



Brandeis University

Crown Center
for Middle East Studies

Mailstop 010
Waltham, Massachusetts
02454-9110

781-736-5320
781-736-5324 Fax
www.brandeis.edu/crown

Middle East Brief

Judith and Sidney Swartz Director
Prof. Shai Feldman

Associate Director
Kristina Cherniahivsky

*Charles (Corky) Goodman Professor of
Middle East History and
Associate Director for Research*
Naghmeh Sohrabi

Senior Fellows
Abdel Monem Said Aly, PhD
Khalil Shikaki, PhD

*Myra and Robert Kraft Professor
of Arab Politics*
Eva Bellin

*Henry J. Leir Professor of the
Economics of the Middle East*
Nader Habibi

*Sylvia K. Hassenfeld Professor
of Islamic and Middle Eastern Studies*
Kanan Makiya

Junior Research Fellows
Abigail Jacobson, PhD
Peter Krause, PhD
Shana Marshall, PhD

Turkey and Iran: Growing Economic Relations Despite Western Sanctions

Prof. Nader Habibi

June 17, 2012, will mark the tenth anniversary of former Turkish President Ahmet Necdet Sezer's visit to Iran. This two-day visit is viewed by many experts as having begun a new era in Turkish-Iranian relations that has continued to this day. On this trip, President Sezer was accompanied by a large delegation of Turkish industrialists and businessmen whose presence signified the main driving force of Turkish-Iranian relations ever since: trade and investment.

The year 2002 is also significant in Turkish-Iranian relations for another, even more important, reason: The moderate Islamist Justice and Development Party (AKP) came to power that year after scoring a major success in Turkish parliamentary elections. The AKP gave top priority to improving Turkey's relations with Middle Eastern countries—particularly Iran, Iraq, and Syria. Iran welcomed the rise of the AKP, which significantly reduced the secular-Islamic ideological tensions that had often led to heated accusations between Iranian and Turkish politicians after the 1979 revolution.¹

Bilateral economic relations between Turkey and Iran have grown at a rapid pace during the past decade, and both economies now depend heavily on these relations. In addition, Turkish-Iranian relations are not only important to both countries, but have assumed a geopolitical significance for Western powers and Middle Eastern countries alike because of the impact that they might have on the success or failure of Western sanctions against Iran. In the past decade, Iran's strong economic relations with Turkey have helped partially offset the pressure of unilateral Western sanctions.

In light of this significant international interest in Turkish-Iranian relations, this Brief analyzes the evolution of those relations in the past decade, giving

May 2012
No. 62

special emphasis to how these relations have been impacted by current Western sanctions against Iran. Furthermore, the Brief argues that Iran's relations with Turkey will play a crucial role in determining how Iran responds to the latest round of unilateral sanctions against its central bank and its oil sales.

Diplomatic Relations

During the 1980s and 1990s, diplomatic relations between Iran and Turkey were tense. Turkey's secular governments frequently accused Iran's Islamic regime of supporting the Kurdish separatist movement (PKK) and Turkey's radical Islamists. Iran, for its part, disapproved of Turkey's close relations with Israel and accused Turkey as well of supporting the opposition groups that were fighting against the Islamic regime. Nonetheless, both governments allowed trade and tourism relations to expand during this period. Turkey was interested in importing oil and natural gas from Iran, while Iran relied on Turkey for imports during the Iran-Iraq war, because the Persian Gulf was not safe for commercial vessels.²

Although Turkey's foreign policy was still controlled by the secular Kemalist elite in the 1990s, Turkish society itself was becoming more religious. The conservative Islamists were gradually gaining more economic and political power and were trying to assert their cultural rights, even as they faced hostility from the military as well as from the secular elite.³ After Turkish courts declared the first Islamist party, the Refah Party, illegal and forced Prime Minister Erbakan to resign in 1998, members and supporters of this party reorganized as the Justice and Development Party (Adalat ve Kulkanma Partisi, or AKP), which performed well in the 2002 parliamentary elections and was able to form the next Turkish government.

