

Analysis of Iran-Turkey Economic Relations in Perspective: Barriers, and
Mechanisms of Promotion



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PLAGIARISM

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ABSTRACT

The present study is a comprehensive analysis of the transformation of Iran-Turkey relationships in a historical framework. For this purpose, the political and economic ties between the two countries are examined in depth by taking into consideration the historical changes in their political attitudes towards each other and the trade ties that are affected by many factors. The study also analyzes any determinants that shape the mutual understanding and economic relationships between them. Moreover, it seeks to evaluate any trade barriers and obstacles that impede the free flow of imports and exports. This study argues that the relationships between Iran and Turkey is mainly informed by their regional and international policies and political attitudes towards each other which fluctuates between rivalry and partnership. Finally, the future prospect of the relationship between them is closely analyzed and some suggestions in terms of economic relations and political considerations are proposed to empower their ties and facilitate their trade transactions.

Keywords: Turkey, Iran, Political considerations, Economic Relations.

ÖZET

Bu çalışma, İran-Türkiye ilişkilerinin tarihsel bir çerçevede dönüşümünün kapsamlı bir analizidir. Bu amaçla, iki ülke arasındaki siyasi ve ekonomik bağlar, birbirlerine karşı siyasi tutumlarındaki tarihsel değişimler ve birçok faktörden etkilenen ticari bağlar dikkate alınarak derinlemesine incelenmektedir. Çalışma ayrıca aralarındaki karşılıklı anlayışı ve ekonomik ilişkileri şekillendiren tüm belirleyicileri de inceliyor. Ayrıca, ithalat ve ihracatın serbest akışını engelleyen ticari sorunlar ve engelleri değerlendirmeye çalışır. Bu çalışma, İran ile Türkiye arasındaki ilişkilerin esas olarak bölgesel ve uluslararası politikaları ve rekabet ve ortaklık arasında dalgalanan birbirlerine karşı politik tutumları ile şekillendiğini savunuyor. Son olarak, aralarındaki ilişkinin gelecekteki beklentisi yakından analiz edilir ve ekonomik ilişkiler ve siyasi hususlar açısından bazı öneriler, bağlarını güçlendirmek ve ticari işlemlerini kolaylaştırmak için önerilmiştir.

Anahtar Kelimeler: Türkiye, İran, Siyasi düşünceler, Ekonomik İlişkiler.



To My angels Nila and Noura
and my family.

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CHAPTER ONE

1.1. Introduction

In the course of history, the relationship between Iran and Turkey has shown great fluctuations. Although this relationship can be characterized by many features, it has always been carried on by conflict and tension. There have been times that the two countries experienced a short and relatively positive atmosphere with increased cooperation and mutual understanding. Economic, political, and military relationships between them have also had great ups and downs, sometimes in favor of one and sometimes in favor of the other. However, in the modern times, the conflicts gradually faded away and a general setting of corporation established between them. This doesn't mean any way that the relationship between the two countries grew friendly, but simply means that they came to an understanding that to foster in the region and develop a sustainable interaction, both sides need a bilateral rational understanding of each other's national priorities.

As two neighboring countries with a long history of long mutual cooperation and conflict, Turkey and Iran have a relatively dynamic relationship considering economic, geographic, political and cultural factors. Despite their similarities on different levels, there are several significant issues that differentiate these two countries and determine the way they interact with each other. What is certain is the fact that throughout their long history of relations they have never had a stable and close political relationship.

Besides their mutual relationships with each other, in a large scale, their regional relationships are also of greatest importance because they play a significant role in regional developments. It is true that they have always had steady economic and diplomatic relationships, they have nearly had mutual efforts regarding their development in the Middle East. This is because of many reasons. Two general factors that determine their regional and mutual relationships is their political system and international perspectives that inform the way they interact with each other as well as other countries in the region for the development of their own interest and that of others. In spite of their two-sided stress on extending their relationships, there seems to be no attempts on either side to develop corporations to enrich the region-wide development level.

All in all, the most vigorous characteristic that defines the nature of the relationship between Turkey and Iran is rivalry rather than comradeship. Officials and elites in both countries blame their counterparts for many shortcomings they have had in their relationships. Both find fault with the other regarding political and economic plans at domestic and regional levels that negatively impact the other. In this regard, economic relation has always been under the shadow of political agenda. This means that, when the two countries had friendly relations, economic ties between them were promoted. When tension increased between them, their economy negatively suffered. Especially in the recent century, closer political ties drew the two neighbors establishing more profound trade agreements, free flow of goods and materials between them.

There has been a great deal of studies conducted on the relationship between Turkey and Iran, most of which have explored different aspects of this relation. Economic, political and cultural bonds between these two neighbors have been the

topic of scholarly interests both inside and outside these two countries. However, most of these research attempts have focused on only one dimension of this relationship, and have failed to provide a comprehensive analysis. The present study undertakes to analyze political and economic trajectory on the relationship between Iran and Turkey. Objectives of this study are twofold: on the one hand, it examines the nature of economic ties and trade barriers that characterize mutual business relationships between these two countries. on the other hand, it analyzes the political portfolio of Iran and Turkey to show how their political perspectives influence the other and mutual economic ties.

However, previous studies mostly focus on one aspect of this relationship or examine its nature in a specific period of time which makes it hard to grasp a whole picture and the true understanding of what dynamics drive this relationship and how they evolve over time. To our knowledge, this study is the first of its kind that comprehensively analyzes political and economic relationship between Iran and Turkey over a vast timespan that yields a better view of the past, present and the future of Iranian-Turkish bonds.

1.2. Aim of the Study

The aim of the study is to analyze the relationships between Turkey and Iran in terms of political and economic determinants that affect their mutual ties. The study looks into the historical context of their trade relations and seeks to figure out what barriers and obstacles negatively affect their relations in the long-run and then suggests some ways to remove these obstacles to reinforce their trade ties in the

future. For this, a brief examination of the past and the present conditions of business exchanges between the two countries is essential.

1.3. Research Questions

In order to provide a comprehensive analysis of this relationship, the present study provides some research questions to organize a structural analysis of economic and political relationship between Turkey and Iran. The following questions are then formulated to offer reasonable answers to unfold the true nature of Iranian-Turkish relations:

1. what is the historical context of bilateral relationships between the two countries?
2. What are the sources of tension between the two countries that affect their economic ties?
3. What are key trade features and barriers in economic relations?
4. What is the prospect of future relationship between Iran and Turkey and how it can be boosted?

Having posed the above questions, and in an effort to offer a better understanding of changes in Turkish - Iranian relations, this study makes best use of the literature on a wide range of theoretical perspectives previous researches have examined. This contributes to getting a better understanding of factors that determine foreign policy of these neighbors towards each other. Since the economic aspect has been largely neglected in analyzing the historical context of mutual relationships of Iran and Turkey, this study looks into the canonic factors and barriers in shaping

bilateral bonds. In simple words, it tries to find reasons behind gradual changes in the relationship between these two countries from a relatively large period.

1.4. Relations in Retrospect

All through the history, the relationship between Turkey and Iran has been characterized by rivalry and friendship, with short intervals of anonymity on both sides. In the 16th century, the Safavid dynasty in Persia and Ottoman Empire in Turkey both exerted all the efforts in conquering the other neighboring nations in an attempt to be the dominant power in the region. The Ottoman state was challenged by the new emerging power in Iran and the result of clash between the two power states was Chaldiran Battle in 1514. The Turkish government accused the Persian Shah for their support of a group of rebels called the “redhead” which were consequently demolished. In the two centuries following the rise of unrest between little countries in terms of political and economic relationships, there were sporadic battles which were mostly won by the Ottoman state.

Although the borders between two countries were clearly marked in 1639, the dispute over sovereignty continued into the 18th century during which time neither Persia nor the Ottoman power took any steps to amend their relations or to gain more power over the other. It was in the 19th century that the two countries stopped considering each other as rivals or national threats in the presence of Russia, Britain and other European actors that were growing in the region and extending their influence on weaker states. However, the Ottoman acted much faster in adopting European standards and modernization, while Persian government watched with interest what happened in the neighboring country and felt unable to make similar changes in its territory.

At this period, the relationship between these two regional powers was no better than the past and each wanted to seize any chances to gain advantages over the other. Istanbul became a dwelling place for many opposition groups that worked against the counterpart capital city of Tehran.

The economic relationship between Ottoman and Persian governments was always influenced by political considerations on both sides heavily dependent on religious priorities. The religious conflict was not something to be easily dealt with because they were both afraid of the other's growing power as the leading Islamic state. Those who wanted reforms in Turkey were mostly secular and didn't see the political power of Islam in controlling and managing worldly affairs. However, in Iran, the situation was completely different and the government wanted to expand its control outside its borders to raise the number of Shia Muslims. This was the main concern for Sultan Abdülhamit II who was afraid of the influence of Persian government over some provinces and cities in what is the modern Iraq today.

In 1894, Sultan Abdülhamit II sent hundreds of letters to the Shia government to accept him as the supreme leader of the Islamic world Which was never recognized and instead was responded with disdain. Any time that there was Hope for both sides to make their relations better, something went wrong and spoiled it. For example, the bilateral relationships between them improved a little when the Shah of Iran visited Istanbul in 1900 but it was very short. This is because in 1905, Turkish troops occupied some Persian territories Which remained under its control until 1908. Therefore, the long history of the relationship between them in the 16th and 17th century shows a period of political and economic instability. As two rivals from the earlier periods, they never fully settled on mutual affairs and always were in conflict

over different things and instability continued in the early 20th century and was affected by other issues such as the two world wars.

1.5. Dynamics of Turkish-Iranian Relations

There have been a lot of factors that significantly affect the development of mutual understanding and relationship between Iran and Turkey. One of the most important factors is geographical location. These two countries have large populations and a very big territory and because they are neighbors that try to be the dominant power in the eastern part of the Middle East, both want to gain advantages over the other. However, each has its own advantages over the other in terms of the geographical location. For example, Iran has control over the corridor oil and gas transport which is a key factor in its economy and which is needed by Turkey. On the other hand, Turkey is the linking point of Asia and Europe and has under its control five key passageways. This is a big root of conflict between these two countries because they both compete to have control and sustain its influence on the region for trade activities (Erhan & Aydin, 2008).

The second factor that is identified by many researchers is related to domestic affairs which they both suffer from, though it is related to both of them. Turkey and Iran are multicultural countries in which minority ethnic groups live together and sporadically cause domestic insecurity and governance problems. Near the border of Turkey, some great provinces of Iran are populated by Azerbaijani people who historically belonged to Turkey. Pan-Turkism is a problem that Iranian government faces and seems to have no absolute solution. They make up 25% of Iran's overall population and play a significant role in its economy and politics. Therefore, any

upheaval and on wrist caused by their separatist activities concerns Iran's government and becomes the big source of problem. For this, Iran blames Turkey for supporting this young Turkish movement in Iran's border.

The same scenario is true for Turkey whose Kurd population is the serious threat to its national stability. Accounting for 15% of the total population, Kurds are the most problematic minority in the country and have been trying to gain independence since 1920. Turkish government blames Iran and Iraq for their support of Kurdish military forces that challenge national Security of Turkey by the sporadic attacks and continuous activities near the border. Despite the fact that Iran itself suffers from the danger of these Kurdish minorities inside its borders, the scope of the problem is much bigger in Turkey. Moreover, the Kurdish minority is a complicated issue because it is a both positive and negative concern for the two countries. Sometimes, Iran and Turkey collaborate in combating these militants and sometimes diverge in their political stance against them.

In the same vein, Turkey accuses Iran for its support of Armenian ethnic minorities and reminds the latter of its significant role in combating Armenian rebels who threatened Iran's territory not long time ago. These all indicate the fact that minority problem is a big concern for two countries that complicates and affect their mutual relationship. As long as the minority problem continues to worry the two countries, they seemed unable to sustain political and economic relations in a normal way as they do with other nations around them. This comes as no surprise because other neighbor countries do not match them in terms of economic and political and cultural power.

The third problem was given impetus by religious differences between them, one being the leading Shiat country whose utmost desire is to increase the number of Shiat followers in other countries, while the other claims to be the leading country that accommodates Sunni Muslims in the region. Surprisingly, none is ready to acknowledge the power and influence of the other and both continue to challenge the authority of the other. This has given rise to a lot of diplomatic rivalry and competition, followed in some cases by military conflicts. While Turkey is always concerned with Iran's role in evoking anti Sunni activities, and its pro-Shit ambition to be the leading Muslim country in the region, Iran so is also worried that Turkey will outgrow in terms of Sunni population and influence in Islamic countries.

This unfailing conflict, in particular, significantly affects the economic relationships between the two countries. This is mainly because the atmosphere of mistrust between them prevents them from engaging in mutual trade activities as they believe that and their contribution to economic development of the other may finally lead to its growth as the most powerful religious state in the region (Kara & Tavhi, 1988: 126-146).

History provides evidence that this unfailing conflict has always hindered economic relations between them as was the case of the Ottoman Empire's attempt in bringing Iran to an agreement to accept it as the leader of Muslim countries which seems to define the nature of their political tradition that overshadows their trade activities. In short, the third factor is somehow the strongest reason for their rivalry and inability to keep a sustainable economic relation because of the fear that the other will supersede economically and politically.

The fourth factor that is also determined by the third factor is the system of governance and political model that they adopted for themselves in the early 20th century. Despite the fact that both countries are ideological states that are driven by religious beliefs, they diverge in terms of insanity of applying ideological incentives in their political and economic agendas. The early reformations that both countries underwent in 1905 and 1908 significantly influenced their choice of political outlook that highly informed their regional as well as international relations. Turkey opted for a more liberal and secular political system that separated Islamic doctrines from governmental affairs, while Iran maintained a more conservative strategy and pursued Islamic ideas which led to the 1979 revolution that ended the monarchical system of the country and inaugurated a theocratic political system that defined all its relations with the world outside.

The Islamic Revolution of Iran was a big threat not only for Turkey but also for many regional powers and weaker states that could be the target of its revolutionary ideas driven by Islamic extremists seeking to spread their messages across their borders. Turkey was especially concerned with the issue as it worried that Iran wanted to export the revolution to the Middle East, and deteriorate Turkey's power in the region. What escalated the problem was the fact that during this period considered itself an embodiment of a secular and modern Muslim country while Iran tried to offer an Islamist model for other countries to follow. Similar to other problems we mentioned above, the conflict arising from political model between the two countries led to decline in economic relations that continued for years.

Economic relationship between Iran and Turkey was doomed to failure in this period mostly on Iranian side because Iran had a policy that enclosed it in its borders and prevented free flow of investment to its own country. This was the direct

result of Iran's regional policy which was not favored by Turkey because he threatened Turkey's authority in the Middle East.

The fifth and the final factor that contributed to the decline in economic relationships between Turkey and Iran was the dispute over border issues. after the Treaty between two countries in 1639 that delineated borders between them, they experienced no war over the borders. On the one hand, Iran expected Turkey to close its borders to opposition groups that fled Iran to go to European countries. Most of these people with those who opposed the new regime in Iran but Turkey accepted no responsibility for such measures. On the other hand, since the beginning of the 20th century, ethnic minority groups in both countries started some military activities against governments in border cities and borderlines and this made the problem even worse for Iran and Turkey with which they had enough to fight over. When Kurdish minorities started to rebel against Turkish government in 1931, Turkey blamed Iran for providing easy access to its borders to organize attacks against Turkey.

Chapter Two

2.1. The Islamic Revolution

The political competition between Iran and Turkey has never prevented the two from establishing strong financial and economic ties with each other and both sides have always given priorities to keeping their trade bonds. It would be naive to say which part benefits the most from this relationship because they equally have their own share. There have been even times that economic relationships have led to resolving tension and geopolitical divergence. There is no ample and reliable evidence on what items great importance for the two countries in the far past, but what they favored in the last century can be traced. However, for the ease of analysis in the present study, the economic relationship between Iran and Turkey is divided into two parts to make it easier to trace changes in their economic portfolio: before the Islamic Revolution in Iran covering the period from 1920 to 1980s, and the period covering after the Islamic Revolution from 1980 to 2020.

