The response of Turkey and Russia after Jet Crisis and the implications for the South Caucasus

-Center for Economic & Social Development-

Research Paper

Juan Carrion, Cristina

Abbas, Gulnara
Ibrahimov, Ibrahim

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Abstract

In 2016 and years thereafter, the economies of Turkey and Russia will experience considerable change due to sanctions imposed by the Russian government as a response to the downing of a Russian warplane in November 2015. The dissolution of Russian-Turkish ties has also affected neighboring regions, especially the South Caucasus. As a result, there will be a transformation in economic, political, demographical and social trends. The sectors of agriculture, energy and especially tourism will face tremendous changes with the performance of new key players.

Keywords: Russia, Turkey, economy, energy, sanctions, South Caucasus, transport, agriculture, tourism, construction, migration, textile, labor.

Introduction

Recent years proved possible the successful cooperation between Russia and Turkey in the matters of migration, trade and tourism until on November 24, 2015. This date would be a point of inflection when two F-16 fighter jets belonging to the Republic of Turkey shot down a Russian Su-24 attack aircraft¹ near the Syrian border. In response, the President of the Russian Federation, Vladimir Putin, announced to the media that after this terrible incident negative consequences between Russia and Turkey² would soon follow. As a result, the Russian government released a document with a list of sanctions on Turkey that would be implemented in January 2016. To this extent it, is evident that this episode will shape the economy of not only Russia and Turkey, but also the neighboring regions.

This research paper, using different data sources and analytical approaches, intends to explain the repercussions in the economic sphere in the Caucasus region and adjacent countries like Iran and Kazakhstan. It analyzes the impact in different the sectors of energy, tourism, migration, trade, construction and agriculture.

Russia is the second-largest trading partner of Turkey and is the 7th-largest exports market for Turkey. In 2014, Turkey’s exports to Russia accounted for 3.8 per cent of total exports and 0.7% of Turkey’s GDP.

Foodstuffs accounted for 20 percent of total exports to Russia, with other major items including textiles, vehicles and machinery (Figure 3)\(^3\). In 2014, according to the Turkish Statistical Institute (TSI), exports to Russia were worth 5.9 billion USD while imports from Russia were worth 25.2 billion USD\(^4\).

According to the calculations by EBRD economists, as a result of economic sanctions, Turkey is expected to encounter around 0.3-0.7% lower growth in GDP, while the impact on Russia is likely to be limited. Turkey could lose 20 billion USD over the dispute with Russia as stated by the members of Turkey's Republican People’s Party’s (CHP)\(^5\).

**Figure 1: exports and imports of Turkey**

<table>
<thead>
<tr>
<th>Export volume shares</th>
<th>Import volumes shares</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Products</strong></td>
<td><strong>Products</strong></td>
</tr>
</tbody>
</table>
| Textile                              | Petroleum Gases-Natural Gas           | 46.1%
| Food                                 | Petroleum and Petroleum Products      | 19.0%
| Automotive Industry Products         | Food                                  | 7.6%
| Other Semi-Products                  | Iron and Steel                         | 6.4%
| Chemicals                            | Coal                                  | 6.3%
| Other Consumer Goods                 | Metals other than Iron                | 5.1%
| Other Devices                        | Ore                                   | 4.0%
| Ready to Wear Garment                | Chemicals                             | 3.3%
| Electrical Devices and Tools          | Other Semi-Products                    | 1.3%
| Mining Products                      | Agricultural Row Materials             | 0.3%

**Source: Turkish Statistical Institute**\(^4\)

The Turkish Statistical Institute provides exact data about the trade between Russia and Turkey. The trade volume between Russia and Turkey was approximately USD 31.2 billion in 2014, and related to the exports of Turkey being USD 5.9 billion, while imports were valued at USD 25.3 billion\(^5\).

The largest export categories of Turkey were (i) textiles, fabrics, manufactured goods, (ii) vegetables and fruits and (iii) vehicles, while import categories being (i) natural gas, (ii) crude oil and fuel products and (iii) iron and steel\(^7\). Turkey was also one of the main importers of Russian grain alongside with Egypt\(^8\). According to DEIK (Foreign Economic Relations Board of Turkey) report, first 10 Product Groups in Turkish - Russian Foreign Trade are listed above.

The favorable economic relations between Turkey and Russia were expected only to grow as both countries had set up a bilateral trade volume target of USD 100 billion to be reached by 2020\(^6\).

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Many Turkish companies operate in Russia. The main investment areas are textile, food and construction sectors. The leading Turkish companies operating in Russia are listed below with respective sectors of activity.9

Following the Turkish sanctions, Azerbaijan showed its support of Turkey by applying a 40% reduction in the transit cargo tariffs to Aktau and Turkmenbashi ports. Additionally, the Azerbaijan Caspian Shipping Company made a 20% reduction in the tariffs to promote the maritime transportation.10

**Figure 2: list of Turkish companies operating in Turkey**

<table>
<thead>
<tr>
<th>Certain leading Turkish Companies operating in the Russian Federation</th>
<th>Sectors of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anadolu Cam</td>
<td>Glass Packaging</td>
</tr>
<tr>
<td>Anadolu Holding/Efes</td>
<td>Glass Packaging</td>
</tr>
<tr>
<td>Arçelik</td>
<td>Household Appliances</td>
</tr>
<tr>
<td>Aydınlı Group</td>
<td>Ready to Wear Garment</td>
</tr>
<tr>
<td>Beko</td>
<td>Household</td>
</tr>
<tr>
<td>Boydak Holding</td>
<td>Furniture Manufacturing</td>
</tr>
<tr>
<td>Colin's</td>
<td>Ready to Wear Garment</td>
</tr>
<tr>
<td>EAE group</td>
<td>Electrical Products</td>
</tr>
<tr>
<td>Eczacibaşı</td>
<td>Ceramic</td>
</tr>
<tr>
<td>Enka</td>
<td>Construction</td>
</tr>
<tr>
<td>Hayat Group</td>
<td>Chemicals and Manufacture</td>
</tr>
<tr>
<td>Ronesans</td>
<td>Construction</td>
</tr>
<tr>
<td>Şişecam Group</td>
<td>Glass Packaging</td>
</tr>
<tr>
<td>Zorlu Group</td>
<td>Energy and Household Appliances</td>
</tr>
</tbody>
</table>

*Source: Turkish Statistical Institute*4

**Figure 3: Turkish investing companies with relevant sectors.**

<table>
<thead>
<tr>
<th>Certain leading Russian Companies investing in Turkey</th>
<th>Sectors of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>AST Group</td>
<td>Tourism and Lodging</td>
</tr>
<tr>
<td>CROC/NGN</td>
<td>Information Technology</td>
</tr>
<tr>
<td>Gaz Group/Mersa Otomativ</td>
<td>Automotive</td>
</tr>
<tr>
<td>Inter RAO Enerji Holding</td>
<td>Energy</td>
</tr>
<tr>
<td>Lukoil/Akpet</td>
<td>Energy</td>
</tr>
<tr>
<td>Magnitogorsk Iron and Steel Works Group (MMK)/MMK Metalurji San. Tic. Ve Liman İşletmciliği A.Ş.</td>
<td>Metallurgy</td>
</tr>
<tr>
<td>Rosatom/Akkyuyu NGS Elektrik Üretim A.Ş.</td>
<td>Energy</td>
</tr>
<tr>
<td>Sberbank/Denizbank</td>
<td>Banking and Finance</td>
</tr>
<tr>
<td>Windguru</td>
<td>Construction</td>
</tr>
</tbody>
</table>

*Source Turkish Statistical Institute*4

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The Russian nuclear energy company Rosatom, which is also listed above, was expected to invest USD 20 billion in order to build Turkey’s first nuclear power plant in the southern city of Mersin. The other
great project between the two countries was Turkish Stream, a natural gas pipeline from Russia to Turkey across the Black Sea.

Not only in the sphere of economy but also in the migration and labor sectors, relations were very bright because of a free-visa agreement between both countries which was benefiting all sectors (construction, tourism, education, trade, etc.). With the decree signed by Vladimir Putin, the visa-free agreement disappeared and it suspended the employment of Turkish workers in Russia. The impact in political geography is immense because of the new migration trends happening in the region after the executive order by the Kremlin.