Unlike Turkey's secular elite, who had a strong cultural bias toward Europe and viewed Iran and the Arab countries as unstable and hostile neighbors, AKP supporters felt more affinity for Turkey's Muslim neighbors. Meanwhile, the export-oriented economic reforms first introduced by former Prime Minister Turgut Ozal in the 1980s had gradually transformed Turkey from a "security state" into a "trading state," in which the promotion of trade and investment had become the main objective of foreign policy.⁴ The export-oriented business and industrial interests that gradually gained influence on Turkey's foreign policy throughout the 1990s were further empowered by the victory of the AKP;⁵ they pushed for a reduction of tensions and an expansion of economic relations with the Middle East, the Balkans, and Russia.

The rise of the AKP thus catalyzed a significant revision of Turkish foreign policy toward its Middle Eastern neighbors generally and a new era in Turkish-Iranian relations in particular. Iran immediately welcomed the AKP's victory and praised it as a victory for Islam in Turkey.⁶ The subsequent improved relations between Iran and Turkey after 2002 resulted in a sharp increase in high-level diplomatic visits, which are enumerated in Table 1. As seen in the table, between January 1979 and June 2002 there were only three heads-of-state visits between Iran and Turkey. Between July 2002 and January 2012, on the other hand, there were six visits by Iranian presidents or speakers of Parliament to Turkey and three visits by Turkish prime ministers or presidents to Iran.⁷

While trade and investment have served as the main driving force behind improved Iran-Turkey relations over the last ten years, a number of geopolitical developments have also brought the two countries closer together. Turkey's refusal to support the United States invasion of Iraq in 2003 and the willingness of AKP

Nader Habibi is the Henry J. Leir Professor of the Economics of the Middle East at Brandeis University.

The opinions and findings expressed in this Brief belong to the author exclusively and do not reflect those of the Crown Center or Brandeis University.

leadership to tolerate the deterioration of Turkish-Israeli relations were welcome developments from Iran's point of view. Iran and Turkey also shared common objectives with respect to the Kurdish region of Iraq and the Kurdish separatist movements in both countries. Through diplomatic negotiations they agreed to work to prevent the disintegration of Iraq, which might have led to the creation of an independent Kurdish homeland. They also agreed to cooperate in the fight against separatist and terrorist movements along their common borders.⁸

As good as relations between Iran and Turkey have become in recent years, they remain vulnerable to occasional tensions and disagreements. Some of these problems arise because of Turkey's multifaceted foreign policy agenda. At the same time that it seeks good relations with Iran, Turkey has also tried to maintain good relations with the GCC States and with the United States, which are at odds with Iran over numerous issues. Turkey and Iran have also experienced some tensions in recent months because of their opposite stands on the Syrian conflict. While Iran has strongly supported the Bashar Assad regime, Turkey has joined the United States and the GCC states in expressing support for the uprising.⁹

Table 1. High-Ranking Diplomatic Visits between Iran and Turkey since 1979

Date	Iranian Leaders	Turkish Leaders
Jul. 1994		Prime Minister Suleyman Demirel visits Iran.
Aug. 1996		Prime Minister Necmettin Erbakan visits Iran and signs a \$23 billion natural gas deal.
Dec. 1996	President Ali Akbar Hashemi Rafsanjani visits Turkey.	
Jul. 2002		President Ahmet Necdet Sezer visits Iran. He becomes the first Turkish president to visit the Azerbaijan province.
Jul. 2004		Prime Minister Recep Tayyip Erdogan visits Iran.
Aug. 2008	President Ahmadinejad visits Turkey.	
Jan. 2009	Speaker of Parliament Ali Larijani visits Turkey and meets with President Abdullah Gul.	

Date	Iranian Leaders	Turkish Leaders
Nov. 2009	President Ahmadinejad visits Turkey for a one-day summit of the Organization of the Islamic Conference. He meets with Prime Minister Erdogan.	
May 2010		The presidents of Turkey and Brazil, who attended the Group 15 summit in Tehran, announce an agreement with the leaders of Iran regarding its nuclear program; it is subsequently rejected by the United States.
May 2010		Foreign Minister Ahmet Davutoğlu visits Iran.
Dec. 2010	President Ahmadinejad attends the ECO summit in Turkey and meets with Turkish leaders.	
Feb. 2011		President Abdullah Gul visits Iran.
May 2011	President Ahmadinejad meets with President Gul in Istanbul during a UN conference on Least Developed Countries.	
Jan. 2012	Speaker of Parliament Larijani visits Turkey to discuss the Syrian uprising and Iran's nuclear program.	
Jan. 2012		Foreign Minister Davutoğlu visits Iran to discuss Syria and Iran's nuclear program.