The reason for dividing the economic aspect of the study into two periods is that the political model of Iran shifted radically after Islamists gained power in Iran in early 1980s after the Islamic Revolution. Changing in economic and trade volume before and after the revolution will give us a clue on how politics affect their mutual trade and will help us propose mechanisms to amend the relationship and establish more fruitful trade ties between the two countries in the future. The study claims that political and economic dimensions cannot be separated from each other because they are directly related and any fluctuation in one affects the other. Since providing to comprehensive statistics on export and import of items in detail from two countries is

beyond the scope of the present study, the researcher only provides overall periodic analysis of major economic statistics that depict the trade profile of Iran and Turkey.

The period before the Islamic Revolution in Iran coincided with two world wars followed by a period of cold war that drove world economics into a deadlock. In this period, the king of Iran and the leader in Turkey had close relations. Despite many problems and political disagreement between Iran and Turkey, they tried to keep a friendly relationship. However, economic relations did not faster in the same period and showed a declining trend up until 1950s. A close analysis of statistics shows that Turkey's total foreign trade with Iran does not grow significantly in this period and Iran's export volume shrinks tragically from \$35.000 in 1923 to zero in 1945, while imports drop from \$381.000 to \$7.000 in the same period (Hale, 2000).

The dominant trade item in this period from Iranian side is limited to oil, but Turkey has a better stance and provides agricultural goods and sometimes minerals to its neighbor. While the volume of imports and exports from Iran to Turkey declines significantly, the opposite happens to Turkey which benefits from its bilateral trade, reaching the highest level of imports and exports in mid-1940s, \$155 million and \$197 million, respectively. However, when Iran's oil industry was nationalized, the relationship between the two countries was a little damaged because Turkey was not happy with the change and sided with Western powers who wanted to impose some sanctions on Iran for its dependence in exploiting oil. As a result, economic relations between the two countries declined for a while. However, the major imports from Iran to Turkey was oil while Turkey's exports were mostly agricultural commodities.

Nationalization of the oil industry in Iran in 1951 had a great impact on its relationship with Turkey. On the one side, did not support this national movement and was mostly on the side of Britain and the West to impose some sanctions on the purchase of oil from Iran, the result of which was less bilateral relation and more criticism. However, when the Iranian oil problem was settled by Britain and the West by participating in international agreements such as Baghdad Pact and Central Treaty Organization (CENTO) in 1955, there was a revival of relationships between these two countries.

But this was also a short-term remedy and fluctuations in their economic relationship continued as ever. although these two countries were in the same organization, economic never grew to a great level to satisfy both sides because each one wanted to get the help and support of Western parties in an attempt to develop and empower the bilateral relations with more powerful countries in the world and neglected its neighbor. This was somehow how what the US and Western powers wanted, which was dependence of Iran and Turkey on the West (Ramazani, 1966).

Although bilateral trade was somehow stable in this period, it is negligible and never reached a significant level and was limited mostly to oil on Iranian inside. In 1964, Iran, Turkey and Pakistan entered a regional agreement called Regional Cooperation and Development (RCD) to establish an alternative organization to CENTO. By doing this they had plans to improve level of imports and exports from each other instead of providing them from other sources while keeping the price and quality in a reasonable level. In this regard they also had plans to agree on such issues like joint oil and shipping companies to facilitate trades between them but because they did not reach any agreement most of these plans were futile.

Despite the fact that the two parties always tried to boost the relations by proposing development projects, the volume of trade was never what they both expected. this was somehow related to how they acted in meeting the demands of the other. For instance, Turkey was a well-known exporter of agricultural products of the time, but received its own desired share. another reason was that RCD emphasized on establishing shared policies between the three parties in terms of allocating resources and implementing common investment plans.

In the first half of the 20th century the economic relationship between Turkey and Iran fluctuated but was somehow stable. However, the lowest trade can be observed in 1960s. As shown in Table 2.1, Volume of imports and exports is nearly non-existent in early parts of the 1960s. However, as we moved to the end of the 1960s, as a result of the relationship between Turkish government and the Shah of Iran, economic ties grew stronger and showed slight increases both in exports and imports. As we drew to 1970s, the power balance between Turkey and Iran changed rapidly because Iran was supported well by the US, on the one hand, and the price of oil surged, on the other.

Table 2.1. Volume of exports and imports during 1920s-1970s

Volume of exports and imports between Turkey and Iran before the Islamic Revolution

	Imports	Exports
1923	\$87.000	\$51.000
1932	\$41.000	\$48.000
1945	\$97.000	\$168.000
1956	\$47.000.000	\$35.000.000
1963	\$16.000.000	\$15.000.000
1974	\$48.000.000	\$45.000.000

Turkey was struggling with domestic economic problems at the time and the crisis of oil price in the 1970s was another burden to its economy that significantly affected its regional and international policy. At the same time, Iran was developing fast and was growing as an economic, military and political power due to rises in the price of oil. The Shah of Iran was happy with the situation and used it to the advantage of his country. For example, he didn't accept Turkey's request to buy my oil from Iran for a cheaper price and this caused a sort of suspicion and dissatisfaction on the side of Turkey. However, this was not all bad to Turkey and some industrialists benefited from improvements in Iran's economy, and opened in a new page in the relationship between the two countries which was mostly related to industrial infrastructure including construction products. The results of this joint economic relationship were investment in many different fields including agriculture, construction materials, mining and natural resources, petrochemical sector, and banking services (Calabrese, 1998).

However, like many other mutual agreements and plans, these investment plans were not really successful and didn't turn to action. Iran was reluctant to invest in Turkey and they did not welcome Turkish investments and the private sector. As a result, Turkey had to find another alternative to increase its trade and gain better financial prosperity through different mechanisms. For this, border trade was facilitated between these two neighbors and tariffs were either removed or significantly reduced. Border trade was finally adopted by Turkey and Iran in 1978, according to which Turkey sold different commodities in exchange for Iran's oil. This provided Turkish businessmen with enough profit. Gradually, based on the mutuality trade, the border trade scheme turned into borderless trade and facilitated free flow of products from both countries, though Turkey's economy suffered some harms to

domestic commodities and had to pass some regulations to restrict the practice of borderless trade to some regional locality (Osman, 2000).

The late 1970s and early 1980s were periods of instability for both countries which made them amend their international and regional relationships. The most important political event in the history of Iran in the 20th century happened in the form of Islamic Revolution of Iran. The Turkish government supported the new regime because Iran continued its membership in RCD and showed no signs of stopping its bilateral relations with Turkey. Similarly, another important political event happened in Turkey: coup d'état in 1980. This also made no changes in the relationship between Iran and Turkey. Another significant historical event in 1980s was the Iran-Iraq war. Despite all these adversities, they sustained their relationships.

The revolution affected the bilateral political and economic relations between Iran and Turkey but it was mostly a continuous relation and no party wanted to halt their exchange of any goods. Most importantly in this period, economy was given more impetus than politics and formal relations between them was manifest in numerous top executive officials' visits in 1980s that aimed at expanding economic ties and strengthening political alliance. As a result, developments in economics and politics occurred in early 1980s but this was mostly for the benefit of Iran because Turkey had a greater share of imports from Iran, not the other way round, because Turkey heavily depended on Iran's oil and fuels. Before 1970a, Turkey enjoyed a significant share in Iran's import but now in the 1980s, it was Iran which dominated Turkey's imports.

An analysis of political portfolio of the two countries will be helpful in understanding the true nature of the relationship they had with each other. There is no

denying that Turkey was alarmed by Iran's revolution and feared its giant economic and military role in the region as a result of Shah's close ties with the US which provided it with newest military machinery and equipment, and which was strengthened by surging price of oil in the last decade of Shah's monarchy. Therefore, it was quite natural for Turkey to act with caution in dealing with this powerful neighbor because Turkey had some historical memories of potential threats that Iran could pose to its national security and regional positioning.

On the other hand, Iran was experiencing a period of shifting reality that was vulnerable to internal and external pressures. It had to deal with radical internal opposition groups, and fight in the fronts with Iraq, while being cautious to intriguing plans of its Western enemies. Therefore, Iran had to rely on Turkey as a close neighbor that supported its new emerging regime despite many controversies on its legitimacy. To sum up, both sides were careful in their relations and experienced a fluctuating period of temporary conflict and partnership that was mostly determined by Iran's unstable foreign policy. In the words of a Turkish official, The 1979 Islamic Revolution in Iran was a major turning point in relations. Until then Iran was friendly with the U.S. and Israel, on the side of the West, which was in line with Turkey's position during the Cold War. After the revolution Turkey feared the export of this ideology into the country. Iran, as an Islamic theocracy, represented an ideological opposite to Turkey's secular democracy. Iran became hostile to the U.S. and Israel, further making it an adversarial neighbor for Turkey (Kayaoğlu, 2001: 18)

In the first place, Turkey welcomed the revolution in Iran because the former Shah had turned Turkey down in many cases of economic relations and was becoming the major military force in the Middle East, that was a big threat to Turkey's sovereignty. On the other hand, Turkish Islamists were in favor of a more Islamic

regime in the country and supported its integrity in the face of external and internal unrest. But the military coup of 1980 in Turkey changed the scene as it coincided with the Iran-Iraq war and provided an opportunity for the two countries to ally with each other. This alliance was important for economic and political reasons: Turkey's economy was experiencing a period of standstill stoppage and needed a partner to recover from economic crisis. On the other hand, Iran needed a sustainable trade channel and Turkey was a promising market for its petrochemical product and a route to reach other likely countries. Iran was also concerned with the threat of being lonely in the region, especially after the invasion of Iraq (Hentov 2011).

Overall, in 1970s, economic share of Turkey and Iran was not considerable and total exports decreased from 1% in the early 1970 to 0.5% in 1979. But imports from Iran had a rapid increase from 1% in 1970 to 11% in 1979. The result of modifying policies on economics in 1970s led to considerable changes and diversification of exports and imports between two countries. Livestock, fruits and vegetables, sugar and meat, and industrial products including cement, chemicals, glass, iron and steel, and machinery were the major items that were exported from Turkey to Iran. Mineral fuels and oil for the major items that were imported from Iran to Turkey and were always in demand, no matter what political or economic agendas were being implemented by the two countries.

2.2. After the Revolution

In 1980s Iran and Turkey had great economic incentives to improve the relations. Turkey had a development strategy by improving its exports and for this it needed valuable and sustainable markets. On the other hand, Iran encountered

Western economic sanctions after its Revolution and was suffering heavily from lack of international investments in its territories. Moreover, the battle between Iran and Iraq made these two countries promote strong economic relationships to make sure that basic needs of the two sides are delivered in time. a visit by Turkish high-ranking officials in 1982 resulted in a trade agreement in which Iran accepted to supply oil and natural gas to Turkey which in exchange was supposed to provide commodities. In the same year, there were a host of other official visits to improve financial relations and remove any potential barriers.

Iran and Turkey were formerly a member of RCD but in 1985 they joined the Economic Cooperation Organization (ECO) and significantly improved their volume of bilateral trade which reached \$2 billion in mid-1980s. However, Iran was not still the leading partner of Turkey and the first oil supplier was Iraq. This was partly because Turkey and Iran suffered from the history-wide mistrust in terms of regional policy towards neighbors and Turkey feared that too much dependence on Iran would ruin its future energy demand supplies from other countries. Therefore, it acted with caution in dealing with the newly founded regime in Islamic Republic of Iran while trying to show eagerness in trade activities.

Although Turkey needed this bilateral relationship to expand its economic ties with Iran, it was mostly Iran who was in dire need to develop trade relationships with turkey. after the outbreak of Iraq war in 1980, Iran faced US sanctions and did not rival Iraq regarding military machinery and had to spend a great deal of its budget for military purposes. during the war, Turkey was the basic channel from which Iran could import basic needs such as household goods and strategic commodities that were needed to continue the war. In fact, Turkish ports in the Black Sea and Mediterranean were the channels from which Iran could import artillery from Russia.

In return, Turkey's oil and gas was supplied. This was a good source of revenue for Turkey because it could sell its products to Iran and ensure continuous provision of its energy demand.

It cannot be claimed that bilateral economic relationship between these two countries significantly promoted the situation and released them from bankruptcy, but the fact is that they both enjoyed sustainable exchange of goods that mutually satisfied their needs. While Iran benefited from Turkish technical assistance and a variety of commodities, Turkey did not worry about its energy supplies. The volume of trade between these two reached a record of \$20 billion in 1980s to the benefit of both sides.

It is true that trade relationships after the Islamic Revolution and during the Iraq war improved noticeably, but there were some adverse phenomena that negatively impacted their mutual interactions. A range of political disparities and disagreements were the cause of economic breakdown in the late 1980s. As we said earlier, Iran was an ideological state governed by the new Islamist regime which sought to export its revolution to other countries and did not have friendly relationships with Western powers, while Turkey was a secular republic with Western oriented attitudes whose main aim was to expand its economic and regional portfolio. The years leading to the end of 1980, were characterized by radical political disagreements that haunted their economic ties.

Iranian leaders were not happy with secularism in Turkey and its Western-oriented policy and for them Turkish close relationship with the United States was suspicious and condemned. Similarly believe that even intervened in its domestic affairs by provoking minority activities against the government and believe that

Iranian outlook towards regional and international relationships was flawed. For example, Turkish government banned hijab in its universities, Iranians condemned it and this was not favored by Turkish constitutional Court that interpreted the act as an interference in its domestic affairs which had nothing to do with Iranian government. This periodical and short-lived controversies had adverse effect on their bilateral trade relationships and although they resolved by leading officials, the economy of both countries suffering from the interferences. As a result of these disagreements, the two governments asked their ambassadors to leave the office and return to their own countries in 1989 and this had negative effects on their bilateral relations.

In spite of all these adversaries and fluctuations in their relations, Turkey had a better hand at keeping and developing its economic prosperity partly because it had a better inner stability, unlike Iran that had to battle at both internal and external fronts with opposition groups, and partly because Turkey seized any opportunity in developing its economy in the short run. One big difference between Turkey and Iran was that even policy was dreaming by ideological doctrines and prevented it from developing national ties with neighbor countries.

But Turkey took a middle ground and tried to seize the opportunity to improve its economic and political position by increasing its exports in the short run. It doesn't mean that Turkey wanted to fundamentally change the nature of trade and commercial ties with Iran. A close analysis of their commercial activities between the diplomats in two countries in 1980s shows that Turkey was successful in conducting effective policies regarding its trade relationships with Iran and demonstrates that Turkey's foreign trade activities in this decade outperform those of its counterpart. Table 2.2 demonstrates Turkey's foreign trade with Iran in 1980s.

Table 2.2. Turkey's foreign trade with Iran in 1980s

Turkey's Foreign Trade with Iran									
Year s	Exports		Imports		Volume		Balance		Proportion of imports covered by exports (%)
	Value	Change (%)	Value	Change (%)	Value	Change (%)	Value	Change (%)	
1980	2.9	28.7	7.9	56.0	10.8	47.6	-5.0	78.0	36.8
1981	4.7	61.6	8.9	12.9	13.6	26.0	-4.2	-15.4	52.6
1982	5.7	22.2	8.8	-1.0	14.6	7.0	-3.1	-26.8	65.0
1983	5.7	-0.3	9.2	4.4	15.0	2.6	-3.5	13.3	62.0
1984	7.1	24.5	10.8	16.5	17.9	19.6	-3.6	3.3	66.3
1985	8.0	11.6	11.3	5.5	19.3	7.9	-3.4	-6.6	70.2
1986	7.5	-6.3	11.1	-2.1	18.6	-3.8	-3.6	7.8	67.1
1987	10.2	36.7	14.2	27.5	24.3	31.2	-4.0	8.8	72.0
1988	11.7	14.4	14.3	1.3	26.0	6.8	-2.7	-32.6	81.4
1989	11.6	-0.3	15.8	10.2	27.4	5.5	-4.2	55.9	73.6
1980-89		299.5		99.7		153.4		-16.6	

Source: TurkStat, 1980-1989, Billion US \$, Annual Change (%).

It can be clearly seen in the above table that imports and exports between Iran and Turkey in 1980s fluctuated greatly as a result of their conflict and the political instability. Despite all that, Turkey's exports to Iran in 1980 was \$85 million which significantly increased in a very short time, reaching the level of \$1.1 billion in 1983, followed by a period of decreased that finally ended up to \$561 million in 1989. The same is also true for imports. In the early period of early 1980s, the amount of imports from Iran to Turkey was about \$803 million which significantly increased to \$1.6 billion in 1980 and dropped to \$223 million in late 1980s. This means that the profit that Turkey learnt from its trade with Iran was considerable only in the first half of the 1980s and after that we see a decline in its profit.