**Historical background between Turkey and Russia**

Since the end of the Cold War both Russia and Turkey have adopted strategic bilateral and multi-lateral partnerships in order to grow their economies. With the creation of the Black Sea Economic Cooperation (BSEC) in 1992 it was clear the will of improving the cooperation of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey and Ukraine. The many sectors of cooperation include agriculture, banking & finance, tourism, trade & economic development, and transport. Based on this strategic partnership, Russia and Turkey have expanded their collaboration, especially in the private sector and at the same time their economies start diversifying.

Notably, a lack of common norms and standards prohibited the BSEC from expanding efficiently. Two of the main obstacles for a dynamic and healthy development were the different governmental natures and political orientations of the partner countries. The fragile institutional structure led private sector actors to take control in many sectors.

Regarding Turkey and Russia, the political discordances for taking leadership in the Caucasus and Central Asia during the cold war and following, and the indirect support to each other’s minority groups (i.e. Kurdish Workers Party (PKK) and the Chechen rebels) created some instability. Nevertheless, their interaction as a whole tended to be more supportive. The importance of a bilateral cooperation led Putin and Erdogan, and also Gul and Davutoglu, to focus on the growth and diversification of the two economies.

Nowadays, the BSEC is stronger and there are many events and organized activities related to different sectors. For example, in March 2016, a meeting will take place at the Romania *Oil & Gas Summit*. Also, in the past, there were meetings with UNDP, NGO forums, and consultations with other organizations e.g. the Economic Cooperation Organization (ECO) and the Organization for Democracy and Economic Development (GUAM).
<table>
<thead>
<tr>
<th><strong>Nature of the relationship</strong></th>
<th><strong>Immediate post-Cold War era to the late 1990s</strong></th>
<th><strong>Later phase of post-Cold War era: late 1990s and beyond</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cooperation with significant elements of conflict</td>
<td>Deepening of cooperation in spite of differences in political orientations and geopolitical rivalry</td>
</tr>
<tr>
<td><strong>Key driving forces</strong></td>
<td>State-driven cooperation with private-sector backing; regional agreements such as BSEC provide a facilitating but secondary role</td>
<td>States continue to be the key actors; the role of private sector interests increases parallel to the growth and diversification of the two economies</td>
</tr>
<tr>
<td><strong>Regional context for cooperation</strong></td>
<td>BSEC provides a loose framework for cooperation; weakly institutionalized regionalism in the absence of common norms and political orientations of the member states</td>
<td>Dynamic region with weak institutionalism; nation-states and national business associations continue to be the dominant actors; the importance and increasing frequency of bilateral summits involving heads of states.</td>
</tr>
<tr>
<td><strong>Role of leadership</strong></td>
<td>Ozal is the crucial figure in pushing for cooperation on the Turkish side, as the architect of the BSEC Project. There is no direct counterpart on the Russian side.</td>
<td>Erdogan and Putin play important roles in promoting bilateral relations; Gul and Davutoglu are also key actors on the Turkish side</td>
</tr>
<tr>
<td><strong>Nature of political conflicts and attitudes towards separatism and domains of influence</strong></td>
<td>Deep conflicts; Russia resents Turkey’s quest to play a leadership role with respect to Central Asian republics; the two states interfere in each other’s minority conflicts, with Russia indirectly supporting the PKK and Turkey indirectly supporting Chechen insurgents</td>
<td>Degree of conflict significantly reduced by the pragmatic turn in Turkish foreign policy; Turkey largely refraining from an active regional role in areas considered to be in Russia’s sphere of influence</td>
</tr>
</tbody>
</table>

**Source:** Oniş, Z., & Yılmaz, Ş. (2015). Turkey and Russia in a shifting global order: cooperation, conflict and asymmetric interdependence in a turbulent region. Third World Quarterly, 1-25

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Agriculture Sector

Fresh Fruit and Vegetables

According to the report of Ministry of Economy of Turkey, the country ranked 4th in the world in the production of fresh vegetables after China, India and USA in 2011 and 2012 by producing about 27.4 and 27.8 million tons respectively, while it ranked 8th in the production of fresh fruits with about 14.3 and 14.9 million tons respectively in the respective years.

Figure 5. List of countries that produce fresh vegetables

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>2011</th>
<th>2012</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>559,908,500</td>
<td>573,935,000</td>
<td>2.5</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>107,376,529</td>
<td>109,140,990</td>
<td>1.6</td>
</tr>
<tr>
<td>3</td>
<td>USA</td>
<td>34,670,373</td>
<td>35,947,720</td>
<td>3.7</td>
</tr>
<tr>
<td>4</td>
<td>Turkey</td>
<td>27,406,658</td>
<td>27,818,918</td>
<td>1.5</td>
</tr>
<tr>
<td>5</td>
<td>Iran</td>
<td>22,471,185</td>
<td>23,485,675</td>
<td>4.5</td>
</tr>
<tr>
<td>6</td>
<td>Egypt</td>
<td>18,991,810</td>
<td>19,084,388</td>
<td>4.4</td>
</tr>
<tr>
<td>7</td>
<td>Russia</td>
<td>16,275,327</td>
<td>16,084,372</td>
<td>-1.2</td>
</tr>
<tr>
<td>8</td>
<td>Mexico</td>
<td>12,160,789</td>
<td>13,599,497</td>
<td>11.8</td>
</tr>
<tr>
<td>9</td>
<td>Spain</td>
<td>12,583,971</td>
<td>12,531,000</td>
<td>-0.4</td>
</tr>
<tr>
<td>10</td>
<td>Italy</td>
<td>14,242,284</td>
<td>12,297,645</td>
<td>-13.7</td>
</tr>
<tr>
<td>11</td>
<td>Nigeria</td>
<td>11,439,588</td>
<td>11,940,600</td>
<td>4.4</td>
</tr>
<tr>
<td>12</td>
<td>Japan</td>
<td>11,176,289</td>
<td>11,351,200</td>
<td>1.6</td>
</tr>
<tr>
<td>13</td>
<td>Brazil</td>
<td>11,611,031</td>
<td>11,054,949</td>
<td>-4.8</td>
</tr>
<tr>
<td>14</td>
<td>Indonesia</td>
<td>10,518,029</td>
<td>10,507,836</td>
<td>-0.1</td>
</tr>
<tr>
<td>15</td>
<td>Ukraine</td>
<td>9,832,900</td>
<td>10,017,000</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1,087,591,891</td>
<td>1,106,133,865</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: FAO

Figure 6. List of countries that produce fresh fruits

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>2011</th>
<th>2012</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
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<td>China</td>
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<td>2.5</td>
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<td>109,140,990</td>
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<tr>
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<td>35,947,720</td>
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</tr>
<tr>
<td>4</td>
<td>USA</td>
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<td>27,818,918</td>
<td>1.5</td>
</tr>
<tr>
<td>5</td>
<td>Indonesia</td>
<td>22,471,185</td>
<td>23,485,675</td>
<td>4.5</td>
</tr>
<tr>
<td>6</td>
<td>Philippines</td>
<td>18,991,810</td>
<td>19,084,388</td>
<td>4.4</td>
</tr>
<tr>
<td>7</td>
<td>Mexico</td>
<td>16,275,327</td>
<td>16,084,372</td>
<td>-1.2</td>
</tr>
<tr>
<td>8</td>
<td>Turkey</td>
<td>12,160,789</td>
<td>13,599,497</td>
<td>11.8</td>
</tr>
<tr>
<td>9</td>
<td>Spain</td>
<td>12,583,971</td>
<td>12,531,000</td>
<td>-0.4</td>
</tr>
<tr>
<td>10</td>
<td>Italy</td>
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<td>-13.7</td>
</tr>
<tr>
<td>11</td>
<td>Iran</td>
<td>11,439,588</td>
<td>11,940,600</td>
<td>4.4</td>
</tr>
<tr>
<td>12</td>
<td>Thailand</td>
<td>11,176,289</td>
<td>11,351,200</td>
<td>1.6</td>
</tr>
<tr>
<td>13</td>
<td>Nigeria</td>
<td>11,161,031</td>
<td>11,054,949</td>
<td>-4.8</td>
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<td>Egypt</td>
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<td>10,507,836</td>
<td>-0.1</td>
</tr>
<tr>
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<td>Uganda</td>
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<td>10,017,000</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1,087,591,891</td>
<td>1,106,133,865</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: FAO

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Turkey ranked 11th with its fruit exports in 2011 and 2012 valued at USD 1.8 billion and 1.7 billion respectively.