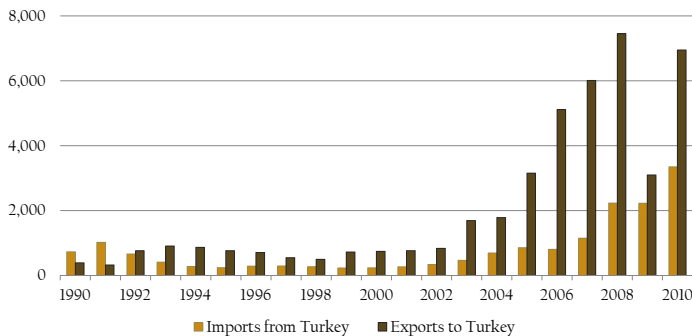
Source: Various news reports of diplomatic visits, accessed on the internet in February 2012.

Economic Relations

The main driving force behind the improving diplomatic relations described above is the complementary economic resources of Iran and Turkey. Their trade compatibility is strongest in the energy sector: Iran is a major oil and gas exporter, while Turkey is entirely dependent on oil and gas imports. In addition, the international sanctions that have led to Iran's economic isolation have brought that country closer to Turkey for purposes of investment and trade in non-oil goods.

The latest trade statistics show that bilateral trade between Iran and Turkey has indeed increased steadily in the past ten years in close conjunction with improved diplomatic relations. Iran has emerged as a major supplier of oil and gas to Turkey: In the first quarter of 2011, Iran was the leading exporter of crude oil to Turkey, with a 30 percent share of Turkey's total oil imports, while it was also the third largest provider of Turkey's natural gas, after Russia and Iraq. Turkey's increasing energy imports, along with the higher price of oil and natural gas, have increased the value of Turkey's imports from Iran from \$1.9 billion (2 percent of total imports) in 2004 to \$6.9 billion (3.9 percent of the total) in 2010 (Figure 1).

Figure 1. Iran's Trade with Turkey in (millions of US dollars)



Source of Data: Direction of Trade Statistics, International Monetary Fund, November 2011.

Although Turkish exports to Iran are considerably smaller than its imports from that country, they have also enjoyed a sharp growth in recent years. Turkish businesses are eager to export more goods to Iran, but they face high tariff rates. Despite several rounds of negotiations, Iran still maintains strong control over its imports through a complex and arbitrary tariff system which imposes relatively high rates on most consumer goods that Turkey has to offer. Turkish goods also face strong competition from Chinese products. Turkey has partially offset its large trade deficit with Iran by offering tourism services to a growing number of Iranian visitors who vacation

in Turkey every year. An estimated 2.7 million Iranian tourists visited Turkey in 2010, compared with one million in 2008. The volume of bilateral investment between the two nations has also increased significantly in recent years.

The expansion of economic relations with Iran is part of Turkey's initiative to expand trade relations with its Middle Eastern neighbors. The AKP government has launched a very active diplomatic effort, with the support of Turkey's business community, to encourage stronger economic ties with Iran as well as with Arab countries. Consequently, Turkish-Iranian diplomatic visits in recent years have been dominated by economic issues and have resulted in several economic agreements, as can be seen in Table 2. We also learn from the table that the range of economic issues covered in these agreements has gone far beyond conventional bilateral trade and investment.

Table 2. Economic Agreements between Iran and Turkey since 1995

Date	Economic Agreement
Aug. 1996	Iran and Turkey sign a \$20 billion natural gas sales agreement which includes the construction of a 1,600-mile gas pipeline between Tabriz and Ankara. (This pipeline was completed in July 2001, whereupon gas delivery began immediately.)
Dec. 2003	Iran and a consortium of Turkish firms sign a \$193 million construction project for phase two of the Imam Khomeini International Airport in Central Iran. Under political pressure from conservative political factions, the Iranian government cancels the Turkish firm's contract and pays \$15 million in damages.
Jul. 2007	Iran and Turkey sign a Memorandum of Understanding (MoU) to transfer 30 billion cubic meters of Iranian and Turkmen natural gas to Europe via Turkey. Also, the Turkish Petroleum Corporation receives a license from Iran for the exploration and development of three sections of the South Pars gas field.
Feb. 2008	A Consortium of four Turkish firms purchases the Razi Petrochemical Company (located in Southwestern Iran) for \$650 million.
Mar. 2009	Iran and Turkey sign a Memorandum of Understanding (MoU) for cooperation in air, land, and sea transportation.
Apr. 2009	Iran, Iraq, and Turkey sign an agreement to link their electric power grids.
Jun. 2009	Iran and Turkey sign a telecommunications agreement which gives them access to each other's telecommunications network.
Mar. 2010	Iran and Turkey agree to build a prototype joint industrial park in border areas near the Iranian city of Makou.