If we want to analyze trade relationships in 1980s and see how volume of commercial relations fluctuated in this period, we can say that it is mostly profitable in the first half of this period and the closer we get to the end of 1980s the less Turkey benefits financial trade. This implies that trade volume was a condition of how the two sides politically interacted with each other. In this regard the balance between imports and exports is important Which shows that in which years Turkey benefited from this relationship. For this purpose, we have to look at three points in 1980s. In the year 1980, the volume of trade was \$887 million and improved to \$2.3 billion in 1985, but significantly dropped to \$795 in 1989.

This indicates a state of instability in the balance of trade in the period after the Islamic revolution in Iran. As can be seen from the following table, the balance in the volume of trade is most beneficial to Iran in the period of 10 years but in just some points such as 1982 and 1986 and 1989 it is mostly on Turkish side. This is mostly because of imports of oil and mineral fuels from Iran with the total value of \$1.6 billion. Unlike 1970s in which the imbalance was due to huge discrepancy between imports and imports, in 1980s, this was because of increased quantity of items imported and exported between two countries. Figure 1 shows volume of bilateral trade between the two countries.

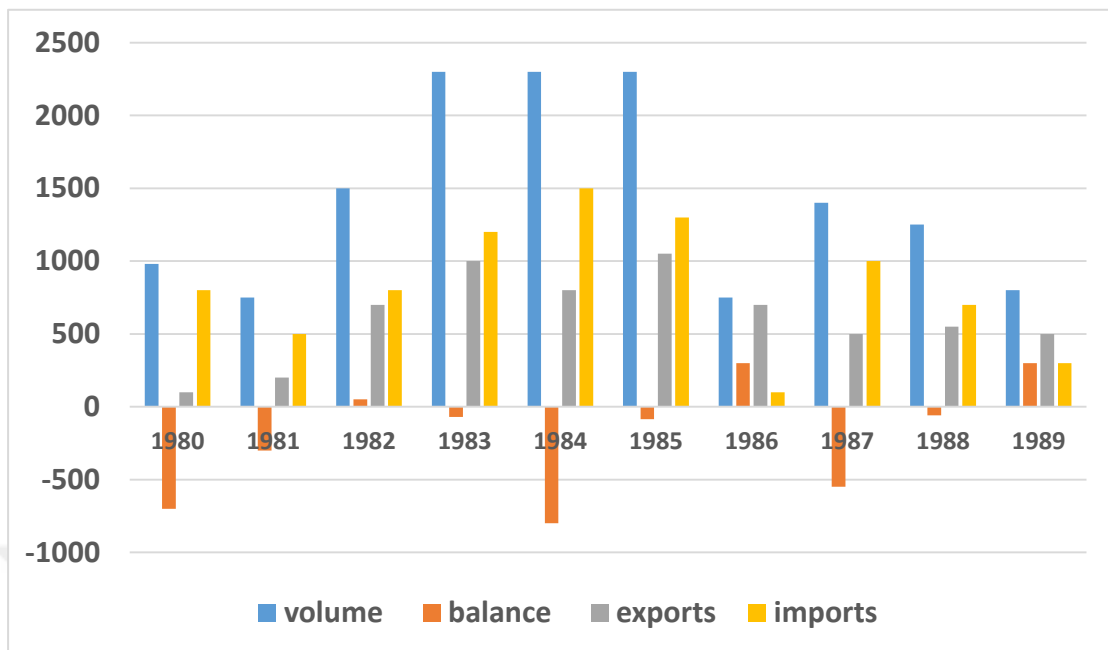


Fig 2.1. Volume of bilateral trade between Iran and Turkey in 1980s

Source: TurkStat and IMF-World Economic Outlook Database, Share (%).

In 1990s, after the Iran-Iraq war, a new era opened in the relationship between Iran and its neighbors. Having experienced a devastating period of instability and financial breakdown, Iran had to change its outlook both in terms of economics and international politics. On the other hand, Turkish economy was on the rise as compared to earlier decades. For a short period in the early 1990s, there seemed to be a kind of conflict over gaining authority in central Asia after the Soviet Union collapsed and lost power in the local scene, and there was a chance for these two countries to become more influential in the region.

There was an apparent rivalry between the two countries both of which pursued their own domestic benefits. Iranian ambition was mostly ideological to bring back their lost religious authority over the region which once extended from its borders to a great part of Asia including Turkmenistan, Afghanistan, Tajikistan, and

Uzbekistan. On the other hand, pan-Turkish advocates in Turkey found linguistic similarities with other people living in other countries and wanted to regain their historical Ottoman Empire. This ambitious pursuit was not possible without gaining economic dominance over others in the region, and the sense of rivalry made Turkey and Iran see each other a big threat that challenged their national dream.

Instead of achieving their dreams of authority in the region, the two countries developed a sense of bigger rivalry in their financial relations because their mutual cooperation was essential for their pursuit of desired goals. A simple manifestation of the sense of rivalry that Iran felt towards Turkey was its Customs procedures and tariffs that were imposed on fuels at the borders the result of which was long delays and high costs that Turkish truck drivers had to tolerate when trying to transit Turkish products to countries which were accessed only through Iran.

Soon it became clear in 1990s that Iran was afraid of the collapse of the Soviet Union and considered it a threat rather than an opportunity. This was not the case for Turkey because it shared with many other regional countries a sense of western-oriented and anti-Russian proximity that was not favored by Iranian diplomacy. The president of Azerbaijan and his nationalistic speeches alarmed Iranian leaders who feared internal movements in Iran's Azeri regions that accommodate a quarter of the country's population and were not very happy with restrictive policies of Iran and would simply fall for any separatist actions that could improve their lifestyle.

As a result of their divergent regional policies, Iran tried to make closer relationships with Russia, while Turkey tried to stick to its long-term relationship with the United States, and that the economic relationship was also overshadowed by their

political decisions. Despite all that, A group of Turkish officials and businessmen visited Iran in early 1990s to negotiate Turkish investment in the country. At first, they had no big achievements, but it paved the way for further trade contracts that allowed Turkey to take a more active role in investment programs in Iran and was the basic for a later memorandum understanding on how Turkey could develop pipelines across its borders to let Iran export natural gas to Europe.

As a result of many political problems and tension between Iran and Turkey, the bilateral relations and trade cooperation in 1990s were not as successful as they were in the previous decade , and the trade performance of the two countries shows the trend. For example, as compared to 1980s, there was 48% decrease in Turkey's average exports to Iran, and 33% decline in imports was observed for the same period, which decreased the volume of trade by 39% in 1990s. This is more tangible when we compare highest and lowest trade volumes in these two decades. Exports to Iran decreased by 85% from its \$1.1 billion peak in 1983 to \$158 million in 1999; while the imports from Iran decreased by 94% from its highest \$1.6 billion in 1984 to \$91 million in 1991. The volume of bilateral trade also dropped by 75% from its highest \$2.3 billion in 1985 to \$577 million in 1991.

Table 2.3 clearly shows that exports from Turkey to Iran shortly in 1990s. The volume of exports was \$495 million in the year 1990, but had a period of sharp decreases in 1993 and 1998, and substantially decreased by 68% to \$158 million in the year 1999. Imports from Iran experienced a similar scenario and changed greatly in the same period, fluctuating greatly in 1991 and 1992, and experiencing 29% increase in 1990 from \$492 million to \$636 million in 1999. The fluctuation can be seen in 82% sharp decrease followed by 303% increase in 1992. foreign trade volume in this decade also fluctuated and showed 20% decline from \$988 million in 1990 to \$794

million in 1999, in which the highest level \$1.1 billion was observed in 1991 and the lowest level \$577 million was recorded for 1996. Moreover, in this decade, trade balance was not positive for Turkey and developed for Iran. the rate of imports to exports decreased dramatically from 538% in 1991 to 25% in 1999.

Table 2.3. Turkey's Foreign Trade with Iran in 1990s

Turkey's Foreign Trade with Iran									
Year s	Exports		Imports		Volume		Balance		Proportion of imports covered by exports (%)
	Value	Change (%)	Value	Change (%)	Value	Change (%)	Value	Change (%)	
1990	13.0	11.5	22.3	41.2	35.3	28.6	-9.3	124.2	58.1
1991	13.6	4.9	21.0	-5.6	34.6	-1.8	-7.5	-20.2	64.6
1992	14.7	8.3	22.9	8.7	37.6	8.5	-8.2	9.4	64.4
1993	15.3	4.3	29.4	28.7	44.8	19.1	-14.1	72.7	52.2
1994	18.1	18.0	23.3	-20.9	41.4	-7.6	-5.2	-63.3	77.8
1995	21.6	19.5	35.7	53.4	57.3	38.6	-14.1	172.4	60.6
1996	23.2	7.3	43.6	22.2	66.9	16.6	-20.4	45.0	53.2
1997	26.3	13.1	48.6	11.3	74.8	11.9	-22.3	9.3	54.1
1998	27.0	2.7	45.9	-5.4	72.9	-2.6	-18.9	-15.0	58.7
1999	26.6	-1.4	40.7	-11.4	67.3	-7.7	-14.1	-25.7	65.4
1990-99		105.2		82.4		90.7		50.7	

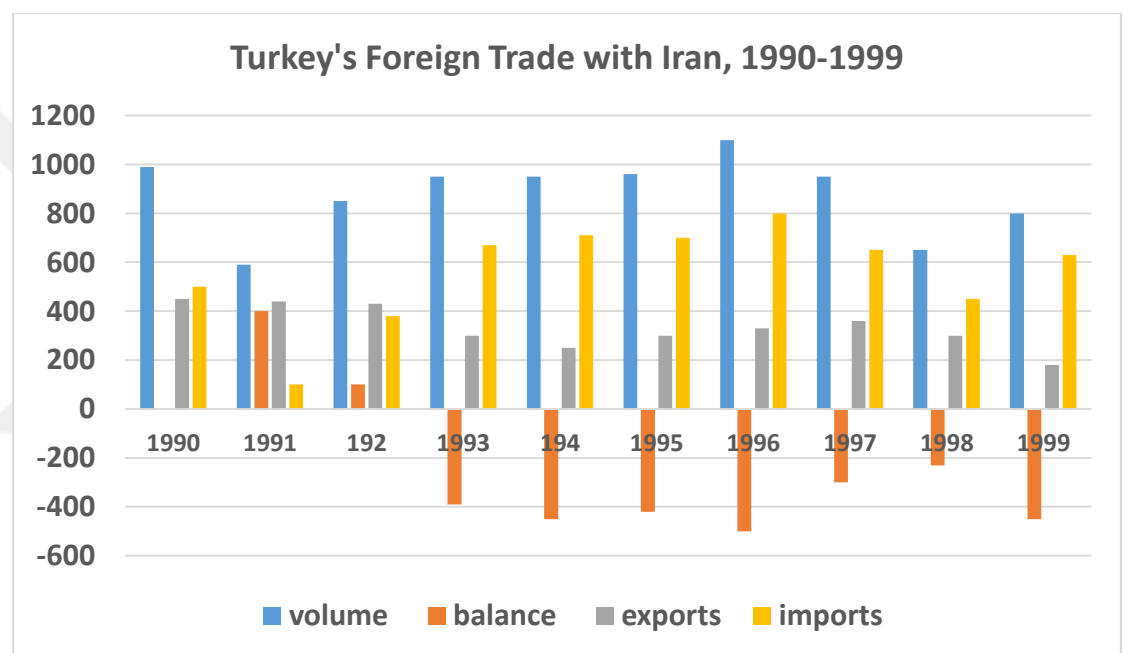
Source: TurkStat, 1980-1989, Million US \$, Annual Change (%).

In short, foreign trade performance of Turkey with Iran in 1990s shows a different trend from the earlier decades under study. That is to say in this period there is a significant drop in level of imports from and exports to Iran can be observed. Exports and imports between these two countries in this period fall dramatically, compared to 1980s and even 1970s.

As can be seen from Figure 2.2, during the period, Iran's share in Turkey's exports decreased from 3.8% in 1990 to 0.6% in 1999. In ten years, Iran's share sharply (ten times) fell from 19% in 1983 to 1.9% in 1993. Iran's average share in exports fell from 8.6% in 1980s to 1.9% in 1990s. A similar downtrend also prevailed

on the imports. Iran's share in total imports dropped from 2.2% in 1990 to 1.6% in 1999. Compared with the 16% share in 1984, this 1.6% share in 1996, pointed another sharp fall in bilateral trade. During the period, Iran's average share in imports declined from 7.8% in 1980s to 1.7% in 1990s. As a result, Iran's average share in Turkey's total volume of trade decreased from 8.2% in the 1980s to 1.8% in the 1990s while its average share in trade deficit fell from 5.1% to 1.6%.

Fig 2.2. Volume of bilateral trade between Iran and Turkey in 1990s



Source: TurkStat, 1980-1989, Million US \$.

Despite the aggregated tension between the two capitals, Ankara and Tehran maintained their economic and diplomatic relationship and never gave a full halt to their bilateral trade in the late 1990s. A further move for expanding relations was accepting more countries into ECO in 1992 because of Turkey's developmental plans, which would sometimes evoke the jealousy and envy and even hostility of its neighbor in achieving more successful relations with the world. At this time, Turkey was struggling to join the D-8 group and was working on establishing stronger economic ties with other countries. Nevertheless, mutual membership in such

organizations offered a chance to formal officials of the two countries to frequently meet each other and significantly contributed to promoting their relations.

For instance, regular meetings of the Joint Economic Commission, established in 1982, that were held in Turkey and Iran were mostly dedicated to proposing, resolving, and promoting economic issues that concerned regional development and directly addressed Iran-Turkey relations. In a milestone decision, the governments of the two nations lifted double taxation on exported products to facilitate natural gas transfer from Turkish ports to Europe, and encouraged foreign investment plans. In line with their mutual decision to reach long-term agreements on financial issues, the Prime Minister of Turkey visited Tehran in 1996, the result of which was an agreement on natural gas supply for Turkey on a scale of 25 years, with an annual supply of 10 billion cubic meters.

This came as a big surprise to other international actors that were trying to prevent any third-party investment in Iranian economic development plans and energy sector. The gas agreement was interpreted differently inside Turkey. Some blamed the Prime Minister for such a contract saying that it was out of Islamist relationships not business development and had no benefits for Turkey, while others believed that it could significantly diminish Turkish dependence on Russia to supply its growing energy demand in the long run. It took some years for Iran to take appropriate steps to implement a convenient it was in December 2001, after 2 years of delay, that Iranian natural gas pipeline was established.

The gas agreement was important for Turkey and Iran because it paved the way for them to systematically manage the tensions and focus on developing even more viable and stronger economic relationships. The Turkish Iranian business

Council was founded in November 2001 in which Turkish Foreign Economic Relations Board (DEIK) and the Iranian Chamber for Commerce, Industries and Mines and Agriculture (ICCIMA) were supposed to cooperate.

In spite of difficult times during 1990s, Turkey and Iran were somehow successful in managing their relations and didn't allow it to worsen up and escalate to an unmanageable problem. It was Turkey which took timely measures to alleviate the tensions and direct it in the right path. The financial crisis at the end of 1990s was a further burden on its economy because it was mostly engaged in eliminating problems inside the country and had little time to reorient foreign trade. This influenced its bilateral relations with Iran but Turkey did not cut its trade and only narrowed it down and focused mostly on energy trade.

2.3. Trade Exchange after 2000

Undoubtedly, in the relationship between Iran and Turkey, the trade balance is in the favor of Iran which benefits greatly from expanding economic ties with its counterpart. As a result of three decades of mutual relationships and long-lasting attempts to resolve political issues, Iran became the second largest supplier of oil and natural gas. Disregarding heavy customs duties on energy transit from borders and long bureaucratic procedures that hamper the free flow of imports and exports on the side of Iran, Turkish government as well as investors continued their trade relations with Iran. Iranian investors can operate well in Turkey's stable and flexible economy. However, the situation is not that favorable to Turkish investors who have done the same in Iran and face a lot of trade barriers that block their free engagement in business activities in Iran's rigid economic system.

After a decade of political tension in 1990s, there was an improvement in economic relationship between Turkey and Iran at the beginning of the 21st century which was facilitated by an open foreign policy of the new government in Turkey that emphasized and focused on trade relations with Iran and adopted a more friendly strategy to boost mutual economic ties with Iranian counterpart which also developed a more diplomatic attitude towards economic issues, particularly with its closest neighbor in the region.