**Figure 7. World’s fresh fruit export**

<table>
<thead>
<tr>
<th>Countries</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Change (%)</th>
<th>Share’12 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>6.621.359</td>
<td>7.005.628</td>
<td>7.373.136</td>
<td>5.2</td>
<td>11.9</td>
</tr>
<tr>
<td>USD</td>
<td>5.135.542</td>
<td>5.764.117</td>
<td>6.192.875</td>
<td>7.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Chile</td>
<td>3.473.799</td>
<td>3.994.111</td>
<td>4.012.651</td>
<td>0.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.199.020</td>
<td>3.810.675</td>
<td>3.779.603</td>
<td>-0.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Italy</td>
<td>3.319.564</td>
<td>3.496.455</td>
<td>3.345.205</td>
<td>-4.3</td>
<td>5.4</td>
</tr>
<tr>
<td>China</td>
<td>1.961.725</td>
<td>2.322.273</td>
<td>2.849.940</td>
<td>22.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.614.797</td>
<td>2.728.310</td>
<td>2.599.436</td>
<td>-4.7</td>
<td>4.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.994.747</td>
<td>2.306.798</td>
<td>2.528.752</td>
<td>9.6</td>
<td>4.1</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2.099.682</td>
<td>2.322.363</td>
<td>2.158.200</td>
<td>-7.1</td>
<td>3.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>1.915.509</td>
<td>2.032.618</td>
<td>2.051.539</td>
<td>0.9</td>
<td>3.3</td>
</tr>
</tbody>
</table>

*Source: FAO*

Turkey ranked 12th with its vegetables exports in 2011 and 2012 valued at USD 678 million and 611 million, respectively. As it could be viewed from the table below, Russia ranked 1st among the importers of Turkish fresh fruit and vegetables by importing fruit and vegetables valued at around USD 829 million and USD 788 million in 2011 and 2012, respectively.

**Figure 8. Turkey’s total fresh fruit and vegetables exports to top 10 importers**

<table>
<thead>
<tr>
<th>No.</th>
<th>Countries</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Change (13/12) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Tons</td>
<td>Million USD</td>
<td>Tons</td>
<td>Million USD</td>
</tr>
<tr>
<td>1</td>
<td>Russia</td>
<td>1.127.422</td>
<td>829</td>
<td>1.064.939</td>
<td>788</td>
</tr>
<tr>
<td>2</td>
<td>Iraq</td>
<td>474.553</td>
<td>260</td>
<td>586.668</td>
<td>301</td>
</tr>
<tr>
<td>3</td>
<td>Ukraine</td>
<td>284.718</td>
<td>187</td>
<td>240.832</td>
<td>169</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>132.033</td>
<td>194</td>
<td>124.858</td>
<td>192</td>
</tr>
<tr>
<td>5</td>
<td>Bulgaria</td>
<td>156.318</td>
<td>115</td>
<td>121.782</td>
<td>83</td>
</tr>
<tr>
<td>6</td>
<td>S. Arabia</td>
<td>170.374</td>
<td>109</td>
<td>122.871</td>
<td>68</td>
</tr>
<tr>
<td>7</td>
<td>Romania</td>
<td>152.018</td>
<td>103</td>
<td>113.218</td>
<td>71</td>
</tr>
<tr>
<td>8</td>
<td>Netherlands</td>
<td>24.791</td>
<td>31</td>
<td>29.009</td>
<td>36</td>
</tr>
<tr>
<td>9</td>
<td>England</td>
<td>24.835</td>
<td>32</td>
<td>23.341</td>
<td>33</td>
</tr>
<tr>
<td>10</td>
<td>Moldova</td>
<td>51.715</td>
<td>35</td>
<td>41.115</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2 278</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Considering that Turkey’s total fresh fruit and vegetable export in 2011 was valued at USD 2.5 billion and in 2012 at USD 2.3 billion, Russia’s share of Turkey’s fresh fruit and vegetables exports was around 33.2% in 2011 and 34.3% in 2012. The losses to Turkey in the agricultural sector after the Russian sanctions are colossal and therefore there is a need to allocate both new partners for Turkish products and new providers for the Russian market.

The international media has highlighted the political situation around the fresh fruits and vegetables trade since the Jet Crisis. According to The Wall Street Journal Report, Russian Prime Minister Dmitriy Medvedev announced that Russia will stop importing Turkish vegetables and fruits17.

Russia Today (or RT, a Russian government-funded television network) reported that Russian Agriculture Minister Alexander Tkachyov said Russians will not feel the absence of Turkish products, such that Azerbaijan, Uzbekistan, Morocco and Israel could be alternative suppliers17. In addition, RT also reported that Egypt had asked Russia to provide it with the list of banned Turkish goods, saying it is ready to export Egyptian products to Russia during meeting between Egyptian Trade Minister Tarek Kabila and his Russian counterpart Denis Manturov18.

Daily News Egypt also confirmed RT’s report and added that Qabil said Egypt is able to provide Russia with such products, having huge production capacity in the relevant sectors19.

Meanwhile Turkish Prime Minister Ahmet Davutoglu, said “Turkey has no problem finding markets in the world. We can sell them elsewhere.” reported by Al-Monitor20. The truth is that Turkish products can easily compete with other countries’ because of the high quality, large-scale production and low prices. This phenomenon will have a domino effect in the economic sphere of neighboring countries like Azerbaijan. Turkish prices are cheaper than that of Azerbaijan, therefore Azerbaijani local producers will suffer from this competition.

The Grain Sector

Russia is the fourth-biggest producer of wheat in the world after the European Union, China and India, and in the last year exported 20,000 million metric tons abroad21. In order to ensure food security, the government of Russia has raised the price of wheat to encourage Russian farmers to produce more and sell to internal markets.

As can be seen from the tables above, Russia’s wheat production in 2014/15 was 59 mmt and the country exported 20 mmt of that. Turkey imported around 4.1 million metric tons of that 20 million metric tons of Russian wheat in the 2014-15 fiscal year. That is, significantly, about 20.5% of Russia’s total grain export.

Grain exports (from Russia to Turkey) valued at about 1.5 billion USD in 2014/15, according to SovEcon’s data - the oldest Russian company specializing in agriculture markets research and consulting.

It must be noted that the grain export of Turkey is not only for consumption but this country is also one of the world’s largest wheat-flour exporters along with Kazakhstan, its flour exports reaching to 2.2 million tons in 2014.

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The sanctions by either the Turkish or Russian governments would damage the economies of both countries as Russia would struggle to find another big grain importer like Turkey, and while Turkey has an option to import from Ukraine instead, several traders admitted that its prices for the same quality are higher\textsuperscript{25}.

The political situation around the grain trade between Russia and Turkey is still not clear. Many Turkish milling companies like Intermil-Un are suspending new purchases of Russian wheat until the situation becomes indeed clear\textsuperscript{25}. While Ukrainian Prime Minister Arseny Yatseniuk told a government meeting on December 2 that the Ministry of Agriculture had already held talks with Turkish partners and they would welcome a boost in trade with Turkey, Ukraine’s wheat prices for the same quality are higher\textsuperscript{26}. On the other side, according to a December 7 BBC report, the Deputy Prime Minister of Russia, Arkady Dvorkovich, said Russia does not discuss the ban on grain exports to Turkey\textsuperscript{27}. Despite all sanctions put by Russia on Turkey, Russia did sign not any decree to cut the flow of grain to Turkey.

Exports of grain are leaving Russia’s Azov Sea for Turkey again after suffering delays in the wake of Turkey’s shooting-down of a Russian warplane, but some traders remain nervous about striking new deals, according to industry sources.

The continuation of shipments highlights the countries’ mutual dependence on international trade. Turkey vies with Egypt to be the largest importer of Russian wheat\textsuperscript{28}. Turkey has already started looking for partners that could supply the needs of grain that previously done by Russia. Ukraine, as well as Egypt, has showed in interest in doing so\textsuperscript{29}.

