Turkey-Russia Rapprochement
Assessing the implications on risks and opportunities in international business

A special report by QU4TRO Strategies
Executive Summary

Russia on the road to recovery despite economic sanctions

After two years of recession, the Russian economy will return to growth in 2017, as higher real wages boost private consumption and lower interest rate support investment, predicts OECD in its November 2016 report on Russia.

Over recent years, Russia has accomplished many positive changes across multiple areas of business regulation, helping improve its investment climate. These are necessary though not sufficient, despite the substantial changes in the role of the state in recent decades, the ownership of productive assets has become even more concentrated, reducing competition and impairing corporate governance.

After a prolonged recessionary period in Russia, headline economic and financial trends and indicators are now picking up.
According to World Bank figures, poverty decreased slightly in Russian public in 2016, but vulnerability remains at higher levels than before. Despite a continued contraction of disposable incomes – by 5.8 percent – the poverty rate slightly decreased. In the first half of 2016, 21.4 million people, or 14.6 percent of the population, had incomes below the national poverty line. This was 0.5 percentage points lower than a year ago – a slight decrease. This decrease is because the poor consume more food as a fraction of their income, and food inflation was lower than non-food inflation in the first two quarters of 2016.

However, many people in the bottom 40 percent and in the middle of the income distribution experienced a significant decline of their real incomes in 2015. That led to an 8 percentage points increase in the share of the vulnerable population with per capita incomes below 10 USD/day (in 2005 PPP) – a significant increase, reverting many of shared prosperity gains of recent years.

In 2007, the strength of the recovery in Russia will also remain dependent on the rebound of oil prices. The poverty rate will progressively decline as the labour market strengthens and inflation slows down.

Nonetheless, as if it was yielding the intended outcome, The E.U. has prolonged economic sanctions imposed on Russia for six months until July 3, 2017 from December 31, 2016.

- “Limit access to E.U. primary and secondary capital markets for 5 major Russian majority state-owned financial institutions and their majority-owned subsidiaries established outside of the EU, as well as three major Russian energy and three defence companies;
- Impose an export and import ban on trade in arms;
- Establish an export ban for dual-use goods for military use or military end users in Russia;
- Curtail Russian access to certain sensitive technologies and services that can be used for oil production and exploration.”

read the official statement.

For how long the sanctions will remain in place is now an open-ended question but they are for sure a remnant of the “Obama Legacy”, which tried to handle Russia as a regional power in decline.
That strategy, supported by the sanctions, only helped Mr. Putin to increase his approval ratings at home, while expanding into Crimea, Syria and even Turkey in political and economic terms.

NATO and EU countries either misunderstood or ignored Russia’s determination to restore its influence on the territory of the former USSR. This led to a poorly judged effort by the US to integrate Georgia and Ukraine into NATO, a policy that triggered Russia’s war with Georgia in 2008.

In February 2017, the U.S. Vice President Mike Pence vowed to hold Russia accountable at Munich Security Conference.

In turn, this accelerated the rebuilding of Russia's armed forces. At the same time, the quest for cooperation in areas of common interest such as terrorism and narcotics trafficking produced only negligible results.

Russia’s annexation of Crimea in 2014 and its fomenting of conflict in eastern Ukraine finally awoke Western leaders to the fact that it once again posed a serious security threat despite its underlying weaknesses.
Yet NATO’s response to Russia’s military build-up is so far, the only long-term policy currently in place to protect Western interests against Russian efforts to expand its influence.

The “Trump Factor”, however will most likely to yield unexpected results in Turkey-Russia Rapprochement. Latest developments in recent weeks indicated that, a grand “reset” between the US and Russia has become politically impossible amid increasing speculation that Donald Trump and his campaign team may have come under Moscow’s influence.

That said, Mr. Trump will handle the relations in a “win-win” style pragmatic approach, evaluating every issue independently and separately. However, in the geography that Turkey resides, it is almost impossible to find a formula where Turkey, Russia, and the US all win.

**Turkey on the path to an irreversible change**

Change is inevitable in the history of nations. The never-ending cycle of historical pendulum has now started to swivel to other corner again, this time both in Turkey and in the World simultaneously with the rise of populism.

> The question is, though, how the corporate world will get affected by this almost lightning fast change in Turkey on political, economic, social and defense domains.

The traditional alliances are shifting, bringing shocks to populations and the world order, as we all have been witnessing since the Brexit referendum in UK, followed by a coup-attempt in Turkey, presidential elections in the U.S. and the assassination of Russian Ambassador in Ankara.

On 16th of April, Turkey will hold a historic referendum on constitutional change, suggesting a major shift from the Parliamentary System by granting the head of the state with robust executive authority, assuming that it passes. Despite repeated statements by government authorities, trying to convince the business world and the public that the closest general elections will be hold as planned in 2019, there is a good chance that Turkey might find itself in an election year in 2017.

Only the actors, in both business and political realm, will get the best out of Turkey who can adapt to the pace and direction of this change.
Russian military operations abroad increased the demand for Russian military hardware. Is Turkey on the horizon?

On the horizon? Definitely yes, and it is closing in to be the next market for Russian military equipment very fast.