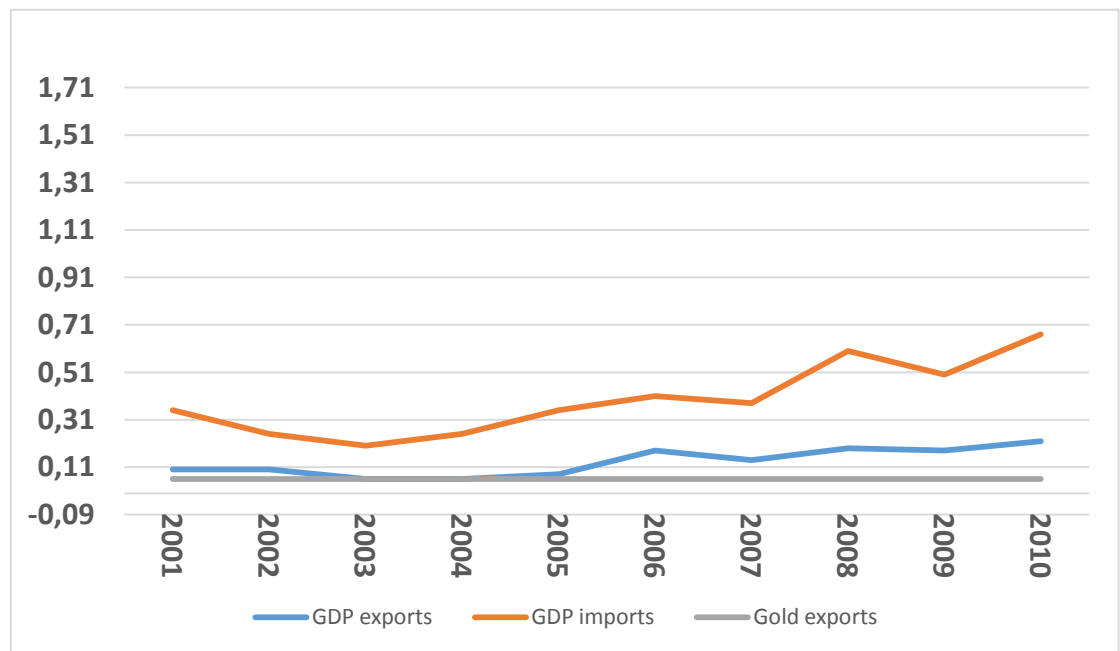
The major driving force that Encourages mutual economic relationships between the two countries is dependence on natural resources and transit pathways. Because Iran is the nearest supplier of energy resources, especially oil and gas, and possesses a significant source of energy which can be easily transferred because of geographical proximity, it is a viable and sustainable source of energy supply to Turkey and maintaining the relationship with this country has always been a priority for Turkey. Moreover, Turkish government and investors have taken advantage of the growing population of Iran in recent years and have used Iranian market to export a host of products.

The third factor that contributes to promoting trade exchanges between the two countries is imposition of international sanctions from western countries on Iran that have significantly restricted Iran's economic ties and relations with other countries, making it more sensitive to fluctuations in revenue sources and driving it to preserving its trade ties with old-established markets and partners such as Turkey whose partnership has been very valuable to Iran and whose unfailing demand was very attractive to Iran's oil-dependent economy.

After coming to power of the new JDP government in Turkey in 2003, a new system of policies regarding cross-border trade with reduced customs duties for a range of industrial and agricultural commodities that were exported from Iran to Turkey was established that played a significant role in promoting trade at borders while calling for more modern ways of shared exchange of goods through shipping and other ways of transit. More agreements were signed between the two countries to promote and protect investments and to prevent double taxation on exports and imports and these agreements were put into practice in 2005, giving mutual assurance that investors' position and possessions would be safeguarded by the host country. In conjunction with this agreement, that had been adopted earlier in 1990s infected once again after the JDP government came into power, another trade agreement was settled in 2014 which announced something specific commodities as tax-free products that could be easily exchanged between merchants and investors.

The first decade of the 21st century was a period of booming economic relationships in which Turkey's exports increased from \$3 million \$3.5 in less than 5-years. The pattern of exports and imports seemed to have no changes in the period. Turkey continued to import gas and oil from Iran as it did in the past. It also continued to export a different range of materials to Iran including precious stones and metals, home appliances, machinery, spare parts, electrical equipment, steel products and textile, to mention some. Iran-Turkey export and import volume is given in the following figure.

Fig 2.3. Volume of Iran-Turkey Export and Import between 2001 and 2010



Source: Republic of Turkey Ministry of Economy

Iran and turkey started some joint cooperation plans in 2000s and to achieve their goals they settled on some agreements, the most important being Turkish-Iranian Preferential Trade Agreement. This was potentially promising for Turkish exports because Iran's markets are locked against foreign investment and Iran was not a member of WTO at that time, and this was a good opportunity for Turkey to export industrial products that were in demand in Iran. For Iran it was a chance to find a way to escape the imposed sanctions by the US and to avoid the currency problem it had in dealing with other nations. However, for Turkey it was a likely possibility that it could utilize this chance to gain more profit from currency exchange in the short run and as long as Iran had this problem, Turkey had a guaranteed market for its products.

The Free Trade Agreement paved the way for a joint free organized industrial zone that facilitated commercial activities between the two sides and established the system by which they could work on cooperative projects, but once again because of

Iran's specific economic system these plans did not turn into action and remained undone.

Table 2.3 shows that volume of exports from Turkey to Iran significantly increased in the first decade of the new millennium. In 2000, exports to Iran were \$236 million and reached a high level of \$3 billion in 2010 showing that it was 13 times greater than 2000. In the same period, imports increased by 9 times and reached a high level from \$819 million in 2000 to \$7.6 billion in 2010. Nevertheless, the Global economic crisis in 2008 had negative effects on the relationship between two countries and Turkey's imports from Iran showed 60% decrease in 2009. It had two reasons. On the one hand, because of problems in the global scale, there was a shutdown in production sector and Turkey's demand for energy decreased substantially because Industries are facing lots of problems in producing things. On the other hand, the global price of energy including oil and natural gas in this period and the countries that owned natural resources decreased their supply of energy. In the years from 2000 to 2010, the volume of bilateral trade increased 10 times from \$1.1 billion in 2000 to \$10.7 billion in 2010.

Table 2.3. Turkey's Foreign Trade with Iran, 2000-2010

Turkey's Foreign Trade with Iran									
Year s	Exports		Imports		Volume		Balance		Proportion of imports covered by exports (%)
	Value	Change (%)	Value	Change (%)	Value	Change (%)	Value	Change (%)	
2000	27.8	4.5	54.5	34.0	82.3	22.0	-26.7	90.0	51.0
2001	31.3	12.8	41.4	-24.0	72.7	-12.0	-10.1	-62.0	75.7
2002	36.1	15.1	51.6	24.5	87.6	20.0	-15.5	54.0	69.9
2003	47.3	31.0	69.3	34.5	116.6	33.0	-22.1	43.0	68.1
2004	63.2	33.7	97.5	40.7	160.7	38.0	-34.4	56.0	64.8
2005	73.5	16.3	116.8	19.7	190.3	18.0	-43.3	26.0	62.9
2006	85.5	16.4	139.6	19.5	225.1	18.0	-54.0	25.0	61.3
2007	107.3	25.4	170.1	21.8	277.3	23.0	-62.8	16.0	63.1
2008	132.0	23.1	202.0	18.8	334.0	20.0	-69.9	11.0	65.4
2009	102.1	-22.6	140.9	-30.2	243.1	-27.0	-38.8	-45.0	72.5
2000-2010		310.0		240.4		263.9		168.1	

Source: Republic of Turkey Ministry of Economy, 2000-2010, Billion US \$,
Annual Change (%).

One important feature of the relationship between Iran and Turkey is that the gap between imports and exports has always been huge and this was also true for the years 2000 to 2010, and the fluctuation level between imports and exports was something between 20% and 60%, which reached from \$600 million in 2000 to \$4.6 billion in 2010. That is because the imbalance in mutual economic relationships was getting bigger and, in this decade, Turkish exports to Iran covered only 65% of its total imports from other countries and only 34% of imports were financed exports in this period.

In the years 2000 to 2010, imports from Iran increased substantially and this can be seen in the following figure that shows exports were not comparable to imports

and remained almost stable in this period. The figure also shows the gap between bilateral volume of foreign trade that has a weak balance. While the average growth rate of exports was 33%, imports recorded 36%, and the average growth rate of volume of trades was 32%. This indicates the fact that in this decade Turkey grew more dependent on Iran and the most imbalance statistics were observed for the year 2008 when global economic crisis affected Turkey more than Iran.

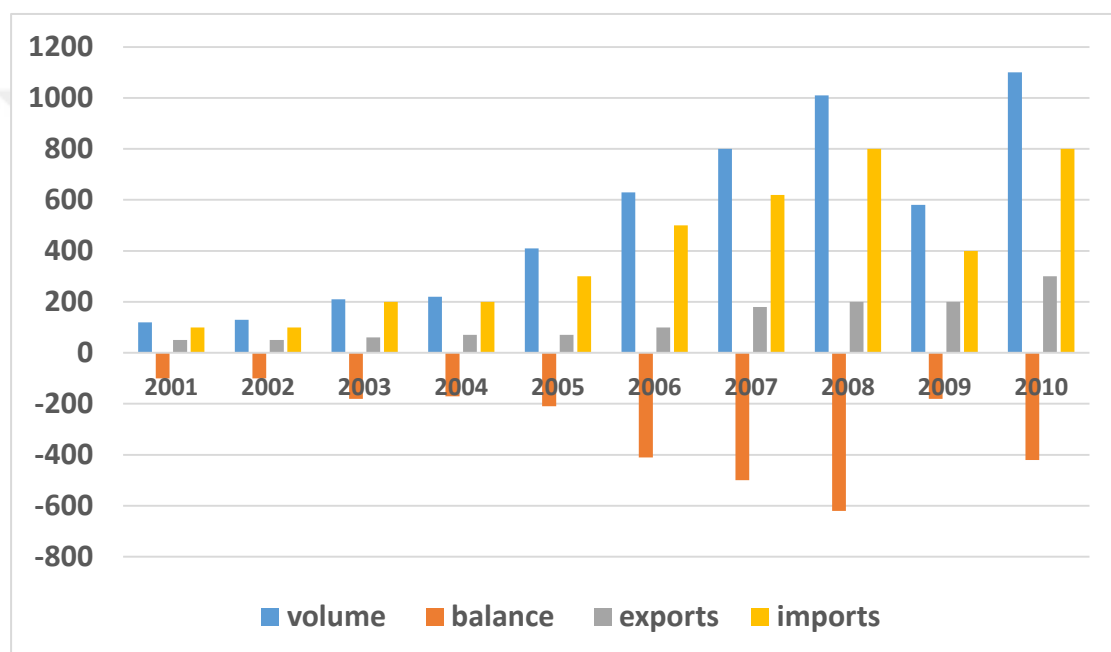


Fig 2.4. Turkey's Foreign Trade with Iran, 2000-2010

Source: Republic of Turkey Ministry of Economy, 2000-2010, Billion US \$.

Iran's share in Turkey's foreign trade in the years 2000-2010 is also noticeable. As we can see from the graph below, the average share of Iran in the exports of Turkey in 2000 was 0.8% and increased to 2.7% in 2010. The same is true for imports, which increased from 1.5% in 2000 to 4.1% in 2010 indicating the fact that total volume of foreign trade with Iran doubled and reached 3.6% by the end of

the decade in 2010. Foreign trade deficit also increased during this period and fluctuated between 2% and 9%, leading to an increased number of 6.4% in 2010. This comes as no surprise because the bilateral relationship between the two countries in terms of volume of trade and foreign trade deficit have always fluctuated. The following graph is illustrative in this regard.

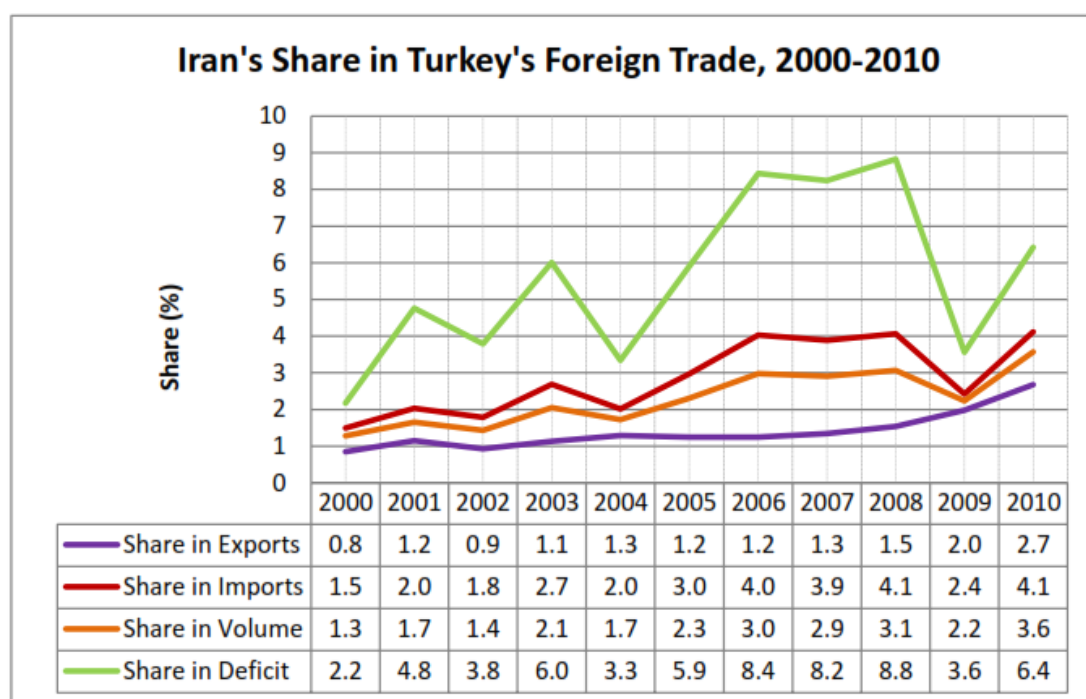


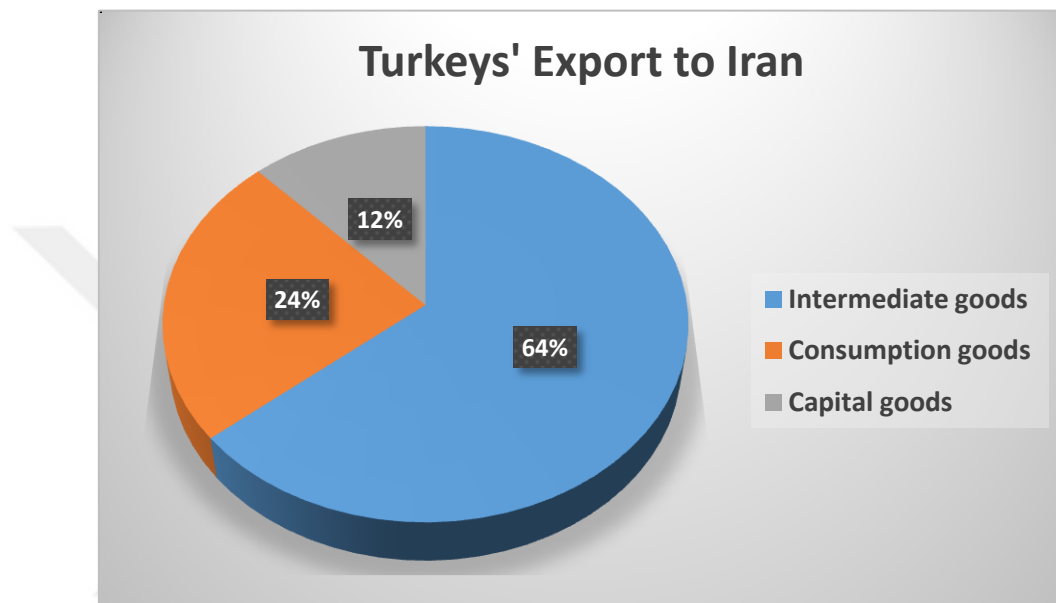
Fig 2.5. Iran's Share in Turkey's Foreign Trade, 2000-2010

Source: TurkStat and IMF-World Economic Outlook Database-September 2011, Share (%).