Date	Economic Agreement
Feb. 2011	Iran's largest automaker, Irankhodro, and the Turkish firm Hema Endustri sign a \$200 million agreement to jointly produce a car in Turkey.
May 2011	The energy ministers of Iran and Turkey sign an agreement to expand bilateral investments in the energy sector.
Jul. 2011	Iran, Iraq, and Turkey agree to establish a joint investment bank to facilitate trade and investment among them. The initial capital is \$200 million, and the main office of this bank will be in Tehran.
Oct. 2011	Iran and Turkey sign an agreement to cooperate on human resources development and exchange expertise in public administration.
Jan. 2012	Iran and Turkey sign a comprehensive economic cooperation agreement covering trade, transportation, and investment.
Jan. 2012	The Turkish parliament approves a health cooperation agreement with Iran.

Source: Various news websites, plus the official websites of the Turkish and Iranian governments.

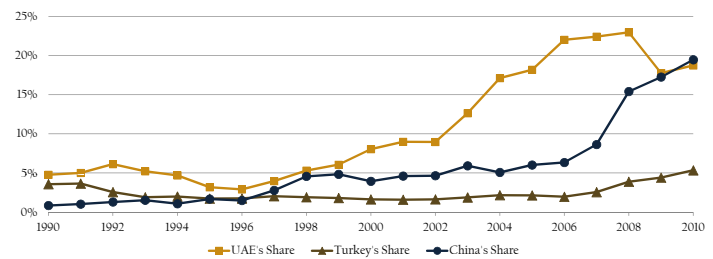
Impact of Western Sanctions on Iran-Turkey Economic Relations

One of the main reasons that the Islamic government of Iran has been so eager to expand its ties with Turkey is the escalation of international and unilateral sanctions applied against it in recent years. Iran views Turkey as a valuable partner for neutralizing the international economic sanctions and reducing her international isolation; and by deepening its economic interdependency with Turkey, Iran is also trying to discourage Turkey from supporting the sanctions itself. Turkey is the latest in a series of countries that Iran has periodically turned to with the latter purpose in mind. In the 1990s, Iran offered considerable trade and investment incentives to its European trade partners in the hope of creating a divide between Europe and the United States. As major European countries such as Germany and France ignored these incentives and supported the sanctions, Iran turned to Russia and China.

In recent years the United States has closely monitored Iran's trade and investment relations with its trade partners. As soon as it sees a significant expansion in bilateral relations between Iran and a specific partner, the U.S. uses its diplomatic and economic influence to try to persuade the partner to cut back its ties with Iran. This strategy has been most visible in the case of Iran-UAE economic relations, which reached a peak in 2008 and have been stagnant ever since. The threat of denial of access to the U.S. market has also forced several South Korean and Chinese firms to scale back their trade and investment projects vis-à-vis Iran. Iran's trade shift from the

UAE (Dubai) to China and Turkey after 2008 has indeed had an adverse impact on the UAE's exports to Iran, as demonstrated in Figure 2.

Figure 2. Market Shares of Turkey, UAE, and China in Iran's Total Imports



Source of Data: Direction of Trade Statistics, International Monetary Fund, November 2011.

Sanctions have also reoriented Iran's foreign investment toward Turkey. For more than a decade, Iranian investors who were looking to invest abroad looked south to Dubai, which attracted the bulk of Iran's foreign investment. The growth of Iranian businesses in Dubai, however, caught the attention of the United States, which pressured the government and financial institutions of Dubai to reduce their ties with Iranian businesses.¹⁰

These pressures have made Dubai's business climate less hospitable for Iranian businesses, which now seem to have turned their attention to Turkey. Not only has the government of Turkey welcomed Iranian investments despite the U.S. sanctions, but the business climate in Turkey has also improved significantly in the past ten years, and the government has been very supportive of foreign investment in general. According to the latest Turkish government data, 1,470 Iranian firms were operating in Turkey by the end of 2010, compared with only 319 firms in 2002. The entry of Iranian firms into Turkey accelerated in 2011 as their total number rose by an additional 41%, to 2,072.¹¹ Most of these firms are involved in Iranian-Turkish trade, but some are also using their presence in Turkey to penetrate European markets—something that would be impossible, because of the sanctions, if they were operating from inside Iran.