“Russia in 2016 sold approximately $14 billion worth of weapons and other military hardware”, Russian presidential aide Vladimir Kozhin said lately, adding that work on some contracts was continuing.

S-400 Triumph Air Defense System, designed by Almaz Central Design Bureau.

Turkish Defense Minister Fikri Işık also confirmed that Turkey was considering purchasing Russian S-400 missile systems, adding that “the country’s own air defense system was required for Turkey’s need to protect itself permanently from possible airstrikes”.

The defense minister said that “the Russian S-400 missile systems were the best option for a temporary solution at the moment”.

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Asked how NATO would react to such a cooperation, the defense minister commented that he believed NATO would understand Turkey’s move, as even some NATO member nations have long been using non-NATO systems, pointing the finger to Greece, which has been operating Russian S-300 air defense system over some decades.

Sergei Chemezov, the CEO of state corporation Rostec, also commented that talks were underway for Turkey to purchase Russian S-400 missile systems. “Turkey is interested in S-400 systems. Talks are underway, the key issue is financing” Chemezov added on the sidelines of the IDEX 2017 international defense exhibition in Abu Dhabi.

**The TurkStream will be a new chapter in Turkey-Russian Rapprochement**

Turkey and Russia signed the strategic TurkStream gas pipeline agreement late on Oct. 10, 2016 amid vows by both countries to intensify their relations following a lapse due to Turkey’s downing of a Russian jet in November 2015.

*The TurkStream Natural Gas Pipeline is projected to be completed by 2019.*
According to Russian Federation Council’s Deputy Chairman Ilyas Umakhanov, the agreement on TurkStream gas pipeline is politically important for “a complete recovery of relations with the Turkish Republic.”

Deputy Energy Minister Yuri Sentyurin, an official representative of Russian government also commented “The Turkish Stream is designed to deliver Russian gas to Turkey, as well as to ensure that the Russian side fulfils all its commitments on Russian gas supplies to the territory of the states of the European Union after 2019”.

The project envisages the construction of two lines of the pipeline via the Black Sea from Russia to the European part of Turkey with annual capacity of 31.5 bln cubic meters of gas (15.75 bln cubic meters each). The seabed section is about 920 kilometers and the mainland section is around 200 kilometers.

The plan is to complete the construction by December 30, 2019.

**What will the business with Russia look like?**

On 09-10 March 2017, President Recep Tayyip Erdogan is expected to travel to Moscow to meet Russian President Vladimir Putin.

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*Russian President Vladimir Putin visited Istanbul on 10th of October, 2016, to attend the World Energy Congress.*
The planned visit would be the fourth meeting between the two leaders in the last six months and will further enhance the relations between the two countries.

The approval of a visa exemption for Turkish businessmen and politicians will also be covered during the meeting, along with many other issues. From this perspective, we unravel the answers of some critical questions in our Turkey-Russia Rapprochement Special Report with respect to international business;

- **Russia is the main import source for the Turkish economy.** Imports from Russia account for about 13% of overall imports. Will that likely to change?
- **Assuming that all the sanctions imposed on Turkey are lifted by Russia, which sectors will benefit most?**
- **Turkey has a western stockpile of weaponry in all air-land-sea domains.** How will Turkey-Russia Rapprochement affect defense business in Turkey?
- **The total value of projects undertaken by Turkish contractors in Russia surpassed 26 billion Dollars,** making Russia by far the most important market for Turkish construction services. What are the critical factors that Turkish construction sector must take into account for future projects in Russia?
- **There is a growing interest by the Russian firms,** especially in the telecommunications, energy and tourism sectors, in investment in Turkey. What are the opportunities for both Turkish and international companies to exploit potential Russian investments in Turkey?
- **What is the future of peaceful nuclear energy cooperation with Russia?** Why Akkuyu Nuclear Power Plant will be a game changer?

**Turkey-Russia Rapprochement Special Report,** especially when digested together with our **Turkey Referendum 2017** and **Turkey Outlook 2017 Special Report,** is the ultimate guide for both Turkish and foreign companies operating in Russia and Turkey.

Contact info@quatrostrategies.com for orders.
The complex nature of contemporary business world presents a range of potential risks, threats and opportunities as well, to governmental, corporate and individual interests. Keeping vast range of factors in mind, QU4TRO provides tailored solutions to give its clients a strategic advantage; hence they can identify opportunities in advance, make sound decisions and manage risks through information that is timely, relevant and actionable.”

Founded in 2004 and headquartered in Istanbul since then, QU4TRO serves its clients in 4 core sectors:

**Political campaigning for corporate interests.** If politics is the "art of the possible", campaigning is the science and art of changing what is possible. As your local partner with global know how, QU4TRO provides campaign strategies and management, media relations, crisis management, strategic communications, micro targeting, political advertising and lobbying.

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**Risk Analysis.** QU4TRO Risk Analysis service provides in-depth analysis and regular risk reporting to individuals, corporations, organizations and governments around the world. By placing events happening in and around Turkey in a geopolitical framework, we help our clients anticipate and exploit opportunities and better understand local, regional and international developments.