When we consider the structure of foreign trade between the two countries, it becomes clear that exports of Turkey are more balanced in 2000 based on classification by SNA (System of National Accounts). To be more precise, we can see that the average intermediate commodities that were exported from Turkey to Iran

in 1990s was 82% which decreased to 64% in 2000s, while average capital commodities and consumption had an increase in this period, respectively increasing from 15% to 24%, And from 3% to 12% in 1990s. Figure 2.6. illustrates the point.

Fig 2.6. Structure of Turkey's Exports to Iran in 2000s

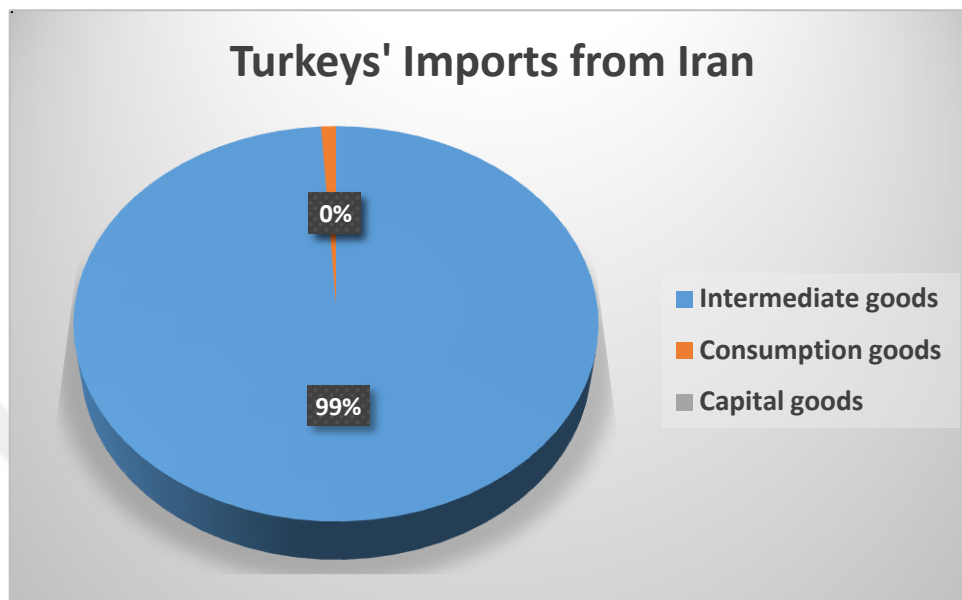


Source: Republic of Turkey Ministry of Economy, Average Share (%), SNA (System of National Accounts).

In spite of changes in the structure of export to Iran, imports had no changes. average intermediate commodities and consumption commodities during this decade was 99% and 1%, respectively, and remained this table as it was in the past. that is to say, imports from Iran to Turkey had a more increasing level than exports to Iran, indicating that making balance in Turkey's exports in different aspects with a diversification of export goods was successful in Turkey while on the side of Iran there were no successful activities in diversifying export portfolio which was dependent only on energy resources and raw material. in simple words, Turkey had a better performance in providing a diversity of items to be exported to Iran and Iran

had no success over the last four decades in offering any export item than oil and natural gas. This can be seen in the following graph.

Fig 2.7. Structure of Turkey's Imports from Iran in 2000s



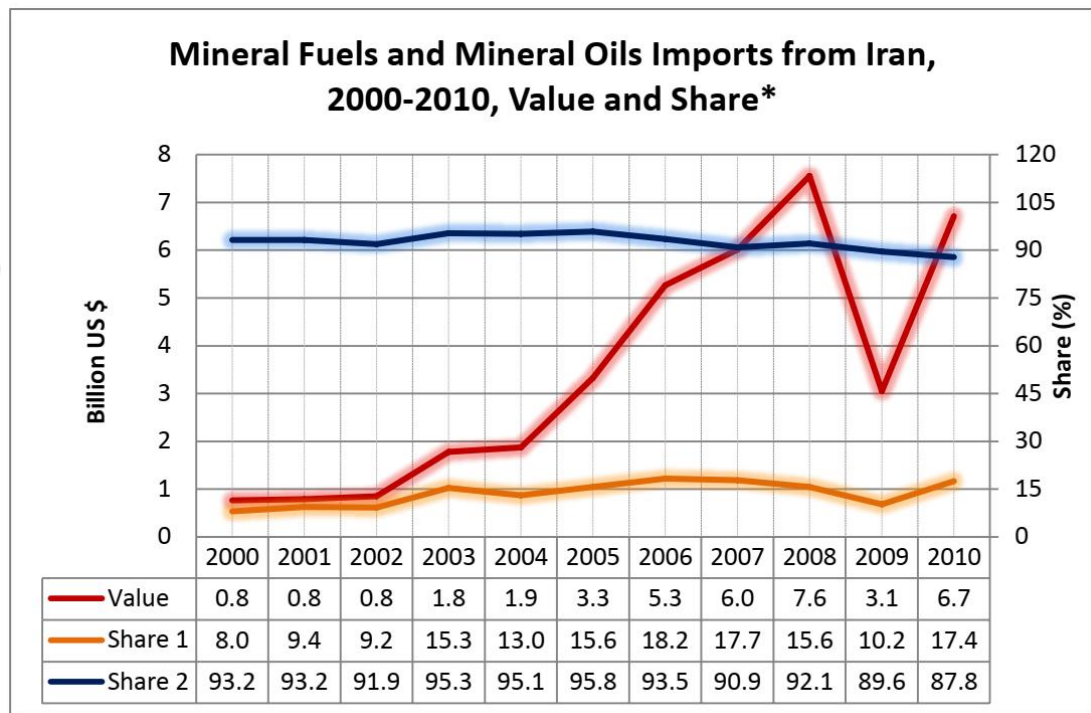
Source: Republic of Turkey Ministry of Economy, Average Share (%), SNA (System of National Accounts).

As can be seen from the graph above, there is a significant increase in The Vacation and the quantity of goods and commodities that were exported from Turkey to Iran, not vice versa. It is true that the main product that were exported remained the same and continued to be demanded by Iranian inside, was successful in expanding its products and providing a wide range of goods in Heath export portfolio. During the period, iron and steel and articles thereof, parts and accessories for tractors and motor vehicles, wood and articles of wood, tobacco and manufactured tobacco substitutes, glass and glassware, woven fabrics were among the leading export items.

The structure of imports and exports as illustrated in graphs above reveals that Turkey and Iran hardly changed import of what they exchanged as basic goods including mineral fuels, oil and natural gas, refined copper or copper alloys, plastics

and articles thereof, aluminum and articles thereof, ores, slag and ash, raw hides and skins, while imports level increased in this period from 89% in 1990s to 93% in 2000.

Fig 2.8. Imports of Mineral Fuels and Oil from Iran, 2000-2010



Source: Republic of Turkey Ministry of Economy, Value: Billion US \$, Share: (%).

*Share1: Iran's share in Turkey's total imports of mineral fuels and mineral oils.

Share2: Share of mineral fuels and mineral oils in Turkey's total imports from Iran

The graph illustrates that between 2000 and 2010, crude oil imports from Iran to Turkey was \$4.2 billion and had an increase of 6 times. Iran has the fourth position as the largest supplier of oil in the world and has a substantial Cher in Turkey's market which develops its oil export to Turkey from 17% in 2000 to 43% in 2010 and became the first all supplying in the first half of the decade.

Industrial products make up a large proportion of exports from Turkey to Iran. The products include a range of different items but what matters here in our analysis is the technological quality of products that were exported during 2000s. most of the products that were exported to Iran were medium-high tech products, and except in the years 2001 and 2002, hi-Tech products rarely appear in Iran's import basket from Turkey. This indicates that Iranian market did not favor low products from Turkey, as can be seen in Table 2.4.

Table 2.4. Technologic Structure of Turkey's Foreign Trade with Iran, 2000-2010

Technological Structure of Turkey's Foreign Trade with Iran, 2000-2010								
Years	Low Tech products		Medium-Low Tech Products		Medium-High Tech Products		High Tech Products	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
2000	40%	13%	26%	71%	33%	16%	1%	0%
2001	29%	22%	21%	41%	26%	37%	25%	0%
2002	25%	21%	20%	51%	39%	27%	15%	1%
2003	31%	26%	28%	43%	39%	30%	2%	1%
2004	31%	26%	34%	19%	34%	51%	1%	5%
2005	33%	13%	28%	34%	38%	53%	1%	0%
2006	36%	8%	29%	25%	33%	66%	1%	1%
2007	35%	6%	28%	57%	35%	37%	2%	1%
2008	30%	6%	33%	61%	35%	33%	2%	0%
2009	33%	7%	29%	42%	37%	51%	1%	1%
2010	25%	4%	42%	49%	32%	46%	1%	0%
Average	32%	14%	29%	45%	34%	41%	5%	1%

Source: Republic of Turkey Ministry of Economy, 2000-2010.

* Share in total exports to and imports from Iran, Percentage (%).

2.4. Bilateral Agreements

In 2000s, Iran and Turkey signed a number of mutual agreements to facilitate bilateral economic relationships between them. There were some agreements in the past but in this period more effective ones were settled on that had important roles in promoting commercial trade. A bilateral agreement on the promotion and security of mutual investment was signed on 21 December 1996 between Turkey and Iran when the RP-DYP alliance was in force in Ankara. But it did not officially enter into practice until February 25, 2005, some years after the AKP started to take power in the country.

Another bilateral agreement was signed in 2002 by which the two countries guaranteed to prevent double taxation on exchanging export goods, though it was not implemented until 2005. In the same year, the AKP government in Turkey started an effective plan to improve trade at 13 provinces that shared borders with Iran. The Turkish government convinced Iran to sign another agreement on March 25 2003 to significantly reduce Customs duties by 40% to allow for easy transportation of agricultural commodities. Later, industrial products also enjoyed the substantial decrease in customs duties that was enacted from April 2003 and enabled the Turkish government to easily trade with neighboring countries including Iran, Syria, and Iraq.

Several other memoranda of understanding for joint actions were also signed in this period in which the two parties were committed to implement cooperative economic projects related to energy supply and transmission. However, like many other previous agreements that remained fulfilled, these agreements did not prove to be very effective and influential on boosting bilateral economic ties. ECO countries committed themselves in July 17 2003 to minimize Customs tariffs and reduce any existing trade barriers that prevented members of ECO organization from free trade activities, and the results was Economic Cooperation Organization Trade Agreement

(ECOTA). One of the major reasons that left these agreements ineffective was Iranian policy to prevent further imports from other countries, even Muslim ones.

In many occasions the Turkish government urged its uranium counterpart to join ECOTA but you don't have to do that. In 2010, the president of Turkey even invited Iranian government to establish a Customs Union similar to what was formerly done in Europe in late 1990s. However, because Iran was not open to free trade activities, these repeated calls remained ineffective in practice and the two countries never reached a rigid and solid agreement that really enhanced their economic ties in 2000.

One of the most important measures that was taken in regard to trade activities was settling the problem of currency. Almost all trade exchanges between Iran and Turkey were formerly done by US dollar or Euro. However, because of Western sanctions on Iran, this had turned to a serious problem particularly for the Iranian side and sometimes blocked the free flow of commercial activities. In 2008, in the time of global economic crisis in the world, the two countries declared that national currencies could be used for their trade exchanges. In conjunction with this policy, the government of Turkey withdrew any limitations from Turkish banks on using Iranian currency, Rial. Similarly, in the same year the Iranian government announced that its financial institutes and the banks were able to perform financial transactions in Turkish currency, Lira.

On paper this was a very effective measure but in practice it was hard considering numerous global problems and sanctions that were targeted towards limiting Iran's economic activities in the region, and a great majority of foreign trade transactions in different industrial and Agricultural and economic aspects were

dominated by US dollar or Euro, This was a heavy burden for Iran that had to take some other steps to return its revenues from commercial activities that it mutually did with Turkey.

In order to bring the two countries' officials together and facilitating means by which they can discuss ways of promoting economic ties, the two countries established some mechanisms in the first decade of 2000, such as Turkey-Iran Joint Economic Commission, committing each other for bilateral cooperation and collaborative activities. Again, instead of enhancing economic ties, these mechanisms are proved nothing more than assertion of mutual friendship and mutual goals for realizing economic purposes.

In this regard, mechanisms related to private sectors proved more effective than others and focused on promoting trade by providing easy access to companies working within the borders of each country. Turkish Foreign Economic Relations Board (DEIK) established the so-called Turkish-Iranian Business Council (TIBC) in 2001 with the promise making close commercial trades with Iranian Chamber of Trade, Industry and Mining, been holding regular meetings in the two countries and plans to facilitate organized reciprocal business activities by investors from Iran and Turkey. There are also some small commercial organizations across borders of the two countries that set up mutual trade meetings and help boost the relationship from different aspects. Turkey-based Association for the Development of Trade with Iran and the Middle East (IOTGD) and the Iran-based Iran-Turkey Strategic Trade Association (ITSTA) are two successful examples of organizations. By the same token, Iranian Industrialists' and Businesspersons' Association (ISID) in 2000 whose mission was to provide a chance for resolving problems of the members and encouraging bilateral relations.

2.5. Recent Ties

There has always been a competition for gaining more regional power and economic dominance between Iran and Turkey, but they have both been able in maintaining peaceful relations over their long history of rivalry that fluctuate on one side for a while and on the other for another period of time. But never before had they been challenged by so many external factors that required geostrategic shifts in politics and economic development plans to cope with the changing environmental forces that determined how these two neighbors related to each other and how they could sustain their friendly, or sometimes hostile, relations.

A number of international and regional phenomena the collapse of the Soviet Union, the US invasions of Afghanistan and Iraq, Iran's nuclear dispute and the following sanctions arising from its foreign policies, and the Turkish desire to be the dominant economic and political power in the Middle East, contribute to worsening or improving the relationship between Iran and Turkey since 2000 which were all escalated after 2010. The Arab Spring movement in 2011 was another key regional event that tested the power of these two countries in remaking the neighborhood to get the most and the best benefit out of such changes. All these political shifts dramatically influenced economic ties between them.

Iran and Turkey are too strong non-Arab countries in the region that share in common some geographic and demographic similarities and cultural affinity, and have never fully considered each other as the potential source of threat for their national existence, but have never had a completely friendly brotherhood without any hostility. the political, social, religious, and ethnic differences between them and had different effects on economic trade relations between them. One such factor that has

recently influenced their relations in a substantial way is Turkey's relations with the US and Israel which are considered by the Islamic Republic of Iran as permanent enemies to Islamic world.

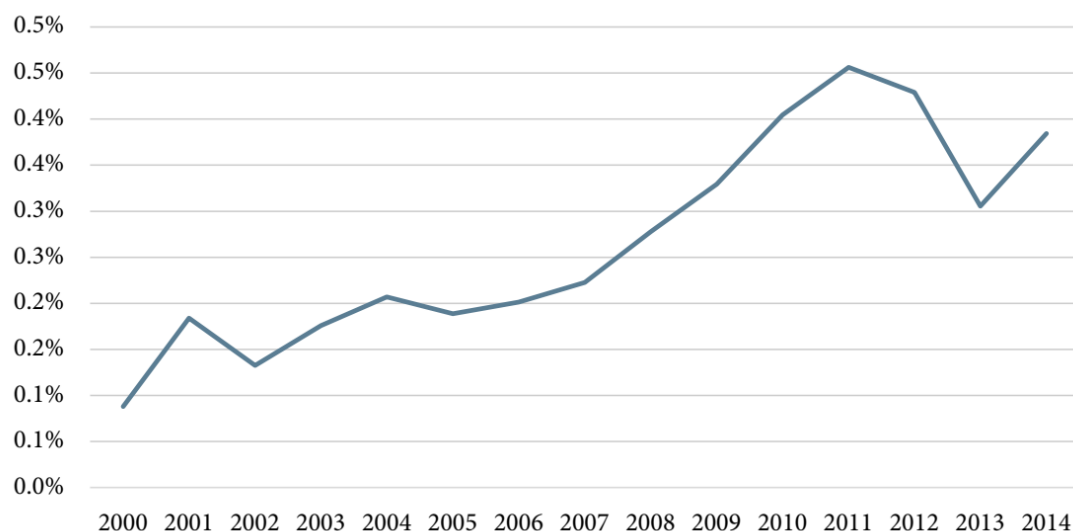
In the decade after 2010, the relationship between Iran and Turkey has been greatly informed and intertwined by politics and the political stance they have taken towards international events. Despite all differences, Turkey has never withdrawn from its commitment towards Iran and has always sustained a close relationship with it, to the benefit of Iran. Nearly one fifth and Turkey's demand for oil and natural gas is supplied by Iran which in turn relies on Turkey as a gateway to European markets and the last resort in which all other trade channels are blocked by international powers. During all hard times and vulnerable periods in the recent history of Iran including the Iraq-imposed War during 1980-1988, and highest level of nuclear sanctions during to ring 2011 to 2013, Turkey has tried to sustain its lifelong link with Iran.