**The Case of Azerbaijan**

Russia’s need for new markets of agricultural products increased significantly after the country imposed sanctions on the import of agricultural products from the European Union on August 6, 2014 in response to European sanctions imposed on Russia after the Crimean Crisis\textsuperscript{29}.

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\textsuperscript{25}Turkey looks for non-Russian grain as new deals with Moscow are on hold. (2015, December 2). Retrieved from http://www.reuters.com/


\textsuperscript{28}Devitt, Polina. Polityuk, Pavel. McFarlane, Sara. (2015, December 3). Turkey looks for non-Russian grain as new deals with Moscow are on hold. Reuters. http://food.salaamgateway.com

Turkey was one of the main markets for Russia to import fresh fruits and vegetables, with Russia importing fresh fruits and vegetables valued at around USD 800 million/each year in the recent years. After the recent Jet Crisis between the countries, Russia also banned the import of fruits and vegetables from Turkey, starting January 1, 2016.

Experts dispute whether Azerbaijan will be affected positively or negatively following the sanctions imposed by Russia on Turkey.

According to the data of The State Statistical Committee of the Republic of Azerbaijan, in 2014 Russia imported fresh vegetables from Azerbaijan valued at 66.7 million USD, 99.8% of Azerbaijan's total vegetables export; and fresh fruits valued at USD 145.0 million - 75.6% of total fresh fruits exported by Azerbaijan. Thus the total imported fresh fruits and vegetables was valued at around USD 210 million.

As can be viewed from the official data, at the current production rate Azerbaijan alone does not have the capacity to be the lone alternative to Turkey in fresh fruit and vegetables exports to Russia in the short term, and according to the BBC report, some experts even fear that increasing demand in Russian market could trigger price increases in internal market, as farmers would tend to sell to Russia at higher prices and not to the internal market, thus creating shortage of supplies.

At the same time, as it was mentioned before in this paper, considering that Turkey needs to find markets for its fruits and vegetables, Azerbaijan is seen as a potential market since the relations between Turkey and Azerbaijan are historically very strong.

Transit
The most realistic sector in which Azerbaijan could benefit from this situation seems to be transit. TRACECA (Transport Corridor Europe-Caucausus-Asia) expert Akif Mustafayev says that the cargo previously going via Russia from Turkey to the countries of Central and Middle Asia could instead be transported via Azerbaijan. Specifically, the construction of Baku - Tbilisi - Kars railway and the new Baku International Sea Trade Port in Alat could facilitate this process and provide necessary infrastructure. It is expected for Azerbaijan to increase the incomes from tariffs applied to products that transit in Azerbaijan going to Russia or Turkey to nearby countries and vice-versa.

32 The Russian-Turkish crisis will increase the transit through Azerbaijan by 3-4 times, expert. (2015, December 3). Contact. Retrieved from www.contact.az
On December 21, 2015, a joint Azerbaijan-Iran economic cooperation commission meeting was held in Tehran to discuss trilateral ties among Iran, Azerbaijan and Russia. The North-South transport corridor, designed to connect Northern Europe to South-East Asia, also aims to connect the railways of Iran, Azerbaijan and Russia.

There were some discussions around the transportation projects and working hours of customs services relating to North-South transport corridor. That is to say, Iranian businessmen are likely to benefit from this cooperation. Also, as stated by Mahmoud Vaezi, Iranian minister for information and communication technologies, “Russia’s decision to stop importing some goods from Turkey and Europe has created a good chance for Iranian businessmen”.

With regard to Azerbaijan, there will be an increase of the transit revenues as a result of this cooperation, as projected. As stated by Azerbaijan’s Minister of Economy and Industry Shahin Mustafayev, who led the meeting together with his Iranian counterpart, Azerbaijan has great potential to ensure the transit of Iranian goods to other countries. Consequently, this new stage of development in Azerbaijani-Iranian relations, after the mutual visits of the heads of the states, is expected to create opportunities for both sides.

**The Case of Armenia**

Armenia has no diplomatic relations with Turkey so the Jet Crisis can be seen favorably for the Armenians, as it opens up opportunities for Armenian producers of vegetables and fruits to export to Russia. The already strong ties between Russia and Armenia coming from Soviet times will strengthen now even more.

Russia is the major import and export partner of Armenia, accounting for 20.44% and 25.71% of total imports and exports respectively. According to the National Statistical Service of the Republic of Armenia, Russia imported nearly 308 million USD from Armenia in 2014\(^33\).

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Notably, Turkey is among the top export partners of Armenia, that is to say, Armenia imports 5.55% of its total imports from Turkey. For example, Turkish exports to Armenia increased from 210 million USD in 2013 to 231 million USD in 2014. Major export products include copper ores and concentrates, spirits from distilled grape wine or marc, cigarettes containing tobacco, ferro-molybdenum, non-industrial diamonds, while primary import products are natural gas in gaseous state, petroleum oils, non-industrial diamonds, gold in unwrought forms non-monetary, and other medicaments of mixed or unmixed products.

The Case of Georgia

In some respects, Georgia could benefit from the new reality. Georgia can (i) partially substitute Turkish fruits and vegetables on the Russian market and (ii) attract some of the tourists who would normally go to Turkey. The benefits from these channels, however, would only be realized in the middle of 2016 as Turkey is a summer destination for Russian tourists, and redirecting vegetable and fruit exports could take a few months. Furthermore, Georgia could increase electricity exports to Turkey.

As an emerging market, Turkey’s electricity consumption is increasing and demand is met mostly by natural gas-fired power plants. Failure to import more gas from Russia and the possibility of suspension of the nuclear plant could pose a challenge for Turkey in meeting domestic electricity demand. In that scenario, Turkey will probably need to import additional electricity and Georgia could be one of the suppliers.

According to National Statistical Office of Georgia, Turkey and Russia are among the top trading partners of Georgia. Accordingly, the share of Turkish imports is 18%, while the share of Russian imports is only 8%. Major commodity groups of import include petroleum (9%), medications (9%), and motorcars (6%).

In terms of Georgian exports to those countries, Turkey again surpasses Russia by accounting for 9% of total exports compared with 7%. The major exported commodity groups in Georgia, include copper ores (12%), ferro-alloys (9%), motor cars (8%) and nuts (8%). It should be noted that the export structure of Georgia is rather focused in traditional sectors such as base metals, minerals, and agriculture, whose productivity is comparatively low.

Furthermore, Azerbaijan is the leading importer of Georgian products, accounting for 11% of Georgian exports while also providing around 7% of Georgia’s imports. Georgia increased its exports to Russia from 190 million USD in 2013 to 275 million USD in 2014 that constituted 9.6% of total exports, while for Turkey these numbers were 184 million USD and 239 million USD, respectively. The transit between Turkey and Georgia will be increased highly for transport of products in the route Georgia-Azerbaijan-Caspian Sea-Central Asia.

Wine

Viticulture and winemaking are the most important fields of Georgian agriculture and Russia has been a key partner of Georgia in this sector, being the largest importer of Georgian wine with 64% in 2014. While Turkey is also a wine producing country, the countries that import most of the Turkish wine are Germany, Belgium and France. As Turkey’s wine sales to Russia are negligible, Georgia is unlikely to benefit economically from the crisis.

Citrus fruits

According to Fresh Plaza report, Georgia’s main citrus export is mandarin oranges. Only halfway through this year’s harvest season they have already exported 20,000 tons of mandarins, approximately 80% of these to Russia. Considering that the sanctions on fruit imports from Turkey to Russia include citrus fruits and was in effect on January 1, 2016, with increased production Georgian farmers could benefit from the situation. With the Georgian government keen to support the export of mandarins by allocating two million Georgian Laris, which was approximately is 401 632 USD this year to support the export of Georgian mandarins abroad, this scenario seems very likely. According to report of Ministry of Economy of Turkey, mandarins ranked first among country’s citrus exports with about 530,000 tons in 2013 and Russia was the main importer of Turkish citrus fruits with about 430,000 tons.

Grain

According to Agenda.ge, Georgia was looking for new markets to import wheat in January 2015 as Russia decided to reduce its wheat exports because it faced the problem of filling the stocks. At the time, 90% of the wheat imported by Georgia came from Russia. Currently, the political situation around the Jet Crisis suggests that the sanctions on the wheat trade by either Russia or Turkey is unlikely, and Turkey will continue to be one of the key importers of Russian wheat alongside with Egypt. Accordingly, there is a little or no benefit from the Jet Crisis that George will get in the wheat trade, and should probably continue to look for other markets to import wheat along with relatively cheap wheat from Russia.