Overall, as the sanctions have pushed many other countries away from Iran, the Iranian economy has become more dependent on trade and investment relations with Turkey—and Iran's economic links with Turkey have played a crucial role in reducing the economic pressure of the sanctions. This is best demonstrated by the large number of Iranian firms that have switched to Turkey as their new outlet to the global economy. Turkey is also a significant smuggling route for machinery and products that Iran cannot import through normal channels because of the sanctions. Many of Iran's industries are partially dependent on imports—of machinery, parts,

and some materials—without which their output would sharply decline. While Turkey is not Iran's only link to international markets for the procurement of such products (since Iran still has access to China, and smuggling routes also operate through other neighbors, such as Iraq and Turkmenistan), it is certainly among Iran's top three economic partners for overcoming the impact of the sanctions. Without its trade links to Turkey, the impact of sanctions on the Iranian economy would be far more severe than otherwise.

It is therefore no surprise that as economic ties between Iran and Turkey have expanded, they have been noticed by the United States. Indeed, the U.S. government expressed its concern about these ties to Turkish officials in April 2011 and has been closely monitoring them ever since a new round of financial sanctions against the Central Bank of Iran was introduced in December 2011. The U.S. also warned Turkish firms and financial institutions about the possibility of losing access to the American market if they continued to deal with Iran. Yet the Turkish government has so far refused to implement any of the unilateral sanctions that the U.S. and the European Union have imposed on Iran. While expressing a willingness to cooperate with any sanctions endorsed by the United Nations, Turkey has moved forward with the expansion of economic ties with Iran in all domains that have not been targeted by UN sanctions. At the same time, the Turkish government has announced that Turkish firms that do business with the United States are free to make their own individual decisions with respect to dealing with Iran.¹²

In recent years, Turkey has been more willing to ignore U.S. concerns and pursue a more independent foreign policy in the Middle East. Yet the AKP government is not entirely indifferent to its diplomatic ties with the United States. While disagreeing with the U.S. on some issues, Turkey values its relationship with the United States primarily for three reasons: 1) NATO membership and access to U.S. military hardware and technology; 2) security protection under the U.S. nuclear umbrella; and 3) direct U.S. economic support as well as indirect support through the International Monetary Fund during periods of financial crisis. In general, the AKP is reluctant to take actions that will jeopardize these core benefits. At the same time, the Turkish government is fully aware of the strategic value that the United States places on its relations with Turkey. On several occasions in recent years—including its refusal to assist with the U.S. invasion of Iraq in 2003 and, more recently, its readiness to break off relations with Israel—Turkey has observed that her refusal to cooperate with the United States' demands has not met with a severe reaction.

Consequently the AKP does not anticipate that its close economic ties with Iran will cause any lasting damage

to its relations with the United States, because it is still a valuable partner for the U.S. on many other regional issues. Indeed, a number of important developments, such as the Syrian uprisings and the unstable condition of Iraq, have brought the U.S. and Turkey closer together since 2011—and America's dependence on Turkey for implementation of its policies toward Syria and Iraq will limit its willingness to punish Turkey for its close relations with Iran. The United States' options will instead be limited to diplomatic pressure and offers of economic aid and defense-related incentives, and it is unlikely that either the pressure or the inducements will convince Turkey to fully forego its economic relations with Iran. It is more likely that Turkey will offer partial and selective cooperation with U.S. sanctions—for example, by agreeing to installation of the NATO anti-missile defense shield while at the same time expanding its economic ties with Iran. Indeed, Turkey can maximize its leverage vis-à-vis both Iran and the United States by maintaining this delicate balancing act—as Russia and China have sought to do over the past decade.