Although Turkey has its own international policies and never wants to plunge its country into international turmoil problems, it has proved to be a loyal and committed economic partner to Iran, especially in the 21st century and after the Islamic Revolution when the new regime in Iran started radical shifts in its international policies and domestic affairs. For example, shortly after the US imposed tough and heavy sanctions against Iran in 2010, Turkey took steps in strengthening economic dialogues and industrial relationships and technological development.

Moreover, as a result of mutual ties with Iran, the Turkish government helped Iran evade us imposed sanctions through its banking system but this relationship was closely investigated in 2017 when the chief executive of state bank, called Halbank, in

Turkey was found guilty in a New York Court of Justice for helping an Iranian representative to perform financial transactions on behalf of Iranian government. The current Turkish President Recep Tayyip Erdogan has always been challenged by US and its other partners and accused of pursuing economic ties with Islamic Republic of Iran and paying no heed to US sanctions. Despite the fact that Turkey is a member of NATO, the government seeks to establish better relationships with its neighbors and thinks of a more independent and powerful regional role. Instead while developing the historical relations it has with Western countries and wants to keep both sides satisfied with its international and regional policies that are aimed mostly at gaining more economic benefits.

Fig 2.9. Peak of Iranian-Turkish Exports in 2011

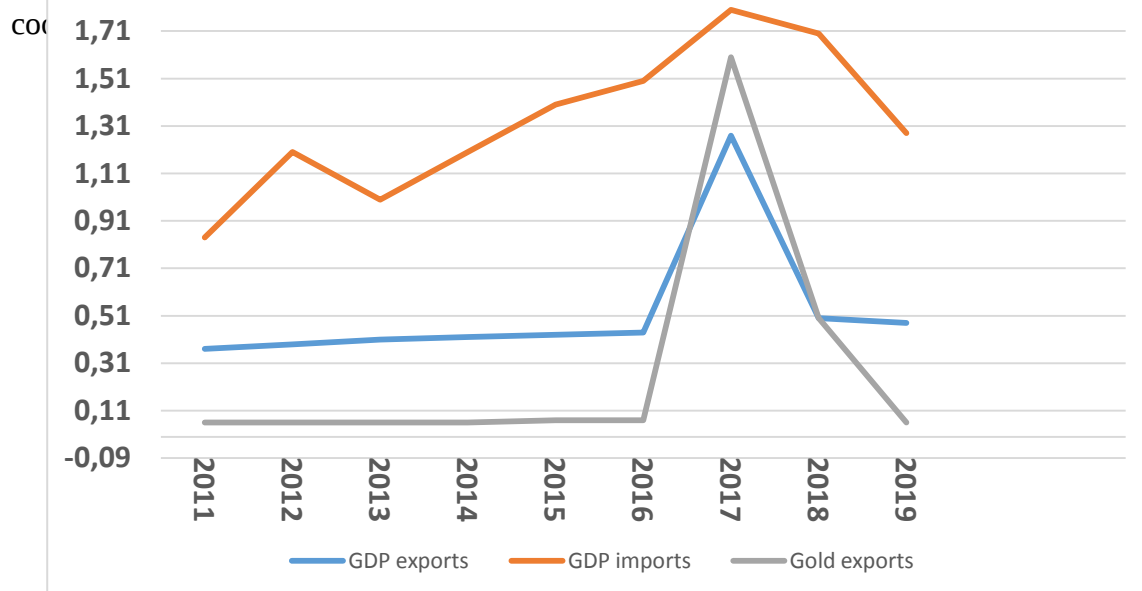


Source: UN Comtrade Database, Roubini Global Economics

The above figure shows that Turkish exports to Iran were at the highest level in 2011 when tough sanctions were imposed on it. When sanctions were lifted from Iran as a result of nuclear agreement in 2016, Turkey aligned its geostrategic

development plan to enhance bilateral trade with and the two countries agreed to boost their commercial trade up to \$10 billion. But the 2010s was a period of complexity between the two countries because the Kurdish separatist activities on the one hand and the political engagement in Syria, on the other, could be sources of conflict and convergence for these two neighbors. Despite the fact that they could reach agreement on the first Kurdish issue to settle the problem down together it seemed that they had completely divergent policies towards Syrian problem.

Iran is an important target for Turkish export goods and Turkey has been in the rank 14 of biggest exporters to Iran in 2010s. The volume of exports from Iran to Turkey was \$3.27 billion in this period while the volume of imports was about \$2.31 billion. Information released by the Islamic Republic of Iran Customs Administration on Iran's non-oil trade show liquefied natural gas, non-alloy zinc, aluminum, urea and bitumen were Iran's main goods exported to Turkey, while Turkey exported mainly



Source: Republic of Turkey Ministry of Economy

In the economic relationship between Iran and Turkey in this period two factors are very important. First of all, the two countries tried to manage their Commercial relations by focusing on the mutual benefits rather than differentiating rivalries. In this regard, they paid little attention to the geopolitical differences. As in the past, Turkey is in no way ready to cut its energy relationships with Iran because it is the closest and the most strategic source for oil and natural gas supply in its proximity and Turkey has the power to negotiate over the price to get that for the lowest possible price. Moreover, Turkey has realized that Iran's growing population can be a great source for non-oil exports, particularly in the tourism sector and textile industry.

On the Iranian side, strategic plan followed by Iranian politicians is that they never want to lose Turkey as a transportation pathway to European and central Asian markets, both for non-oil energy products and raw materials. Kieran was well aware of the fact that Turkish economic backup in times of adversities and financial crisis was a guarantee to its sustainable energy exports. In the early half of this decade from 2010 to 2013, Turkey had a pivotal role in supporting Iran to evade international sanctions by an effective financial mechanism in exchange for the export of natural gas and oil.

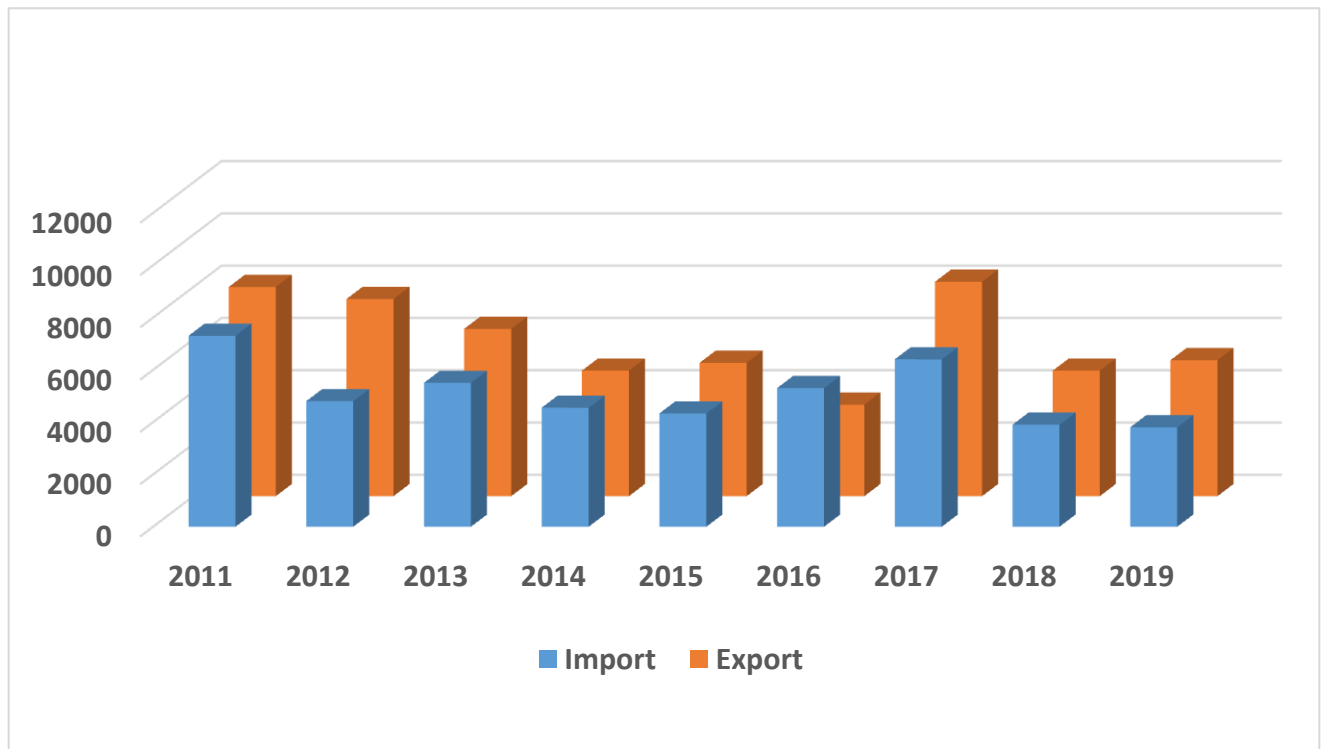


Fig 2.11. Turkish-Iranian Trade between 2011 and 2019

Source: Turkey's Global Strategy

Iran needs to acknowledge the fact that Turkish economic support never failed and continued to the end of this decade, even after the US and acted more sanctions against Iranian officials and companies working abroad. In an act of goodwill, the Turkish government established meetings in 2018 with high state officials from Iran to negotiate how Turkey would be of help in driving Iran out of the chronic problem of sanctions.

Despite all the problems that potentially arise from engaging in mutual economic relationships with Iran in the face of international pressures and sanctions that are impacted on the stage that deal with Iran, Turkey continued its financial relations to the end of the decade and saw many investment opportunities in its

neighbor. In this regard non-oil medium-term exports to Iran were at the agenda of Turkish foreign trade because Turkish government had come to an understanding that Iranian citizens were interested in its real estate sector. A considerable proportion of housing properties in Turkey were sold to Iranians in 2019, and Ioannina citizens ranked the first in opening business companies in the same year, including 600 companies that operate in economically important province of Izmir in Turkey. In 2019, bilateral investment in both countries increased drastically because of their mutual understanding of benefits coming from cross-border financial investment.

Two key factors, among many others, encourage Iranians to invest in Turkish properties and establish business efforts. A large and sizable number of investors are motivated by the fact that living in an economically stable and socially open community Turkey which is advantageous because of its proximity to their home country, and can be a preferred destination for strategic investment plans. The second reason is mostly geopolitical and may be driven by state officials in an attempt to evade US sanctions by developing new business ties and networks in Turkey whose government is willing to do anything to help Iran move out of this unsolvable problem.

This is more tangible when we notice that some Iranian companies that were formerly located in some other neighboring countries such as the United Arab Emirates were expelled because of US pressures on their state officials not to cooperate with Iran in financial affairs, finally moved in 2019 to Turkey because of bitter business conditions. Banking systems were excluded from doing financial transactions, and Iran's use of informal ways such as buying gold or using exchange offices to carry back revenues from financial transactions with other countries proved ineffective and very costly, but Turkey did its best. Play the export options to

facilitate ease of access to Iran's blocked revenues by providing Play the exports options to the country. Turkey knew that if US sanctions were lifted in the short-term or long-term, increased level of business cooperation and increased export activities as well as investment plans in its land would promote its revenue and non-oil bilateral trade with Iran.

Table 2.5. Bilateral Trade between Turkey and Iran during 2016-2019

	2016	2017	2018	2019
Export	4.96	3.26	2.40	2,31
Import	4.70	7.50	6.90	3.29
Volume	9.70	10.76	9.30	5.60
Balance	0.30	-4.24	-4.54	-0,98

Resource: Turkish Statistical Institute (Billion US Dollars)

2.6. Energy Market

The energy relationship between Iran and Turkey has always been prioritized by Turkey because it depends on its neighbor for providing gas and other fuels that are highly in demand for its domestic use. Despite the fact that Turkey has access to different sources of energy from its neighbors, Iran's pivotal role in meeting Turkey's energy demand cannot be denied. When it comes to energy, the two parties forget any other political considerations and mostly focus on economic benefits of a strong tie in establishing a mutual and sustainable relationship. Throughout their fluctuating political and economic relationship, energy has always been one key factor in their trade partnership. Turkey's unfailing need for energy has contributed significantly to continuing economic relationship between Iran and Turkey even hit other aspects

of their relationships were Influenced by external factors such as isolation of Iran from the other world and the planes that international community puts on Iran for its support of terrorism in the region. Despite all these external forces Turkey has never completely withdrawn its energy demand formula. The only time that Turkey refrained from Iran's energy was When it was threatened by US sanctions for engaging in energy trade with Iran.

As we discussed earlier, Turkey and Iran have never had a stable and friendly political relationship with each other, but in terms of economic relations they have a better history of mutual understanding, particularly when energy priorities are concerned. This is the case even when other third parties are involved. Of course, it doesn't mean that they have never had any disagreements or economic conflicts with each other. It is simply to say that for energy provision Turkey has always relied on its profitable and advantageous relationship with Iran, which has been a reliable energy partner.

There is ample evidence that Turkey has in many cases given the priority to economic relationships related to energy to Iran over its diplomatic relationships with other countries such as the US. The relationship with US is highly important for Turkish government for political and economic reasons, and it has been harmed in many situations over the last years for their disagreements on issues related to Iran. For example, in 2018, the US imposed tariffs on steel and aluminum exports from Turkey and this was a heavy economic blow to Turkey. However, Turkey made no changes in its policies towards its energy supply (Defne, 2018).

This close energy bond has many different reasons, including physical vicinity to Iran, financial situation of Turkish government and its energy demand.

There are also other domestic considerations that drive Turkey to establishing close relationships for energy supply. The main resource of energy in Turkey is coal but the problem is that it is costly and not environmentally friendly and the global demand to decrease its use presses countries not to use it to generate electricity. Turkey has had no other choice than turn into natural gas instead of using such fossil fuels to supply nationwide electricity. Russia is the biggest supplier of natural gas to Turkey providing 55% of its needs in 2015. The next suppliers are Iran and Azerbaijan, providing 16% and 11% of Turkey's total energy demand. Because Turkey's energy demand is rising, its dependency on natural gas suppliers will also increase.

Because Turkey's industry is heavily dependent on oil and natural gas imports from other countries, any fluctuations in the global market influence its economy. Therefore, it has to find a secure source of energy supplier to ensure that it will have a stable source of energy with a reasonable price because Turkey knows that if the energy source is broken suddenly, the impact will be irreversible on its economy and will pose unpredictable costs.

The close energy relationship between Iran and Turkey dates back to 1979 when it significantly increased its demands from Iran as the main supplier of oil imports. Of course, before Iran, Iraq was the main supplier to Turkey. In the same vein, in 1996, an important natural gas agreement was signed between them in an attempt to increase the amount of gas from Iran and the decrease reliance on natural gas supplied by Russia in the same period. The economic gain of Iran was considerable (about \$23 billion) and Turkey was ensured that it would receive a stable supply of natural gas for some years in the future. It was anticipated that Turkey would need 27 billion cubic meters of natural gas in 2000, and Iran would supply 10 billion cubic meters of this demand.