Tourism Sector

Ministry of Culture and Tourism of Turkey reported that around 4.48 million Russian tourists visited Turkey in 2014, 12.6% of the total number of tourists that visited the country in the same year. The number of Russian tourists who visited Turkey from 2011 to 2014 is depicted in the table below.

Figure 14. Number of Russian tourists visiting Turkey.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Russian tourists</th>
<th>% of total tourists</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3,468,214</td>
<td>11.03</td>
</tr>
<tr>
<td>2012</td>
<td>3,599,925</td>
<td>11.33</td>
</tr>
<tr>
<td>2013</td>
<td>4,269,306</td>
<td>12.23</td>
</tr>
<tr>
<td>2014</td>
<td>4,479,049</td>
<td>12.16</td>
</tr>
</tbody>
</table>

Source: Ministry of Culture and Tourism of Turkey

The average expenditure by a foreign tourist in Turkey in 2014 was 775 USD, meaning that Turkey earned around USD 3.472 billion from 4.48 million Russian tourists in that year. If all potential Russian tourists would avoid coming to Turkey, the country’s loss yearly should be around this number.

A CNN Money article titled “Russia and Turkey will both lose from Moscow's sanctions” predicted the expected loss of around 3 billion USD.

The Russian Federal Agency for Tourism reports that, Russian tourists prefer Turkey as a top foreign holiday destination and the number of tourists visiting Turkey was 3.2 million in 2013 increasing from 2.5 million in 2012. It should be stated that, until the recent depreciation of ruble, the number of Russian tourists surpassed all other foreign tourists in Turkey.

On November 28, Russian President Vladimir Putin approved a list of economic a sanctions against Ankara in response to the downing of a Russian warplane by a Turkish F-16 jet in Syria. The measures target the Turkish tourism industry and exports to Russia. They include a ban on Turkish produce, employment of Turkish nationals in Russia, the cancellation of visa-free travel between the countries and a recommendation for Russians not to travel to Turkey, reported Russia Today.

42 Kottasova, I. (2015, November 30). Russia and Turkey will both lose from Moscow's sanctions. CNN. Retrieved from http://money.cnn.com/ -Accessed on 06.01.2016-
The tensions are increasing and will continue to increase even more because of the lobbies of Turkish government authorities to the citizens of Russia. Hours after the destruction of the Russian airplane, the Russian Foreign Minister Sergei Lavrov on Tuesday advised Russians not to visit Turkey, adding that the threat of terrorism there was no less than in Egypt, where a bomb attack brought down a Russian passenger plane last month, reported Today’s Zaman. Additionally, the Russia’s state tourism agency Rostourism, recommended the sales of tour packages to Turkey to be suspended, following the incident, reported CNBC.

Russian tourism-sector leaders can already anticipate the impact of the Turkish-Russian dispute. According to the report of Hürriyet, a Turkish newspaper, the head of the Turkish Hoteliers Federation (TÜROFED), Osman Ayık stated: “We cannot lose the Russian market, which is the second largest source of Turkey’s tourism sector. We have already lost over 800,000 Russian tourists over this year due to economic woes in Russia, and had to make significant cuts in hotel prices to overcome our losses in addition to other concessions. Despite this, we still cannot close the gap.

Moreover, the report of the World Travel and Tourism Council (WTTC) shows that the travel and tourism generated, either directly or indirectly, was 96 billion USD of Turkey's GDP (gross domestic product) in 2014. The tourism industry also sustained a total of 2.1 million jobs in Turkey, employing more people than the mining, chemicals manufacturing, automotive manufacturing, financial services, and banking sectors.

Tourists from Russia made up around 12.2% of the 37 million tourist arrivals to Turkey in 2014 and spent an estimated 3 billion USD or 0.3-0.4% of GDP (TurkStat, Ministry of Culture and Tourism). Tourism from Russia is highly seasonal, with more than 600,000 monthly Russian tourist arrivals to Turkey in the summer and fewer than 100,000 monthly arrivals in the winter.

The sanctions in tourism sector alone are projected to cost nearly 0.4% of GDP, with a loss to Turkish economy amounting to 3 billion USD. This calculation is based on the assumption of no Russian tourists will be visiting the country during 2016. According to the report by Today’s Zaman, the discord between Russia and Turkey now threatens Turkey’s winter tourism. While the media has concentrated on fewer visitors to the country’s sea resorts in assessing the effects on the tourism sector, Turkey’s winter tourism representatives are also complaining about effects from the diplomatic spat.

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45 Ellyatt, H. (2015, November 26). This is how Russia could hurt Turkey's economy. CNBC. Retrieved from http://www.cnbc.com/ -Accessed on 05.01.2016-


47 Kottasova, I. (2015, November 30) Russia and Turkey will both lose from Moscow’s sanctions. CNN. Retrieved from http://money.cnn.com/
That is to say, tourism facilities at Turkey's premier skiing spots, including Uludagh and Palandoken, have seen declining traffic in foreign arrivals as well as cancelations of reservations; precisely more than 25 percent of all reservations made by Russian tourists in the Uludagh region have already been canceled. The losses in revenue stemming from Russian crisis alone have already amounted to 300 million USD in the winter tourism sector\textsuperscript{48}.

\textbf{The case of Azerbaijan}

According to the Statistical Committee of the Republic of Azerbaijan, the number of Russian nationals visiting Azerbaijan is decreasing. That is to say, in 2012 it was 28 000 decreased to 21 000 in 2013 and was 15 thousand in 2014\textsuperscript{49}.

Azerbaijan was able to attract over 28 000 foreign tourists by the hosting Baku 2015 European Games, mainly from Russia, United Kingdom, Germany, the Netherlands, Italy, Spain, United States. According to the latest World Economic Forum rankings, Azerbaijan ranks 36\textsuperscript{th} among 141 countries in competitiveness in the tourism sector. 2015 was one of the more popular years for tourism, with 47,500 visitors just in summer\textsuperscript{49}. Azerbaijan is chiefly appealing for tourists from its neighbors Russia, Georgia, Turkey and Iran, which together account for 95% of Azerbaijan’s tourist base\textsuperscript{50}. In the first half of previous year, the respective rise in the number of nationals visiting the country was 31.9%, 29.1%, 15.2% and 7.5%\textsuperscript{51}.

Since Russia implemented the new economic measures against Turkey it is expected the number of tourists coming to Azerbaijan will stop diminishing, starting to improve slightly starting in the winter with the ski season.

In spring 2016 Azerbaijan will be again be in the spotlight of of the international sporting industry, hosting the motor sports competition Grand Prix Formula 1 and it is expected many international tourists will come to Azerbaijan again. A similar situation is expected to occur again in 2017 with Azerbaijan’s hosting of the Islamic Solidarity Games.


Tourism is one of the fastest growing sectors of Georgian economy, and government of Georgia heavily invests in the area to fulfill the great potential of the country. According to Georgian National Tourism Administration report\(^5\), most of the tourists coming to Georgia are from Turkey, Azerbaijan, Armenia and Russia. There is visa-free travel from Russia to Georgia and in 2013, about 767 000 of Russians visited Georgia. After the crisis between Russia and Turkey, it is expected that most of the Russian tourists will now choose to visit the other Mediterranean countries, especially Greece, Cyprus and Malta. To some extent Georgia also stands to benefit from this change of course, and could attract some Russians who used to visit Turkey each year.

![Figure 15. Origin of tourists visiting Georgia](image)

In Georgia tourism is an important sector of economy and it accounted for 6.5% of GDP in 2013. International arrivals to Georgia have been rising rapidly over recent years, and in 2013 their number reached more than 5 million, and the highest growth rate was recorded in 2012 with 57%. Moreover, receipts from tourism rose from 1.4 million USD in 2012 to 1.7 USD in 2013. Notably, both Turkey and Russia are among the top five countries that supply the most international arrivals to Georgia.