The installation of NATO anti-missile systems on Turkish soil has so far not caused a serious rift in Iran-Turkey relations—although some Iranian officials have strongly criticized Turkey for this action—because Turkey has emerged as a major economic lifeline for Iran since 2011, when financial sanctions seriously encumbered banking transactions with Iran. As major banks in Europe, Dubai, and Asia refused to transfer funds into and out of Iran, some Turkish financial institutions came to the rescue. Last year, Halkbank (which is 75 percent owned by the Turkish government) helped an Indian oil company pay for its oil purchases from Iran, which had been delayed for several months because of the financial sanctions.¹³ With the introduction of new sanctions against Iran's central bank, Iran will become even more dependent on Turkish financial institutions willing to ignore these sanctions.

Iran-Turkey economic relations have not been entirely immune to the sanctions and to United States pressure, however. U.S. pressure has, for example, delayed Turkey's planned investments in Iran's energy sector. In 2007, Turkey's state-run oil company, TPAO, signed a memorandum of understanding with the Iranian oil ministry to develop three blocks of the giant South Pars natural gas field. There has been no progress on this project so far, however, as TPAO has been mindful of the sanctions. More recently, in March 2012, Turkish oil companies agreed to reduce their oil purchases from Iran, although they refused to stop their purchases entirely. (This partial response parallels the extent to which such countries as Japan and South Korea have cooperated with the latest round of sanctions.)

Turkish firms have been active in other sectors in Iran, particularly commercial real estate, and their investments in these sectors are growing. One of the largest such projects is that of the Ozal Investment Group, which is managed by Zeynep Ozal, the daughter of former Turkish president Turgut Ozal. This \$400 million project is a thirty-two-story commercial-retail complex in Tehran.¹⁴ In other sectors in which sanctions are not an effective deterrent to Turkish firms, however, burdensome economic regulations and political uncertainty pose difficulties for Turkish investors. Nevertheless, there is enough political support and sufficient business incentives in both countries to sustain the flow of Turkish investments into Iran in spite of these risk factors. As of late 2011, there were close to two hundred Turkish firms active in Iran and more than two thousand Iranian firms active in Turkey.¹⁵

Growth of Economic Relations in Border Regions

During the past five years, Iran and Turkey have actively promoted bilateral investment and trade in their respective border regions. This reflects a major shift in both governments' attitudes. During the 1990s, Iran's central government was generally distrustful of cultural and economic interactions between Turkey and the Turkic-speaking Azerbaijan provinces in the northwestern region of the country (which are close to the Turkey-Iran border), fearing pan-Turkism and ethnic unrest. The Turkish government harbored parallel suspicions regarding increased people-to-people interactions between Iranians and the population of its eastern provinces near the Iranian border—which it feared could be used by Iran to assist radical Islamists and Kurdish separatists.

Both governments have overcome these misgivings since 2008, and they are now actively promoting closer economic relations between their border provinces. In 2009, Iran eased its customs regulations in East Azarbaijan province to facilitate trade with the neighboring Van province in Turkey. This was followed by the opening of a third border crossing (the Razi-Kapi Koy crossing) in 2010 to accommodate the growing movement of people and goods between the two countries. In the same year, the two countries also agreed to establish a joint industrial zone in Iran near Makou (25 miles from the Turkish border).

Finally, Tabriz, the capital of East Azerbaijan province in Iran, is now host to a large number of Turkish firms that are taking advantage of the lower production costs in that region and the ease of communication with the Turkic-speaking local population. Between April 2009 and March 2010, seventeen trade missions from Turkey visited Tabriz, while eight trade missions traveled in the opposite

direction;¹⁶ and by March 2012, Turkish firms accounted for half of all foreign investors in Tabriz's Foreign Investment Zone.¹⁷ As yet another indication of the growing importance of border region trade between the two nations, Turkish president Abdullah Gul paid a visit to Tabriz during his state visit to Iran in February 2011.

