Tabriz-Ankara was completed in 2001 and soon the «blue fuel» started to flow towards central regions of the country. Iran is the second-largest supplier of natural gas to Turkey only behind Russia. But the price of this commodity is high, since Turkish importers pay 490 dollars per 1000 m3 of it – 155 dollars more than for gas from Azerbaijan and 55 dollars more than for gas from Russia. On the other hand, situated in the arid zone and surrounded by mountains Iran remains the prime consumer of agricultural goods – grains, olives, tobacco, oranges and lemons and Turkey buys instead Iranian dry fruits and shafran. Turkish companies also exports textiles, machinery, chemicals and steel. Crude oil and natural gas dominate in Iranian export with 90 per cent of the share and its importance may grow in case when both contries decide to build in Turkey several power plants, designed to consume Iranian gas. The trade turnover between both countries constituted 14.6

billion dollars in 2013 [15]. Turkey also remains one of the largest consumers of Iranian oil together with Asian buyers such as China, India, South Korea and Japan.

During several last years Turkey remained a principal supplier of gold bars to Iran in exchange for oil and gas, which allowed Islamic Republic to bypass international banking sanctions. Today, as in the times of the Gulf War, country resells Western goods to Iranian customers, using Free trade agreement of 1996 with the European Union for import of agricultural and consumer commodities with their subsequent re-export. In this respect Turkey bears the same importance for Iran, as Jordan for Iraq. Turkish trucks pass Iranian territory in transit to carry goods to Central Asia. On the other hand, the parthers badly need the railways to intensify the trade and resolve issues, which appear with unfair taxation of the trucks. In 2014 both states charged a huge amount – 1500 dollars per truck, what greatly inhibited the movement of the cargo [16].

The services accounts for around 60 percent of Turkish economy and agriculture — only for 10 percent, this means that the country is interested in increased numbers of tourist arrivals from the neigbours, since Russians and Germans constitute considerable number of international travellers and other countries are lagging behind. Turkish resorts in the Mediterranean region, where night clubs and alcogolic drinks are widely available for the visitors, became very popular among young and middle-aged Iranians, who suffer from religious restrictions in their native land and forced to attend the separate beaches for men and women. In addition, Iranians do not need the visa in order to enter Turkey. Many of them arrive during Nawruz (Persian New Year)

in March when the country has a low tourist season and hotels propose their rooms for a half of the original price. The number of Iranian tourists in Turkey during 2014 was around 1.5 million and 300 thousand Turkish citizens also visited Iranian cities. Turkey earns 36 billion dollars on tourist services and understandably wants to increase the share of Iranians, taking into consideration the huge population of the neighbouring country and its closeness [17]. Many Iranians also use the services of «Turkish Airlines» with total fleet of 220 new airplanes as a conduit in travels around the world, since Iranian companies suffer from the lack of spare parts and their outdated planes remain very dangerous for the travelers. For its part the Iranian leadership wants to study the ingredients of Turkish success in the field of tourism. The rising numbers of foreign visitors will allow the country to sell products of agriculture, drinks and objects of art to the hotel chains and bypass in such way international sanctions. One must say that Turkish example in this respect is very important. In 2014 that country attracted 37 million tourists and occupied sixth place in the world among most popular tourist destinations [18].

It's interesting to note that main industrial centre of Iranian city of Tabriz became very popular in Turkish movie industry, because of cost difference with Istanbul and Izmir and proximity to religious sites of Iran. Moreover, this country serves as a base for Western film-makers that shoot movies about Iran since South - Eastern Turkey looks similar to some arid Iranian provinces and European districts of Istanbul strongly resemble Tehran. Turkish TV shows and programs became so

popular in Iran that many local students and housevives decided to learn that language in order to understand the content better [19].

On the one hand, the relative similarity of the political elites in both states, which do not have Arabian majority of the population, provides them with the opportunity to become even closer parthers. Mutually beneficial economic cooperation was a result of improved political relations after 2002, when the moderate Islamist Party of Justice and Development (AKP) under the leadership of Recep Tayyip Erdoğan won the pairlamentary elections in Turkey and proclaimed policy of «Zero Problems» in relations with neighbours. The negative attitude of population towards the European Union that did not accept Turkey as its full-fledged member made the appeal to restore relations with Muslim world very popular. Moreover, European politicians criticized Erdoğan for his handling of the opposition and Internet freedoms. The Turks was also disappointed with American - British invasion of Iraq back in 2003. Many people considered it as the menacing step towards independent Kurdish state around cities Kirkuk, Mosul and Erbil. The waning of influence of military circles in the following period also made country more Iran-oriented, because generals usually served as the protectors of secularism and disliked official Tehran for revolutionary rhetoric. The former Prime Minister Erdoğan also decided to present Turkey as a champion of Palestinian rights and to this end orginazed the humanitarian flotilla to Gaza Strip in 2010, whose ship «Mavi Marmara» was interceped by the special forces of Israel. This bloody event led to the deterioration of bilateral relations. On the other hand Iran, which began to feel the impact of international sanctions in 2006, decided to mend fences with Turkey in order to sell more energy resources to the immediate neighbour via pipelines, since it lacked LNG ships. Both states are striving to further develop the trade ties and to bring the turnover to 30 billion dollars. Today Iranian market remains the third most important export destination to Turkish goods worldwide [20].

Turkish leadership publicly supported Iranian regime after questionable elections of 2009 and also remained friendly after the suppression of Green revolution in 2009-2010. In respect of international sanctions Erdoğan repeatedly declared that world community turned the blind eye towards nuclear program of Israel, but punished Iran instead. In 2010 official Ankara together with Brazil proposed a swap deal which allowed Iran to send 1200 kg of enriched to 20 per cent uranium to Turkey and receive instead 120 kg of safe nuclear fuel for the Tehran Research Reactor. But the agreement was not carried out [21]. During the same year the Turkish representative voted against the proposal of the USA to strengnten sanctions against Iran in the United Nations Security Council and today Turkey continues to host the negotiations of European members of the «Group 5+1» with Iran [22].