The tourism industry in Georgia aims to create more jobs and make more income by attracting foreigners in the years to come, and thereby holds an optimistic outlook. The number of arrivals to Georgia is estimated to grow considerably owing to several steps taken by both the government at large and the Georgian National Tourism Administration specially. That is to say, GNTA designed an action plan to boost the number of arrivals including, improving the infrastructure in tourism rector, simplification of international travel, upgrading service quality, implementing marketing instruments, and most of all increasing awareness about Georgia.

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Energy Sector

Natural Gas

Turkey is an important consumer of natural gas and is becoming an important transit state for natural gas. Turkey is one of the few countries in Europe where natural gas consumption continues to show strong growth. Contrary to exports, Turkey is highly dependent on Russia for natural gas imports.

Figure 16. Turkey’s natural gas supply by source, 2013

Source: U.S. Energy information administration based on Cedigaz

Russia is one of the major suppliers of natural gas exports to Turkey, and supplied more than the half of natural gas exports to Turkey (57%) compared with just over 10% of gas supplies of Azerbaijan in 2013, according to U.S. Energy Administration.

Figure 17. Turkish Exports of Dry Natural Gas (in billion cubic feet)

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports of Natural Gas</td>
<td>22.9</td>
<td>25.2</td>
<td>21.7</td>
<td>23</td>
<td>22.4</td>
</tr>
</tbody>
</table>

Source: U.S. Energy Information Administration based on IEA, Monthly Gas Data Service

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According to the report of Republic of Turkey Ministry of Energy and Natural Resources, the total gas consumption of Turkey was 45.3 billion m³ in 2012\textsuperscript{55}. The Gazprom report of exports shows that in 2014 Turkey imported 27.33 billion m³ of their total natural gas exports. Assuming that the natural gas import of Turkey from Gazprom (Russia based energy company) didn’t change drastically in the last three years and remained around 27.33 m³, it would mean that Russia provides more than 60\% of the natural gas consumed by Turkey.

Another crucial concern regards the natural gas project between Turkey and Russia: \textit{The Turkish Stream}. \textit{The Turkish Stream} was the proposed natural gas pipeline from the Russian Federation to Turkey across the Black Sea to carry Russian gas to Turkey, and then to the expansive European market\textsuperscript{56}, ignoring Ukraine. The annual gas pipeline capacity was expected to be 63 billion m³ of gas. Russian president Vladimir Putin on December 1, 2014, announced the proposal\textsuperscript{57}.

\textsuperscript{55} U.S. Energy Information Administration. \textit{Turkey natural gas consumption and production}. Retrieved from https://www.eia.gov/


Russia's energy minister said on December 3, 2015 that Moscow has suspended talks on the project in the wake of a crisis between the two countries. Turkey’s President Erdogan, speaking at a meeting in Istanbul, dismissed the remark as a "lie", saying that in fact Turkey had suspended the project - and long before the plane incident.\(^5^8\)

Turkey, willing to assure the energy security, already started communications with different countries like Azerbaijan, Qatar and Northern Iraq. The Turkey's state-run Turkish Pipeline Corporation (BOTAŞ) signed on December 2, 2015 a deal with Qatar to purchase liquefied natural gas (LNG)\(^6^0\).

Azerbaijan, aware of the critical situation of Turkey, also supported their so-called brother country by offering a 40% discount in the transport of energy resources from Azerbaijan\(^6^1\). This help to Turkey might be not seen with good eyes from Kremlin and many fear Russian pressure on Azerbaijan. “It is not easy to create foreign policies with big powers like Russia, Iran, Israel or Egypt”, Mehmet Çetingüleç said to the Zaman Daily newspaper\(^6^2\).

Oil

Since Turkey has limited domestic reserves, the country imports nearly all of its oil supplies. As of January 1, 2015, the Oil & Gas Journal (OGJ) estimated Turkey's proved oil reserves at 296 million barrels, located mostly in the southeast region of the country. Turkey's petroleum and other liquids production peaked in 1991 at 85,000 barrels per day (b/d), but then production declined each year and bottomed out in 2004 at 43,000 b/d. Although Turkey's production of liquid fuels has increased since 2004, it is much less than what the country consumes each year (Figure 19)\(^6^3\).

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\(^6^3\) U.S. Energy Information Administration. Turkey petroleum and other liquids consumption and production. Retrieved from [www.eia.gov](http://www.eia.gov)

*Nuclear Energy*
One of the most important concerns about nuclear energy is the Project between Turkey and Russia, the Akkuyu Nuclear Power Plant. Russia is currently building Turkey's first nuclear power station, located in Mersin on the southern coast of the country, after the two countries signed an agreement that a subsidiary of Rosatom State Atomic Energy Corporation based in Russia would build, own, and operate a power plant at Akkuyu with a capacity of 1,200 MW. The foundation stone was laid at the future construction site in April 2015. The Energy Market Regulatory Authority (EPDK) of the Republic of Turkey issued a preliminary license for power generation to the AKKUYU NUCLEAR Nuclear Power Plant being financed by Russian investors, with 93% from a Rosatom subsidiary. The Ministry of Energy and Natural Resources of Republic of Turkey estimated the costs to be around 20 billion dollars. Russia Today, a Russian government-funded TV network reported that Russia has already invested around 3 billion USD.

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The Akkuyu Nuclear Power Plant is a very important project because there is a huge investment as well as revenues on it. The Turkish Electricity Trade and Contract Corporation (TETAS) guaranteed the purchase of 70% power generated from the first two units and 30% from the third and fourth units over a 15-year power purchase agreement. Electricity will be purchased at a price of 12.35 US cents per kWh and the remaining power will be sold in the open market by the producer.69

Turkish Authorities did not show any worry about the possibility of their project being halted as result of a potential withdrawal of Russian investment. According to the Turkish President Recep Tayyip Erdoğan “There is no indication that the problems between us and Russia will be reflected on Akkuyu Nuclear Power Plant project.”70. Additionally the Turkish Deputy Prime Minister Numan Kurtulmuş insisted to the Anadolu Agency on December 9, 2015 that “Turkey is not dependent on Russia to build its first nuclear power plant. We need to clearly say that just as we are not dependent on one door for trade, Turkey is not a prisoner of one country’s technology regarding its nuclear plants. We know that there are many countries, many companies, that are ready to respond to Turkey’s demands,” 71.

Russian officials confirmed the same version on December 9 2015. Oleg Titov (the deputy director general of the Akkuyu Nuclear Company): "Nothing has been stopped. The work at the site is underway as scheduled. The talks continue on implementing the project," Titov said. "Moreover, today we held a major meeting at Turkey's Energy Ministry. No one told us about the halt also," he said.72

On the other hand, Reuters published on the same day (December 9, 2015) that Russia’s Rosatom had stopped the construction work at Turkey’s first nuclear power plant, Turkish energy officials, as relations between Moscow and Ankara continue to worsen after the downing of a Russian jet. The State-owned company Rosatom had not terminated the contract for the building of the 20 billion USD project and is reluctant to do so because of the heavy compensation clauses, energy officials said. Turkey, however, is already assessing other potential candidates for the project, the officials told Reuters.

Rosatom declined to comment on Wednesday while a source at the Akkuyu company said was unaware of a halt in construction.73 As evidenced by these media reports, the situation is still under negotiations with a no clear future about what will happen.

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Construction Sector

Construction is one of the major sectors to be affected by current crisis. That is to say, Turkish construction companies have large operations in Russia, and they mainly employ Turkish nationals. The total value of new contracts signed by Turkish construction contractors in Russia in the three years to September 2015 is estimated at around 10-12 billion USD or 1.2-1.4 per cent of Turkey’s GDP. Assuming the average length of contracts is around 3-5 years, the estimated annual cash flow from the existing projects amounts to around 0.3-0.4 per cent of GDP. For projects in Russia, Turkey’s contractors largely employ Turkish citizens. Out of approximately 87,000 Turkish nationals working in Russia, 55,000 are estimated to be working in Turkish construction companies.\(^\text{74}\)

Russia was the 4th largest foreign direct investor in Turkey in 2014. Russian foreign direct investments in Turkey were around 730 million USD or 0.1 per cent of Turkey’s GDP in 2014, excluding property-related investments of Russian nationals, which are estimated at around 400-450 million USD annually.\(^\text{75}\)

In addition, there are several mega projects planned by Russia in Turkey, such as the Akkuyu nuclear plant, which is under construction, and the so-called Turkish stream pipeline, which is still in the initial planning stage.