The deepening economic ties between border provinces will further intensify the economic interdependence of Iran and Turkey—which, in turn, will increase the cost to the Turkish economy of cooperating with Western sanctions. The less developed eastern provinces of Turkey (in which the AKP enjoys considerable support) are the main beneficiaries of this border trade. In addition, the growing volume of goods transported through border crossings between the two countries will make it easier for Iran to smuggle sanctioned goods through these crossings. According to some reports, smuggling activities are already underway in various parts of the 320-mile-long Turkish-Iranian border.¹⁸

Conclusion

Over the past ten years, Iran and Turkey have managed to expand their diplomatic and economic relations to a heretofore unprecedented level. This transformation was, in no small part, a result of the political ascent in Turkey, since 2002, of the moderate Islamist AKP party. The AKP's interest in closer relations with Iran has both ideological and economic roots. Unlike previous secular Turkish governments, the AKP is not worried that closer relations with Iran might result in the spread of radical Islam within Turkey. On the contrary, the religious and Islamic orientation both of the AKP leadership and of the majority of its supporters has led to a growing desire for better ties with Iran and other Muslim countries.

Furthermore, the AKP's vision for Turkish foreign policy, as developed by Foreign Minister Ahmet Davutoğlu, has put great emphasis on improving relations with all of Turkey's neighbors, particularly in the Middle East. This initiative has been primarily driven by economic and trade interests, which have been at the forefront of Turkish relations with Iran. At the same time, Iran has vigorously sought to expand economic ties with Turkey in the face of growing Western sanctions—to such a high level that it will be costly for Turkey to cooperate with Western sanctions.

With the support and encouragement of both governments, the economic interdependency of Iran and Turkey has increased in recent years. Still, although economic ties are rapidly growing, some tensions and conflicts of interest still exist between the two nations. Iran and Turkey have emerged as the two main competitors for trade and foreign

investment in Iraq, and they are both entangled in the Syrian civil war. As the violence in Syria escalates, it will likely put more strains on Turkish-Iranian diplomatic relations, but so far both sides have prevented these tensions from affecting their bilateral economic relations. High-level negotiations and agreements on economic issues are likely to continue in the coming months.

Meanwhile, we expect the Turkish government to continue its balancing act between Iran and the United States. The AKP will try to resist unilateral sanctions on Iran as much as possible or enforce some aspects selectively. This balancing act will most likely anger both Iran and the United States, but neither one is expected to react harshly, because in truth they both need Turkey.

This balancing act will become more difficult for Turkey if a military confrontation breaks out between Iran and the United States. As a NATO member and a military ally of the U.S., Turkey might be asked to provide logistical support to the U.S. Army. Supporting the U.S. will be highly unpopular among AKP supporters, and it will mean large economic and security costs for Turkey. If such a military encounter leads to prolonged instability in Iran (and possibly in Iraq), Turkey will suffer huge economic losses. It is no wonder that Turkey is opposed to military action against Iran and is trying very hard to facilitate a negotiated settlement to Iran's nuclear dispute with the West.

Endnotes

The author wishes to thank Çiğdem H. Benam for her valuable suggestions for improvement of an earlier draft of this Brief.