Many observers believe that official Ankara is striving to develop own nuclear industry in order to reduce high expenses on imported oil and does not want to create dangerous precedent for the world community with Iranian sanctions. It is known that the country signed several agreements with Russian and Franco-Japanese consortium to build two nuclear plants at Akkuyu and Sinop with price of 22 billion dollars each. The possibility of construction of third plant is also under

consideration [23]. On the other hand, during the last several years Turkey was forced to cut the daily consumption of Iranian oil from 200 thousand barrels to 100 thousand barrels under the external pressure [24].

Both countries also publicly supported the activists of Arab Spring for the different reasons. Iranian leadership claimed that those developments were modelled after Islamic revolution of 1979 and that Islamic values will dominate in the Middle East. On the contrary, Turkey considered the mass uprising in the region as a chance to impose its own political system with transparent elections and showed the stong preference to Muslim Brotherhood in Egypt. On the other hand, the tragic events after uprisings in Syria and Yemen pitted both states against each other. Different foreign policy interests became evident after the beginning of Syrian Civil war in the spring of 2011 and afterwards in Iraq. Turkish government unconditionally supported Sunni tribes in Syria and Iran in turn encouraged Alawi regime of Bashar al-Assad to wage a war against the rebels. But the Prime Minister Erdoğan, who ironically never tolerated opposition to his own rule, grew increasingly disappointed with cruel response of Bashar al-Assad to protests of ordinary Syrians. The later chose military solution instead of set of political concessions under the auspices of official Ankara. As result the war became one of the most devastating in the Middle East with 200 thousand people died and 3,8 million Syrians left the motherland. Today Turkey hosts 1,6 million refugees and already allocated 4,5 billion dollars to help them to adjust to the new life. The rise of ISIS in Syria presents official Ankara with a new dilemma, since

the defeat of this movement makes Syrian Kurds stronger and simultaneously saves the regime of Assad [25].

Many observers believe that Turkey is afraid of Shia-Alawi triangle Iran – Iraq – Syria, taking into consideration that those countries intended to export Iranian gas towards Syrian Mideterranian ports without participation of official Ankara. Iran considers relations with Syria as tested by hard times and believes that Turkey tries to intrude into its sphere of influence. As a result, Syrian National Council has the headquarters in Istanbul and the volonteers of jihad arrive in huge numbers via porous Turkish frontier and join the fight against Syrian troops [26].

Further deterioration of relations was caused by decision of Erdoğan's cabinet to deploy NATO X-band radar in Kurecik in 2011. In 2013 Turkey asked NATO partners to move «Patriot» PAC-3 to border region with Syria in order to protect nearby towns from Scud missiles. But official Tehran considered this as the first step towards creation of non-flying zone over Northern Syria and also believes that «Patriots» is capable of protecting Israeli strategic installations and American military bases in the Gulf from Iranian missile launches at their early stages [27].

Both countries also remain the main adversaries in Iraq. In 2004 Turkey and Iran agreed to intensify military operations against Kurdish rebels and to tighten control in their respective regions adjacent to Iraq. But several years ago Erdoğan and his party suddenly decided to develop relations with Regional Kurdish Government in Erbil. This activity caused condemnation of Iran and Iraq, while the previous Prime Minister Nuri al-Maliki claimed that Turkey did not have a right to buy oil directly from Kurds.

The country provides Iraqi Kurdistan with electricity, spare workforce, consumer goods and building materials and takes instead «black gold». Turkish construction companies participate in many projects in this region, because they gained the relavent experience in this field after Iran-Iraqi war. The suppliers from Turkey satisfy 33 per cent of Iraqi import needs and Turkish investments in Iraq constitute more than 15 billion dollars. At the same time Iranian investments in that country do not exceed 10 billion dollars [28]. On the other hand, Iranian companies enjoy strong presence in Shia-dominated South and holy cities of Iraq (pipelines, roads, hotels and facilities for piligrims) and develop transportation links between the area of Basra and Southern Iran. Official Ankara believes that political leader Nuri al Maliki and his successor Haider Al-Abadi are too dependent on Iran. The Shahs from dynasty Pehlevi traditionaly supported Kurdish movement in Iraq as a mechanism to undermine Iraqi power in general and regime of Saddam Husain in particular, but recent Turkish economic domination here makes Iran apprehensive, since official Tehran intends to control all parts of nearby Shia country.

The latest takeover of the state power in Yemen by the Shia Houthi rebels complicates relations between both countries even more and Turkish mass-media openly characterized those events as outright Iranian coup. In some respects relations between Turkey and Iran mirror those of Iran and Saudi Arabia, since regional competition for the power and influence among them remains strong [29].

**Conclusion.** Turkey and Iran experienced the long and complex relations since the Middle Ages and later in XX century both of them lived through the drastic

social and political changes with Westernized reforms. Hovewer, the Islamic revolution in Iran did not spoil bilateral relations due to international isolation of both countries and only after the demise of the Soviet Union they began to wrestle for the influence in Post-Soviet space. With the rise of moderate Islamists in Turkey official Ankara decided to become the economic leader of Muslim world and directly interfered in Iran's sphere of interests in Syria and Iraq. On the other hand, the current President Erdoğan, as the leader of a big and resource-poor country, will continue to value the energy partnership with Iran despite political differences. For its part official Tehran considers Turkey as important transit route for the energy export to Southern Europe, but highly negative attitude of the European Union towards Iranian nuclear program does not allow the Iranian plans of gas export to Europe to be carried out.

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