Georgia Today reports that, FDI from Russia in Turkey has generally been low; in other words, of the 101.4 billion USD of FDI in Turkey from 2007 to September 2015, only 3.3 billion USD (3.3%) came from Russia.\(^\text{75}\)

It is highly unlikely that Russia will constrain operations of Russian businesses in Turkey. Turkish investments in Russia are not expected to hurt directly by sanctions either, as Russia does not intend to limit operations of Turkish subsidiaries registered as separate entities in Russia. However, an indirect impact on these companies cannot be ruled out, as they might run into problems procuring Turkish inputs and/or hiring Turkish personnel.

The sector of ceramics, which in the last few years has seen high production levels in Turkey and significant exports to Russia, is going to be completely reduced, giving place to other countries leaders in the same industry like Egypt, Italy, China and Spain.


As seen in Figure 2 the leading companies in the sector of construction are Arçelik, Beko, Boydak Holding, EAE Group, Eczacibasi, Enka, Hayat Group, Rönesans and Zorlu Group. These companies have participated in building sports and accommodation facilities for the 2014 Winter Olympics held in Sochi, and were expected to also invest in for 2018 FIFA World Cup Russia. According to the Russian Minister of Labor and Social Protection, Maxim Topilin, in an open Media release, the sanctions will not affect the big constructions projects for important sports events, as FIFA 2018.

The Case of Azerbaijan

Since Azerbaijan was host of international events such as Eurovision in 2012 and the European Games in 2015, it has experienced an amazing change in the architecture of the country, especially of Baku. The investment in construction until 2015 has been significant. The organization of international sporting events in Azerbaijan has not finished. In June 2016 it will take place the Formula 1 GP and in the Islamic Solidarity Games in 2017. Azerbaijan is strategically using their already constructed facilities for different sports events. The information related to the companies taking place in the construction of facilities is not available online, therefore the research team of CESD could not analyze it. Information was available about the main partners and sponsors but not the main companies involved in the construction of the sports facilities.

The impact of the devaluation in the Azerbaijan currency AZN against USD makes international companies lose the interest in investing in Azerbaijan, leaving an open playground mainly for Turkish and local companies in the sector of construction like AF Holding, PASHA Holding, Akkord Industry Construction Investment Corporation or Azersun.

The multi-million investment project by Azerbaijan in the Baku 2015 European Games provided an opportunity for many construction companies to be sub-contracted. Dovletkhan Dovletkhanov, the Azerbaijani deputy chairman of the State Committee for Urban Planning and Architecture: “Along with local designers and builders, the foreign specialists were also involved in this work. The joint work of local and foreign experts plays an important role in learning from the international experience in the construction sector.”

The promotion of construction by international events like BakuBuild, a construction industry exhibition next occurring in October 2016, shows an interest of Azerbaijan to take part in international markets. In these kinds of events Turkish companies will increase their presence.

According to the official data of the State Statistical Committee\textsuperscript{79}, Azerbaijan’s main metallurgy product is aluminum, and this product was also the main metal export of the country in 2014. In this year, total rough aluminum exports of Azerbaijan valued at USD 80.3 million. Specifically, aluminum exports to Turkey was valued at USD 79.3 million, meaning that 98.8\% of the total value of aluminum exports of Azerbaijan was imported by Turkey.

According to the Reuters report\textsuperscript{80}, Azerbaijan’s aluminum production is expected to rise in 2016, as 100,000 tonnes of aluminum oxide is expected to be produced by Det.Al - an aluminum oxide producer in Azerbaijan, compared to 54,000 tonnes in 2013 and 2014. About 98\% of the aluminum production of the company is exported.

Russia and Turkey have broad trade relations between themselves in aluminum sector, as Rusal - a Russia based aluminum company, the second largest in the world, accounts for close to 50\% of all imported aluminum in Turkey\textsuperscript{81}. There was no news about if Turkey will impose sanctions on aluminum imports from Russia, and the possibility of this scenario is low. But at least the fear of possible sanctions would make importers in Turkey, specifically Mechem, who has been the major buyer and distributor of Rusal’s metal in Turkey over the last 15 years, to look for different markets. With increased production, Det.Al could benefit from the situation. As it is unknown if the Azerbaijani government directly owns any shares in Det.Al Holding, the state budget could at least in theory benefit from increased production in the form of taxes, increased exports to Turkey and to some degree from devaluation, as Det.Al’s income would rise in the form of national currency in the midst of deteriorating relations between Russia and Turkey.

**Textile Sector**

Turkey is one of the leading countries in the world for textile production. Turkey has an export Turkey market of about 27 billion USD with a share of about 4 % in world textile and clothing exports. In Turkey, textiles and apparel sector is the biggest contributor to the country’s economy, representing over 10\% of the country's gross GDP every year\textsuperscript{82}.


Clothing and textiles is among the largest and best-performing sectors of the Turkish economy, accounting for around 7% of the country's GDP. There are some 56,000 textile and clothing companies operating in the country and they employ around two million people. In 2013, Turkey ranked 8th and 4th in global cotton production and consumption, respectively. The country ranked third in organic cotton production after India and Syria.\footnote{82}

The contribution of the textile industry to GDP in 2013 was 7%. Turkish clothing and textile exports have been increasing over the past few years but their share in the country's total exports has been shrinking.

The clothing industry exported some 65% of its production and generated USD 15bn in foreign sales in 2013. Cotton clothing accounted for as much as 80% of exports. The Turkish clothing industry was the 3rd largest exporter to the European Union and the 6th largest globally in 2013.

“Until the political situation between Turkey and Russia clears up, we have decided to set new strategies to direct textile exports [originally destined for] Russia to the African market,”\footnote{83} said Hikmet Tanriverdi, the chairman of the Istanbul Ready-Made Garment Exporters’ Association said at a press conference on December 15, in Istanbul. According to his speech, the negotiations with Nigeria have already been established, and the textile exports are intended to reach a market of 35 million people via Cameroon. What is more, the textile exports to Russia were already in a declining order following the depreciation of ruble and Ukraine crisis.

“Chinese and Indian companies have mobilized all means to replace their Turkish counterparts in Russia”, reports Today’s Zaman.\footnote{83} Accordingly, the textile firms from China, India and Italy have met business delegations in Russia in a bid to utilize the absence of Turks in the market. Having officially banned many fruit and vegetable imports from Turkey, the sanctions also included tightened custom checks on textile products, which has resulted in Turkish trucks lining up along the Russian border, unpaid invoices and the cancellation of orders.

Turkey faces a dramatic fall in the export of textile not only since the start of the Jet Crisis but since the first quarter of 2015 due to the fall of their national currency "Turkish Lira".\footnote{84}

Migration / Labor Sector

The Executive Order on measures to ensure Russia’s national security and protection of Russian Turkey\textsuperscript{85} means a point of inflection in the migration and labour trends of the region. Additionally the elimination of the visa-free arrangement between both countries is a tragedy for the 80,000 Turks living in Russia, obliged to leave the country\textsuperscript{86}.

Aside from Turkey having spoiled its relations with Russia, this issue is having further repercussions. Former Soviet Union countries tied to Russia are taking some steps to support Russia in this cause, or at least to prevent this problem to affect them. For instance, Kyrgyzstan started negotiations about the possibility of cancelling visa-free agreements with Turkey. This reaction is due to the ban of Turkish workers in Russia. Kyrgyzstan is prepared for possible massive migration of Turks living in Russia transferring to their country. In this way, the authorities will be able to better control the situation and avoiding internal labor problems\textsuperscript{87}. The year 2016 will be witness of new migration trends in the region. Most of the Turks “invited to leave Russia” will mainly return to Turkey, at least temporarily.

The fast arrival of many people to Turkey will create high rates of unemployment, labor competition, economic instability and internal conflicts. The Government of Turkey must rush to organize this unexpected immigration crisis and provide with a new job strategy for the workers coming back to Turkey.