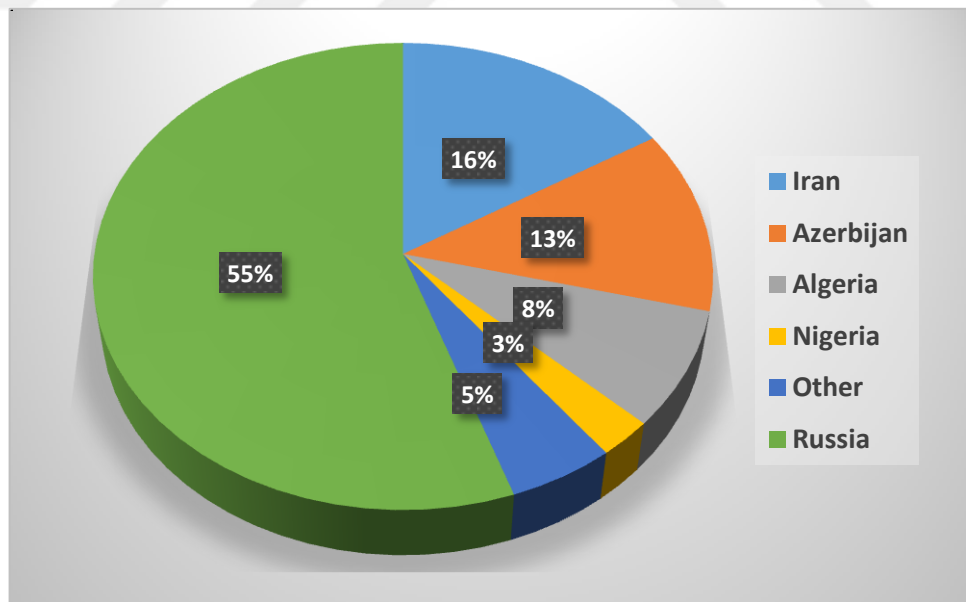
In 2001, despite American pressure on Turkey to stop its energy relationship with Iran and turn to Turkmenistan instead, a natural gas pipeline was established between the two countries but it never reached its full capacity and there were some problems. Turkey Was dissatisfied with technical issues related to gas provision and transportation from Iran which led to interruption in the gas flow from Iran in 2002, and later gas was provided for a lower price with other conditions in favor of Turkey. The same happened in 2004 and 2005, and each time Turkey got more privileges from the gas supplement.

In 2007, Turkey and Iran reached an agreement that authorized a chance to take part in developing a new natural gas supplies in South Pars gas field which was supposed to transfer natural gas to European countries and Turkey. It was predicted that the National Petroleum Company in Turkey would annually contribute to producing 16 billion cubic meters in this field. The produced gas would then be used for sale in Europe or for meeting domestic energy demand. However, the project faced many problems. In that period, foreign investment by international oil and gas companies was perilous in Iran because of sanctions and the negative atmosphere that dominated the relationship between Iran and the world outside.

Accordingly, most of these companies did not get the chance to start the development plans, and left the country. Moreover, Iran used a system that was not appealing to foreign investors. The system implies that the foreign company can invest in premium development plans in oil or gas resources in Iran, but after that the plan is completed, Iran's National Oil Company has complete ownership over the project and the revenue for the foreign investor will be paid back at a predetermined level. In fact, this system allows foreign investors no ownership of energy resources in Iran. This is a big hindrance to foreign investment in Iran's energy sector.

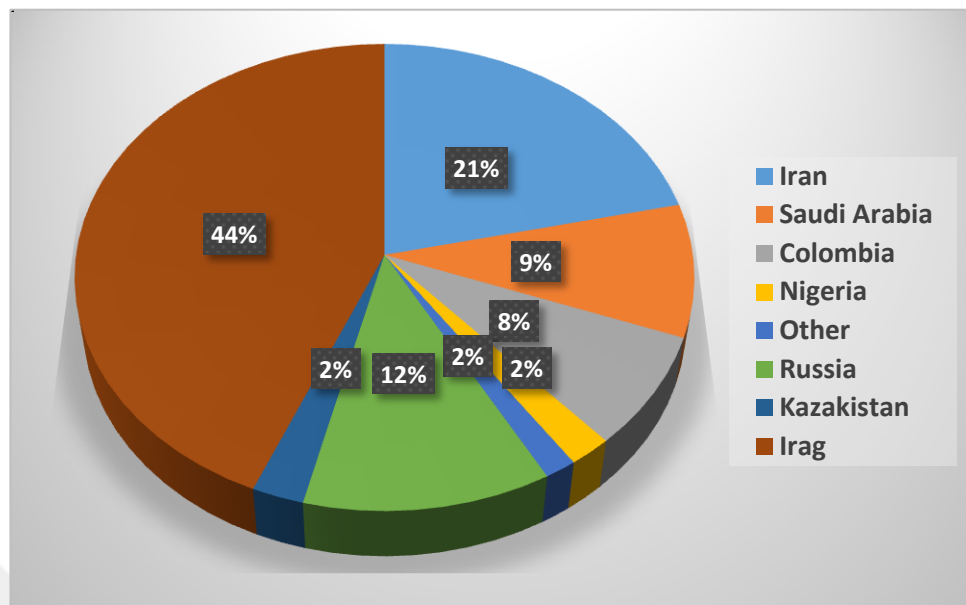
Although other companies did not stay in Iran to continue the project no, the Turkish Petroleum Company did not need any international financing and was ready to act out its responsibilities regarding the agreement, Despite the fact that it could face some sanctions. Like many other economic plans between Turkey and Iran that was left undone because of different regulations of the Iranian side, this project did not turn to action as it was supposed to start in November 2009. The main reason for this problem was that Iranians denied any partial ownership to Turkish side after the project was completed. However, this had no effects on imports of natural gas to Turkey and Turkish investment in natural gas fields in Iran was not finalized and the two countries continued their relationship as it was in the past. Turkey's share of Iran's gas and oil export is illustrated in the following figures.

Fig 3.7. Turkey's Share of Iran's Gas Export (2015)



Source: CBRT, 2002-2010

Fig 3.8. Turkey's Share of Iran's Oil Export (2015)



Source: CBRT, 2002-2010

Another energy-related key factor in the relationship between Iran and Turkey was the problem of sanctions and the currency exchange. In the first round of sanctions imposed by United Nations and United States against Iran's imports of natural gas and oil from Iran to Turkey did not stop because Turkey had to reduce volume of imports below the accepted level. Moreover, the biggest problem was the use of dollars and euros in financial transactions. In order to solve the problem, Iran accepted Turkish currency in exchange for the gas that it provided. You don't use Turkish lira to buy gold and then import it through other mediums to its own country.

The scheme of exchanging gas for gold was then the subject of additional sections by the US in 2013 which forced Turkish banks to block transfer of Iranian revenue. An alternative way for Iran was to prove that it bought industrial products, medicine, and food items from Turkey to be able to have access to the money of oil

and gas. This was a short-lived problem because sanctions were soon to be lifted and the free relationship between Iran and Turkey was soon to be recovered.

After the Nuclear Deal of Iran in January 2016, sanctions were removed and Turkey was able once more to continue imports of natural gas and oil from Iran. In the first half of the year 2016 alone, 21 million barrels of oil was imported from Iran which nearly doubled in 2017, reaching a record of 52.8 million barrels. Increasingly, Turkey's imports of Iranian oil increased by 50% in 2018. The same was true for natural gas exports to Turkey which increased by 14% in 2017. In 2018, Turkey won the suit against Iran for overcharging it for natural gas and oil in 2012 and received 8 billion cubic meters of natural gas in the same year. In addition, the two countries agreed on a long-term supply contract by which Iran was supposed to export 10 billion cubic meters of natural gas to Turkey until 2026.

Chapter Three

Before the 1990s, commercial activities Between Iran and Turkey were mostly in the form of smuggling through border mountains. However, when security measures were at the borders and minefields Where is said today, the volume of smuggled items significantly dropped. One key growing economic benefit that Turkey gets from Iran is increased tourism. Citizens of the two countries can easily pass borders with no visa department. In the last decade, official statistics show that tourists from Iran have increased six times more than what it was in the earlier decades, partly because of Turkish tourist development campaign activities in Iran.

The rise of tourism in the last decade has given a new dimension to Iranian Turkish economic dynamics and has given it a new mobility. Turkey has gradually become the first tourist destination for Iranian visitors in the last two decades. In 2002, around 400.000 tourists from Iran visited Turkey which increased to 2 million in 2010. The opposite is not the same because Turkish tourists have other target destinations, and Iran is the sixth most visited tourist attractions for Turkish citizens. After Iraq, Azerbaijan, and Afghanistan, Turkey was the fourth country from which the total number of 5 million citizens visited Iran in 2014. Similarly, in 2016 only 243.000 visitors went from Turkey to Iran Which is not comparable to that of Iranians who go to Turkey. Increased number of tourists from Iran has a significant contribution to Turkish economy because Iranian tourists spend several days and buy a lot of Turkish items.

Relative removal of sanctions against Iran and enhancement of tourism by Iranian government has opened new chances for growing economic ties in recent

years. This has also provided new investment opportunities in the tourism industry and mutual exchange of goods from both sides. Development of tourism industry has mostly been beneficial to Turkey because it has taken advantages from Iranian tourists by building hotels and resorts to accommodate and attract more visitors. The two countries are also negotiating to establish direct passenger trains from the two capital cities of Istanbul and Tehran. This in turn will help boost their economic ties. Number of tourists from Iran increased in recent years. In the August of 2019, around 30.000 tourists visited Turkey and the total number of Iranian tourists in the first 8 months of the same year was 1.37 million people who make up 4.4% of all foreign tourists to Turkey. The eastern province of Van, the southern province of Antalya, and Istanbul are target destination for Iranian visitors.

Another related issue to economic development between Iran and Turkey is the increased number of foreign Investments from Iranians which seems to be on the rise for many reasons. In 2017 the Turkish government decided to accept as a citizen anyone who could buy real estate properties with the value of \$250.000 and this decision to grant property to foreigners attracted the lot of Iranians who have bought properties in the country. For example, in 2018 a total number of 1000 homes and apartments were bought by Iranians, accounting to \$5200.

Moreover, the number of asylum seekers from Iran has also increased and some 38000 of those who have fled to Turkey have found a temporary protection and shelter to live in Turkey before their applications to a more permanent settlement are accepted. As a result of the increasing number of tourists and the students who study in Turkish Universities, Tehran and Ankara agreed to increase the number of flights between the two countries to make it easier for their people to easily travel to their destinations. But once again there are problems on Iranian side Which make it hard

for Turkish business people to operate in Iran while their counterparts can easily operate businesses in Turkish business sectors. one of the problems that Iran has never tried to solve is a joint industrial free zone nearby cities to provide a chance for business people to have access to technological and other related facilities with ease. there is no reliable statistics on the volume of foreign investment from private sector of Turkey in Iran What's it seems that Iranian minorities had invested a lot in Turkish industry.

For instance, long before 2010, Iranian and Turkish governments have negotiated the creation of a joint industrial free zone that would be near their shared border cities that would provide a chance for businesses to combine access to Turkish technology and experience and cheap energy and workforce from Iran. But they have yet not agreed on a potential zone to pass the required legislative and executive measures to make it work effectively in practice. Other projects which have never been realized include: establishing a joint investment bank, a joint airline, and founding joint border-based power plants that work by wind, water and natural gas.

Despite great strengths and advantages that both countries have earned from economic relationships with each other over the course of history, there have always been trade obstacles that impede the free economic activities. The present study analyses some of these obstacles that have negative influences on trade exchanges between these two countries. It will also provide some solutions on how to make the future economic relations better.

3.1. Kurdish Crisis

The Kurdish crisis in the 1980s was a big challenge for the relationship between Iran and Turkey that seemed to have long lasting effects on the economic and political affiliation. At first Turkey considered Iranian military cooperation with the Kurdish parties that were against Iraqi government, and that was agitated by that move. The PKK Kurdish separatist movement initially started making military missions in the north of Iraq and made armed attacks inside Turkish territories. Turkey then believed that Iran supported these parties especially because of the close relationship of some other Kurdish separatist with PKK whose activities were somehow allegedly permissible in Iran. To be sure of mutual understanding and support of each other, the two countries signed a security agreement in 1984 to ensure the other party that they would prevent any activities of separatist minorities that challenge the national security of Iran and Turkey

Turkish officials have always said that during 1990s when the International power of Turkey increased and threatened the regional power of Iran, there were some attempt by Iranian government to challenge the political system in Iran by supporting the PKK and the Islamic fundamentalist activities inside Turkey. despite the fact that Iran never accepted these allegations and always rejected any interference in domestic affairs of Turkey, tensions grew seriously in the late 1990s and Turkey changed its foreign policy towards Iran. The tensions that dominated the relationship between Iran and Turkey in late 1990s can be clearly seen in the following quotation:

Despite some progress, tensions still marred the relationship. Turkey continued to claim that Iran supported the PKK and a violent and far more radical group known as the Turkish Hezbollah. In the late 1990s and early

2000s, flare-ups and high tensions were common. At a specific point, Iranian officials claimed that the Turkish air force bombed a village in northwest Iran. Turkey countered with claims that members of the Iranian Revolutionary Guards Corp (IRGC) and their alleged allies in the Turkish Hezbollah were responsible for a series of assassinations of prominent Turkish secularists (Stein 2012, p 25).

The threat of the Kurdish terrorist and separatist activities seriously challenged national security of Turkey and became its top security in that period. The Kurdish separatist movement took best use of instable governing system of Iran after the 1991 War became a security concern for that country. In order to prevent further growth of the Kurdish movement in its territory, the Turkish government started a series of armed activities against PKK both inside its territory and outside its borders in the north of Iraq where the Kurdish movement was operating. Iran and Syria were the two countries that Turkish government always charge for the support of PKK activities.

3.2. Political Disparity

The decade 1990s was a period of great tension between Iran and Turkey. on the one hand, Iran was an ideological state while Turkey was a secular government and this ideological disparity dominated a bilateral relationship. the tension was not limited to criticizing each other is political system and how they deal with the international community and was much deeper than a simple threat by a neighbor. Revival of Islamist activities as a result of Islamic Revolution alarmed neighboring countries in the region because they were afraid of increasing extremist religious

minorities in their own countries some of these groups initiated terrorist attacks inside their countries. Turkey, he claimed that is longest movements were backed by Iranian intelligence system and this seriously changed the foreign diplomatic and economic relationship between Ankara and Tehran.

Traces of Iranian interference in supporting Islamist groups in other countries and of its involvement in terrorist attacks such as assassination of some secular Turkish intellectuals were found by Turkish government who claimed that the murderers revealed connections with Iran. this made Turkey act with caution in his political and economic relationship with Iran because it believed that Iran was involved in arming the militant groups in an attempt to destabilize and weaken the power of Turkey in the region. Proud of its economic development in the last two decades, Turkey accused Iran of Supporting Islamist and terrorist groups inside and outside its borders.

As a result of the tension in 1990s, the strategic relationship between the two countries in terms of economic alignment and the political affinity were influenced. While Turkey charged Iran of its support of Islam terrorist activities in the region, Iran was dissatisfied with Turkish relationship with Israel that developed strong ties in the middle of the 1990s because it did not have friendly relationships with Israel and believed that it was a threat to regional stability and always showed hostility towards Israel. To gain support for other countries to combat the US hegemony and Turkish growing influence in the region, Iran started a series of partnerships with Russia and Syria and this was the cause of resentment in Turkish government. it can be concluded that the political disparity between these two countries determine the economic relationships between them. Once the two parties settle the disagreement and establish friendly partnerships, the economic relationships and financial revenue

from mutual activities increase, but when the two countries collide with each other because of political orientations, their economies suffer.

However, Turkish coup d'état in July 2016 had a short-living effect on the foreign policy of Ankara. The problem with Iran and Turkey is that they are both reliant on ideas by the administration of the countries. In Iran, ideological decision makings by the leader determine the course of action the country takes and in Turkey it is the president who decides nearly on everything. For example, the foreign policy of Turkey has long been determined by bureaucratic goals and procedures which slow down the speed of actions that need to be immediately taken in order to improve political and economic situation of the country.

Many experts believe that Turkey and Iran involve themselves excessively in affairs and regional issues that are out of their capacity to manage and are beyond their concerns which negatively affected mutual relationships. It is somehow believed that they do withdraw from extremist foreign policies and focus on the mutual relationships they will face fewer conflicts improved economic ties to the benefit of both sides.

3.3. Ideological Orientations

There is no denying that sectarian activities in the region arising from the ambition to establish the authority of the Shia and the Sunni Islamist groups have resulted in intensification of regional conflicts and tensions and involvement of many countries such as Iran, Turkey and the Arab world in battles outside their borders. In this regard, some have used this weakness to challenge the security and stability of the region. Some people believe that these sectarian movements are backed by Iran in an

attempt to guarantee its regional safety and national security by exploiting these forces in its defense system in Syria, Lebanon, Iraq, and Yemen (Nasr, 2016). On the other hand, some experts believe that this foreign policy will also have a negative effect on Islamic Republic of Iran because it will suffer from growth of separatist and sectarian activities in the region because it directly affects its economic ties with neighboring countries, particularly Turkey.