- 1 Turkey's secular elite accused Iran of supporting Turkey's Kurdish separatists and radical Islamists, while the Iranian government accused Turkey of harboring counter-revolutionary groups and betraying the Muslim world through its cooperation with Israel. These cross-accusations sharply intensified in the 1990s. For a more detailed account of these tensions, see Ozdan Zeynep Oktav, "Changing Security Perceptions in Turkish-Iranian Relations," *Perceptions*, 9, no. 2 (Summer 2004), pp. 103–17.
- 2 A detailed account of Iranian-Turkish relations in the 1980s and 1990s is beyond the scope of this Brief. For an overview, see *Ibid.*
- 3 The tensions between Islamists and the secular elite in Turkey are best exemplified by the Merve Kavakci incident. Kavakci was elected to Parliament from a conservative neighborhood in Istanbul, but when she appeared in Parliament in May 1999 wearing an Islamic headscarf, secular MPs objected and demanded that she leave the building. After a few months, the Turkish government used her dual (U.S. and Turkish) citizenship as an excuse to strip her of her Turkish citizenship and force her to leave the country. During Merve Kavakci's ordeal, the Iranian government expressed full support for her, and Iranian women demonstrated in her support. These actions caused further deterioration in Turkish-Iranian relations in 1999.
- 4 For a detailed account of this transformation, see Kemal Kirisci, "Turkey's Demonstrative Effect and the Transformation of the Middle East," *Insight Turkey* 13, no. 2 (2011), pp. 33–55.
- 5 The AKP has developed close ties with two important business associations affiliated with this community: TUSIAD (Turkish Industrialists and Businessmen's Association) and MUSIAD (Independent Industrialists and Businessmen's Association).
- 6 "[Iran Welcomes AKP Victory](#)," *Hurriyet Daily News*, November 7, 2002.*
- 7 This count excludes numerous visits by foreign ministers and other cabinet ministers during this period.
- 8 In the 1990s, Turkish officials frequently accused Iran of allowing the PKK separatists to use Iranian territory to carry out terrorist operations in Turkey. For its part, Iran accused Turkey of offering support for the Mojahedin Khalgh opposition movement and inflaming pan-Turkist unrest in the Azeri-speaking regions of northeast Iran. See Oktav, "Changing Security Perceptions in Turkish-Iranian Relations," p. 105.
- 9 On two occasions in 2011, Turkey prevented Iran from transporting weapons to Syria via Turkey. See "[Turkey Stops Arms Shipments to Syria](#)," *Associated Press*, August 5, 2011.*
- 10 For a detailed account of how sanctions have affected Iran's economic relations with the UAE, see [Nader Habibi, The Impact of Sanctions on Iran-GCC Economic Relations, Middle East Brief, no. 45 \(Waltham, MA: Crown Center for Middle East Studies, November 2010\).](#)*
- 11 [Gökhan Kurtaran, "Iranian Firms Get Closer to Turkey, Says Businessman," *Hürriyet Daily News*, February 28, 2012.](#)*
- 12 The Turkish government has asked the United States to exempt the Turkish energy firm Tupras, which handles Turkey's natural gas imports from Iran, from being penalized for violation of the latest sanctions. See [Raj Rajendran, "Iranian Crude Supply to Turkey May Be Halted by Western Bank Sanctions," *Bloomberg*, February 23, 2012.](#)*
- 13 "[Turkey's Halkbank to Handle Iran Payments So Long as Legal](#)," *Today's Zaman*, January 26, 2012.*
- 14 "[Dokhtar-e rais jomhour Asbagh Turkiye dar Iran Foroushgah do tabagheh misazad](#)" (in Farsi) *asriran.com* (June 21, 2011).*
- 15 [Gareth H. Jenkins, "Tactical Allies and Strategic Rivals: Turkey's Changing Strategic Relations with Iran," *Turkey Analyst \(Central Asia-Caucasus Institute, Silk Road Studies Program \)* 4, no. 23 \(December 5, 2011\).](#)*
- 16 "[Tabriz, Pol-e Ravabet-e Eghtesadiye Iran va Turkiye](#)" (in Farsi), reported on the official website of the East Azerbaijan Investment Services Office, December 28, 2010.*
- 17 "[Zirsakhthaye Lazem Baraye Tose-eie Azarbaijan Sharghi Mohayyast](#)" (in Farsi), reported on the official website of the East Azerbaijan Investment Services Office, February 27, 2012.*
- 18 "[From Flat-Screen TVs to Dutch Flowers: Iranian Smugglers Defy Sanctions Threat](#)," *Guardian*, January 23, 2012.*

* Weblinks are available in the online versions found at www.brandeis.edu/crown



Brandeis University Crown Center
for Middle East Studies

Mailstop 010
Waltham, Massachusetts
02454-9110

781-736-5320
781-736-5324 Fax
www.brandeis.edu/crown

Middle East Brief

Turkey and Iran: Growing Economic Relations despite Western Sanctions

Prof. Nader Habibi

Recent Middle East Briefs:

Available on the Crown Center website: www.brandeis.edu/crown

Farideh Farhi, "What to do about U.S. Sanctions and Israeli Threats: Iran's Muted Nuclear Debate," April 2012, No. 61

Peter Krause, "Many Roads to Palestine? The Potential and Peril of Multiple Strategies Within a Divided Palestinian National Movement," March 2012, No. 59

Shai Feldman, Shlomo Brom, and Shimon Stein, "What to Do about Nuclearizing Iran? The Israeli Debate," February 2012, No. 59

Khalil Shikaki, "Coping with the Arab Spring: Palestinian Domestic and Regional Ramifications," December 2011, No. 58

Nader Habibi, "Is Iran's Economy Growing? An Assessment of the IMF's 2011 Report on Iran," December 2011, No. 57

Abdel Monem Said Aly and Shai Feldman, "Testing the Resilience of Egyptian-Israeli Peace," November 2011, No. 56