Turkish nationals leaving Russia might be interested in checking job opportunities in countries where they do not need visas for entering and staying at least 30 days. Among these countries are Albania, Azerbaijan, Belarus, Bosnia & Herzegovina, Iran, Kazakhstan, Kirgizstan, Former Yugoslavian Republic of Macedonia, Montenegro, Morocco, Qatar, Serbia and Tunisia. Additionally there are many countries in Latin America or Asia where Turks can go without visa (for stays of 30 days in most of cases), but this possibility is left feasible due to the distance and/or very dissimilar cultures\textsuperscript{88}. The trend will be more visible in countries where the language is Russian or Turkish (or similar). As some groups of workers will move to the mentioned countries before, this will increase high competition among workers and the creation of larger Turkish diasporas in different countries.

\textsuperscript{85} President of Russia. Executive Order on measures to ensure Russia’s national security and protection of Russian citizens against criminal and other illegal acts and on the application of special economic measures against Turkey. (2015, November 28). Retrieved from http://en.kremlin.ru/acts/news/50805
\textsuperscript{88} International Air Transport Association
It is expected Turkish expatriate residents in Russia will start to also migrate towards the European Union, however until now the EU did not publish any foreign policy with measures to face the arrival of Turks looking for job opportunities.

In terms of social impact, the Jet Crisis has brought to Russia hate of speech, discriminative actions, rejection to Turks or similar ethnic groups (e.g. Azerbaijanis) and in the coming months and years this situation will lead to discrimination and the appearance of new radical groups against Turks. For instance, the Turkish Embassy recently suffered the soft attacks from Russian nationals, and protests in front of the embassy."
Conclusions

The Jet Crisis is a point of inflection in the history of Russia and Turkey, especially in the economic sector. The shooting down of the Russian warplane had negative consequences for Turkey and the break of a long-term effort for fruitful relations. The impact in the sectors of trade, agriculture, tourism, energy, construction, textile and migration has reached also neighboring regions. The ties of Russia and Turkey with the South Caucasus mean this incident an opportunity to develop new cooperation between countries. New key players like Egypt, Ukraine and Iran, among others, will benefit from this situation.

Russian sanctions will have negative short and possible long-term economic costs for the Turkish economy, including various sectors such as tourism, food and textile exports and construction. Considering that Turkey is among the top exporters of fresh fruit and vegetables, and Russia is the greatest importer of these goods, bans on agricultural exports to Russia will hurt Turkish suppliers significantly. Some of the most sizeable loses are expected in tourism sector; that is to say, Russian visitors constitute a substantial part of total arrivals to Turkey. Accordingly, the suspension of visa-free travel, as well as recommending tourism agencies to stop selling tours to Turkey for Russian, will deprive Turkey from a major source of tourism revenues. Furthermore, Turkish construction companies have a significant share in the Russian market, and employ mainly Turkish nationals. Limiting their operations also means increasing migration to Turkey; in other words, the government should be prepared to deal with an unexpected rise in unemployment. Regarding the migration and labor sector, there will be big waves of Turks moving back to Turkey and Post-Soviet Union countries in order to explore new job opportunities.

Moreover, essential mega-investment projects between countries, namely the Akkuyu nuclear plant and the so-called Turkish pipeline, are under threat following the crisis. Turkish Stream, natural gas pipeline, aimed to transfer Russian gas to Turkey across the Black Sea, and also for European market. However, each side seems to be hesitant, and claim that they suspended the project, while Russia claimed it after the crisis, Turkey claims it did so long before the crisis. The Akkuyu Project in Mersin, the first nuclear power station of Turkey, was intended to be predominantly financed by Russia and be built and operated by a Russian subsidiary of Rosatom. Whether the tension between countries is going to affect the project is controversial, since the termination of project by Rosatom is uncertain yet. Nonetheless, there are worries about the suspension of this nuclear project, which initially promised substantial savings of energy as well as huge revenues. Thus, both projects seem to be suspended at least in the short-term, until the situation is clear between countries.

Russia’s position is in a better place than Turkey, but is still not comfortable. The sanctions imposed on Turkey in the matter of trade, labor, migration and construction means for Russia the need to quickly find
partner countries that will supply the needs of the country. The ban of European Union agricultural products and now Turkish ones benefits the South Caucasus as well Northern Africa and other Post-Soviet Union countries. Russia will find alternative suppliers in Azerbaijan, Uzbekistan, Morocco and Israel.

Russia did not refuse to supply grain to Turkey, however the Egypt and Ukraine rushed to start negotiations with Turkey. This could affect negatively the sales of Russian grain. The government of Russia did not prohibit Russians to go on holidays to Turkey but advised not to go; therefore this lobby will create new trends on tourism. Still some Russians will go to Turkey but others will choose other destinations in Europe.

Regarding construction, Russia will have to find very soon a way to replace the 55,000 Turkish workers that will work on new projects. This will be an opportunity for Russian nationals to become tenders of new calls for construction projects.

In general, the break of ties between Russia and Turkey has some benefits for the South Caucasus region for the sectors of agriculture, tourism and energy. However, it is important to mention that at the same period the devaluation of the currencies of the Caucasus Azerbaijani Manat, Georgian Lari and the Armenian Dram (currencies depending on the Russian Ruble) has created an unstable and unclear situation for the member countries.

The case of Azerbaijan is very unique; since it has historical ties with both Russia and Turkey therefore any step forward could be a mistake in the diplomatic relations. After the support offered to Turkey in discount of tariffs for transport there is a fear of possible sanctions on Azerbaijan from Russia. Azerbaijan will experience a rise in their fruit & vegetable export to Russia and at the same time will be able to increment the amount of oil & gas sold to Turkey. Simultaneously, Azerbaijan will experience high incomes from the transit of products bypassing Russia from Iran, Kazakhstan and nearby countries. However, Azerbaijan will experience a battle in the internal market due to the competition of Turkish products and the devaluation of the AZN. The government of Azerbaijan is expected to create new policies to protect the internal market.

Due to the creation of the new commercial port of Baku, exports and imports will create a higher supply to the country as well as the possibility to increase the export to other countries via seaside. After the lifting of Iranian sanctions, predicted to happen during course of 2016, slowly the country will have international presence in the economic sphere, being active in the export of their products, especially oil.
There will be a higher number of Russian nationals visiting Azerbaijan for tourism and international sports events, but much lower than the visitors going to Georgia or other destinations, due to the lack of affordable holidays resorts and expensive prices in Azerbaijan.

Georgia will first benefit slightly in export of fruits & vegetables selling to the Russian market and the attraction of tourists that usually visit Turkey. The effect of the rupture of the ties between both countries will be seen in summer 2016, when most of Russian tourists travel to Turkey. In the coming years other consequences related to energy could affect the need of energy supply of Turkey, since the country is expanding and there is a big demand. Georgia could be a partner to supply electricity to Turkey since the situation about the nuclear plant project based in Mersin is not clear to provide electricity to the country.  

Armenia, with the dispute between Russia and Turkey benefits of a stronger tie with Russia and the possibility to supply to more markets with their fruits & vegetables. In the sector of tourism or construction there will be not much impact.

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Research paper edited by: Cristina Juan Carrion

For further information you can contact the authors of this independent research paper.

Cristina Juan Carrion
Senior researcher at CESD, graduated in M.A. in Media & Communications by the Polytechnic University of Valencia (Spain), took part in several international programs at the University of Wisconsin (USA), University of Udine (Italy) and Jagiellonian University (Poland). She is a PhD. candidate in European Studies and her interests are related to international relations, EU foreign policy, e-commerce, e-governance, information security and Russian-EU relations.
cristinacarrion@cesd.az

Gülnara Abbas
Gülnara is a researcher at CESD and holds a MSc. in Development Economies at the Kings College London (United Kingdom). Her major is emerging economies and inclusive development. Her fields of research are emerging markets, international relations and public policy.
gulnaraabbas@cesd.az

Ibrahim Ibrahimov
Ibrahim is a student of Bachelor of Science BSc., major in economics and computer science at the University of Toronto (Canada). He is a freelance researcher and is interested in public policy, information asymmetry and efficiency wages.
lbrahimov@cesd.az

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CENTER FOR ECONOMIC & SOCIAL DEVELOPMENT
Better Research, Better Reform, Better Policy
115, Dilara Aliyeva
Baku (Azerbaijan)
www.cesd.az

email: info@cesd.az
Tel:+994 12 497 56 84 / 597 06 91