Iran is well aware of the fact that it is surrounded by Sunni countries and if it wants to pursue its regional economic goals there is no way other than cooperating with other countries that exist in the region and are in many ways different from its ideological orientation. However, it has always viewed pro-Sunni Turkey as a threat to its Shiat Ideological orientation. this is not a good thing for relationships because establishment of a regional partnership for economic purposes is bound to a stable political affiliation between them.

It is clear that none of these countries can fully control the sectarian tension between them that has started many years ago. in fact, they need mutual cooperation to deal with such issues in order to establish a stable economic and political relationship. Turkey is not the only country that is afraid of Iran's military growth in the region and other actors are also fearful of the dogmatic religious orientation that Iran wants to impose on the region and share with Turkey the police that they should combat Iran's interference in the affairs of other countries (Dillow, 2016). Therefore, geostrategic and sectarian competition between Iran and Turkey he has made the economic ties vulnerable to many external factors that are sometimes outside the control of the two parties and sometimes need little cooperation to be removed forever. Turkey is interested in coming up with an idea or a joint middle ground to put an end to these conflicts . Iran is also fearful of Continue hostile relationship

between Turkey because its economy suffers greatly from any unwanted fluctuations with Turkey as one of the largest markets of Iran's energy resources.

There is a great need for a wide and the reasonable strategy to fight the terrorist activities coming from ambitious Sunni-Shia sectarian which will bring about more stability to the Middle East and will help regional countries to important issues such as economic ties and the sustainable development. But it seems that neither Iran nor Turkey is willing to abandon its geostrategic competitive policy claiming for a higher position on the agenda. making the problem more serious, the two countries have tried in recent years to attract the support of the allies in overcoming the regional problems that directly affect their coexistence. for example, the economic isolation of Iran is a big problem that is Remedied by economic trades with Russia and China, and the refugee crisis of Turkey is solved by seeking help from European countries.

Any agreement on these areas provides a better situation for future collaborations only if the two sides come to the conclusion that the existence depends turns on fighting mutual threats to their national and International stability and development. Iran and Turkey need to relationship their alliance with any external allies such as Russia for Iran and the United States for Turkey in supporting their ideological sectarian drives has direct effects on their bilateral relations in the short-term and long-term.

Chapter Four

4.1. Prospect for the Future

Competition has always been an important aspect of the relationship between Iran and Turkey that prevents branded and expand their relationships. The foreign trade policy of both countries depends on their perception of themselves as a growing power in the region. Iran has always provoked enmity of the Sunni Muslims by protecting and financially supporting its minority allies outside its borders that reap the resentment of their governments. On the other hand, Turkey has mostly sided with extra original partners such as the US for its financial and the political support and the neglected the fact that mutual understanding between Iran and Turkey could be the key for dead ability to influence and manage central Asian issues and following day national interests rather than earning the satisfaction of faraway partners

The close relationship between Tehran and Ankara has been spotted with strains since 2010. has been struggling to join the European Union and has tried to enhance its relationship with the US and NATO in an attempt to improve its economic as well as military political abilities. but the most important thing here is how this external foreign policy can affect its relationship with Iran? there is no denying that their socioeconomic and political differences will continue to exist, and their bilateral confrontation will never stop, and this calls for reciprocal understanding of the situation to dissolve uncertainties and focus on common grounds.

Much of the ongoing hostile situation depends on continuation of the Syrian crisis upon which Iran and Turkey have no convergent policies. Along with other Western and International communities, Turkey invited Assad, the leader of Syrian

government, to step down from power, but Iran had a completely different policy and fully supported Assad in fighting the opposing parties and the international world. this shifted the power balance and desired the influence that Iran and turkey expected to have over the regional affairs, and escalated their problems.

It is vital for Turkey and Iran to sustain strong and effective economic relationships in the face of tensions over regional and geopolitical differences. Commercial trade between the two has developed substantially in the last decade and rose from \$2 billion in 2000 to \$10 billion in 2010 and finally culminated in \$2.3 Billion in 2019. This indicates the fact that this relationship is fluctuating and highly dependent on mini external factors other than economic measures. Undoubtedly, energy is the most important factor for Iran and Turkey in expanding economic ties with each other because after Russia the second largest supplier of natural gas to Turkey is Iran which also provides 40% of crude oil to Turkey's industrial sector.

4.2. Amendments for Future Relations

Energy can be an important reason for Turkey to expand ties with Iran for one big reason which is independence from Russian energy and diversification of energy supplying sources that is very vital for Turkish industrial development. Therefore, it is suggested that Turkey view Iran as an all-time available alternative energy partner that can replace or at least diminish the need for Turkey to import 60% of its natural gas from Russia. One big hindrance in this regard is the Turkish-US relationship Which has always influenced Turkish relationship with Iran such as their gas exploitation agreement in 2008 to exploit natural gas from South Pars plantation in Iran in which Turkey was supposed to collaborate and facilitate its transit to Europe.

This agreement was abandoned by Turkish government because of strong opposition from the US.

The Trump administration was very hostile towards energy deals between Turkey and Iran and urged the Turkish government to find an alternative reserve for its energy demand. But Turkey had a clandestine relationship with Iran in supplying natural gas and oil. As the political gap between Turkey and the US government widened in 2008, the opportunity opened for Iran and Turkey to develop the energy ties. The future administration of the United States after President Trump is more open to Iran's nuclear deal and has announced a tendency to solve the issue by negotiation rather than incurring further sanctions. Thus, The Turkish government can seize the opportunity to give priority to economic benefits that it burns from strategic energy ties with its political neighbor in the region by adopting a middle ground political stance that satisfies the US ambitions, on the one hand, and helps maintain its beneficial economic ties with Iran, on the other hand.

On the other hand, Turkey has some strong and long-term agreement with Iran in supplying energy demands that will impose great costs on Turkish side if these agreements are broken because if, for example, Russia and other large suppliers realize that Turkish energy ties with Iran or damaged they may raise the cost of their energy export and Turkey will surely fall in trouble in that case. Accordingly, it is economically beneficial for Turkey to maintain its interest in importing Iranian gas and oil. For this purpose, it can work with Iranian counterpart to find a way to evade US sanctions especially when we consider the fact that the currencies of both countries are devalued against the US dollar. It is a helpful idea for both of them to remove dollars from their energy deals. It would be a good idea if Turkish

government could pursue its Iranian neighbor to use Turkish currency in the energy deals instead of dollars.

Nevertheless, Turkey needs to be very cautious in dealing with Iran because it has never been stable in its economic relationships and there have been times that energy supply from Iran went through long cutoffs, especially one winter in 2009. Though It was not because of political problems but because of technical inadequacy of Iranian pipeline system, Turkish energy demand was abrupt and its industry was damaged. Whatever the cause, Turkey needs to set long-term energy agreements to ensure that Iran is a reliable partner for supplying Turkey's oil and natural gas demand.

Focusing on energy trade can also prove beneficial in developing financial ties. Turkey is a large target for Iran's Industrial Products, and Turkey exports a considerable number of agricultural products, machinery, and spare parts. Another emerging field for bilateral investment is real estate in Turkey which has attracted the attention of a great number of Iranian investors in recent years. Because a lot of Iranian students to study in universities in Turkey and a great deal of business people are opting for buying properties in the country, the Turkish government can provide some incentives to attract potential investors in the short run with a promise of granting citizenship to them if they are committed to operate business activities to a certain point based on Turkish economic policies. This way it can expand economic ties with Iran by attracting foreign investment in its real estate industry which will certainly benefit the economy.

One effective solution to expand economic ties and evade political conflict between the two countries is to establish a free economic zone near cities to help

potential investors from both countries cooperate with each other and contribute to developing commercial ties, especially in non-oil and non-energy sectors. These mutual relationships that are free from any political considerations can be effective measures to be taken by two countries as initial steps for sustain long-term and beneficial commercial ties.

By the same token, the increasing number of students and business people who visit Turkey is a potential source of revenue to Turkish tourism industry because it has a lot of tourist attractions that are welcoming to Iranian tourists who find Turkey a perfect target for vacation travels. Statistics show that in recent decades the number of people who visited Turkey has significantly risen, and this indicates the fact that Turkey can seize the opportunity to benefit from the strong zeal Iranians feel towards visiting their neighbor. Iran and Turkey have common problems and challenges in the present time and may experience them in the future. With a perspective to the future, administrating cooperation factors that are very important for solving the challenges in the future is highly valuable.

First of all, the two countries need to settle on a reciprocal understanding of separated minorities inside and outside their borders in order to take a similar measure in dealing with them. The problem of economy from Kurdish insurgence and the military missions they had inside the borders of the two countries is the concern of both of them that sometimes causes political clashes between them. If appropriate measures are taken by respective governments, this problem will no longer disturb their economic and political ties. It is highly important that Turkish and Iranian governments realize that the threat from Kurdish militants can be solved by negotiation, they can significantly improve the volume of trades that can happen in

Kurdish-abiding borders that are not safe at the moment because of their dependence seeking military activities.

The second problem that disturbs the relationship between Iran and Turkey and has a negative effect on economic relationship between them is the interference of foreign and external forces that try to ally themselves with these two countries to gain more power in the region. The presidents of Russia and the United States in Iraq and Syria in the pretense of establishing peace in these places is a big and long-term threat to Iran and Turkey in pursuing their regional goals and developing mutual financial relations.

Iran and Turkey should beware that the presence of United States and Russia in the region is with the purpose of gaining their traditional influence over the region, the result of which is increased and escalated tension and conflict between regional countries over the last decade. This puts both Iran and turkey in the same position and in case the two western and eastern powers ally with each other in the region, the relationship with Iran and turkey will suffer greatly in terms of politics and economics because they are both dependent on Russia and United States for, they sustained supply of resources and economic viability.

The third factor that needs to be considered by both sides is the shift in strategy, especially in foreign policies regarding one another. there has been a great instability and variability of policies and mutual understanding and even hostilities between the two countries, which has negatively influenced their cooperation and coexistence and have damaged their economies. it is true that they have maintained their economic relationships this part all difficulties they have had, but too much fluctuations in the relationships make the other side confused in taking appropriate

steps in dealing with the other. Tehran and Ankara have shown great fluctuations in their relationships. At one point, they withdraw their Ambassadors from each other's countries and then at another point they show great brotherhood in cooperating and dealing with challenges. It is suggested that they make some official negotiations in defining their foreign policies towards each other and in the way they would like to deal with upcoming challenges in the region, so that they would both know what the other's position would be like in similar situations and avoid taking measures that threaten the national security and economic stability of the other.

Iran benefits the most from amending the political and economic approaches to Turkey because on the one hand, the rise of anti-Iran sentiment in the international community has isolated Iran economically and has made it hard for Iran to cooperate with other countries, and on the other hand, its regional policies has disturbed the Arab community and has caused a big gap in the policies towards issues related to the world of Islam, particularly about Israel issue. On the contrary, Turkey has proved itself to be a developing economy with strong geopolitical and financial relations with the world powers that can help Iran gain access to Western markets that are forbidden to its products, and the revenue from this relationship is vital for Iran's survival in the long run. However, this is not enough and the two countries need to expand and add new dimensions to their economic portfolio to ensure their long-term sustainable economic development in the face of challenges in the region.

Regarding ideological and religious issues that affect their relations, Turkey can be a strong model for internal management of Iran's domestic affairs in the future. The secular and liberal model that Turkish government offers Islamic governance has appealed to many elites in Iran that ensures economic development on the one hand and improves the dynamic sociopolitical openness of Iran to other countries that will

boost its economy in different ways such as attracting more tourists from other countries.

Ultimately, we should note that Iran and Turkey as neighbors will have to face the consequences of the conflicts and friendly relationships that result from their policies. Any viable solution that is offered for this purpose needs to establish a balance between these two regional powers that is tolerable for both sides. This will not be the case unless they collaborate with each other and avoid interfering with the affairs of the others while recognizing national security and interests of the other side in taking strategic steps for developing their own countries. The relationship between Iran and Turkey is the game over power which can be shared between them to the benefit of both or can be owned by one to the detriment of the other with or without direct military involvement or economic isolation. How these two countries choose to deal with each other over the economic and political power in the region will affect their future as well as their neighbors and other state actors in the Middle East.

CONCLUSION

This study provided an analysis of Turkish-Iranian relations in three phases: their historical background, after the Islamic Revolution in Iran, and in the last two decades. The study argued that during their historical relationships Turkey and Iran have maintained their bilateral relationships despite all difficulties. There seems to be a diplomatic culture within which they defined their priorities in preserving their mutual ties which has determined how they relate to each other, cooperate and deal with upcoming conflicts. There is no denying that a series of geopolitical and regional issues have influenced the nature of this relationship, but these countries have sustained a bilateral economic framework that has benefited both in the long run.

The Turkish-Indian relationship has fluctuated between rivalry and partnership depending on various structural and geopolitical considerations in the region. Despite the fact that their bilateral relations have improved significantly in recent years, the nature of this relationship has always been defined by that diplomatic culture which is based on the economic and political power game. The study first provides an overview of the history of economic relationships between Turkey and Iran, and then speculate on trade obstacles that prevent them from engaging in full-scale and beneficial commercial relations. finally analyses the prospect of future relationships and offers some Solutions on how they can boost their economic relationships in the future.

Indeed, one of the most important features of the bilateral trade relationships between Iran and Turkey is that there is a big gap between what officials say and what

they really do in practice. Surely, the two sides are interested in making and maintaining economic relationships and establishing private sector operations in the short run and the long run. But when it comes to reality, the governments of both countries seem to be taking no appropriate actions in realizing their mutual objectives and any agreement between them remains ineffective in practice because of so many obstacles and barriers that prevent them from engaging in free flow of business exchange.

Results of this study show that the relationship between Iran and Turkey have experienced difficult times through its development. Most of the day economic obstacles that make it hard for the two sides to deal with each other have been summarized study, including ideological differences, political disparity, economic priorities, strategic partnership with allies beyond the region, and many other factors significantly affect this bilateral relationship. However, there are some measures that can be taken by the two governments to remove these obstacles and reach the higher levels of economic bond and prosperity in the short-run and in the long-run.

One big advantage of Turkish economy over its Iranian counterpart is the fact that during their long economic relationships Turkey has been able to diversify and promote the volume of its basket of exports to Iran, while Iran has mostly been dependent on exports of natural gas and oil, and raw materials to Turkey. This gives Turkey a great opportunity to seize the moment for increasing its benefits and revenues from exporting industrial products and agricultural commodities to the sizeable population of Iran that demand medium to high quality products and have limited and restricted access to international markets because of international sanctions imposed on their transactions.

Up until 1990s, this relationship was characterized by political tensions that collectively contributed to declining mutual foreign trade between these two countries. In the course of the 2000s, the two governments made some fundamental changes in their relations and developed their ties on regional levels which were somehow related to their shifts in attitudes towards the future of relations in different political, and economic relations. They came to an understanding that their regional survival was bound to more sustainable economic relationships and less reliance on actors beyond the Middle East.

The study also offered some solutions to evade economic obstacles. First of all, both sides need to change and shift their political positioning towards each other and find a middle ground to stop rivalry over political and economic authority in the Middle East. Moreover, they should focus on some ways to boost energy ties and evade economic sanctions that are imposed on Iran in an attempt to ensure sustainable flow of energy demand from Iran to Turkey and also provide channels for Iranian energy transmission to European markets.

In conclusion, despite the fact that Turkish Iranian relationship has developed significantly in the last two decades, it has never been free from obstacles and conflicts. The economic and political power game that the two countries have involved themselves in, economic isolation of Iran, foreign policy towards each other, and the Turkish relative's reliance on Iran's energy sector, and the prosperous future of Turkish development that may prove helpful to Iranians have always been sources of tension that escalated their challenges more than ever.

This study argued that, in the long run, Turkey's relative economic growth will outweigh that of Iran in the Middle East and Iran will be financially and

politically dependent on Turkey, especially as the results of Iran's economic isolation by the international community over its nuclear deal. Despite the fact that Iranian officials are not seriously concerned with the potential imbalance in the economic relationship between Iran and Turkey in the present time, it seems that in the long-run Turkey will occupy a better position in expanding regional power that will contradict Iranian policies in central Asia. This necessitates a cooperative approach in dealing with mutual affairs that influence them both without which there seems to be no way out for the two countries in reaching a mutual agreement in terms of bilateral economic relations.



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