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U.S-Turkey Crisis and Its Impact on the Economy of the Black Sea Region

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Abstract. The process of political, economic and socio-cultural integration is underway of rapid pace in terms of globalization. Consequently, changes in one state will be reflected in other countries or region as a result of increased interdependence. The U.S. and Turkey have a historically strong relationship. They have a shared interest in economic collaboration, stability and security. The long history partnership has been tested in 2018 by a series of disagreements. Turkey and the U.S face their greatest diplomatic crisis. The lira lost almost a quarter of its value against the dollar. It should be noted Turkey's increasing more independent regional role and influence. There are also signs that the crisis has the wider impact. However, the aim of this paper is to present the correlation between the U.S-Turkey crisis and the economy of the Black Sea Region countries. The paper consists of several thematic parts and a part dedicated to conclusions and recommendations. First one is introduction, second one is theoretical and provides to analyse specific issues related to US-Turkey relations: from alliance to crisis. The third part discusses the research methodology used during the research for this study. The article includes short and long term recommendations which are possible solutions for it.

1 Introduction

In the modern stage of development of international relations, the world has become more dynamic and interdependent than the globalization process. Due to this, different aspects of inter-state relations are more widespread than before. More recent efforts at measuring globalization were built on the conceptualization by Keohane and Nye [23] of three different relevant dimensions of globalization: 1) Economic: long distance flows of goods, capital and services as well as information and perceptions that accompany market exchanges, 2) Political: the diffusion of government policies internationally, and 3) Social: the spread of ideas, information, images, and people [13].

There are some positive impacts of globalization on the world economy. Increased free trade and communication between nations, consumer goods, build to stronger trade ties, more efficient market, increased competition, stabilized security are often considered advantages of globalization. However, it can be regarded as a major challenge to the globalization process, some negative changes in one state will be reflected in other countries or region as a result of increased interdependence.

The main goal of the study is to analyse the impact of the conflict in the modern stage between the US and Turkey on the economies of the Black Sea region. To achieve this goal, the task of the work is to review the chronology of US-Turkish relations based on scientific literature and official documents. We try to describe important characteristics of

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the crisis and to find out its core reasons. In order to better understand the reasons for interconnection in the conflict, analyse the facts of the work from the perspectives of the leading theories of international relations.

In this paper we propose a Bayesian VAR model to examine the short term effects of US-Turkey crisis on the economy of Black Sea Region countries. The Bayesian vector auto regression models are used to avoid problems of multicollinearity and over parameterization that occur in general with the use of vector auto regression models [30].

The Bayesian approach has a long history, going as far as to the reference contribution by reverend Th. Bayes, who proposed for the first time this new perspective on statistics. The Bayesian econometrics is characterized by several advantages relative to the classical paradigm, like the coherence of the whole paradigm, which is derived from the systematicall applying of the Bayes law [10].

In this paper we used qualitative and quantitative data analysis, statistical data gathering, academic and normative discourse analysis. One of the most universally and widely used measures is the Gross Domestic Product (GDP). It's one of the main indicators, used to measure the wellbeing of a country's economy. GDP is the key factor in the analysis of the economic growth. Factors like interest rate, inflation have an ambiguous effect on the growth of the GDP. But factors like unemployment rate, government budget deficit and dept can decline the economic growth [6]. In this paper the GDP in the Black Sea Region countries are analysed before and during the crisis, which gives an opportunity to make objective conclusions.

Practical recommendations have been developed on the theoretical and methodological research of the issue. Short-term and long-term recommendations based on the scientific analysis of the problem are important because it helps the states maintain stability during the economic crisis.

2. The Historical Background of U.S.-Turkey Relations: from Alliance to Crisis

The United States and Turkey linked two NATO ally strategic partnerships for decades in the Cold War. Turkey was a key defender of the US for conflict with communism and radical Islam.

NATO was created on April 4, 1949, and the purpose of the founders was to realize the right of the individual on individual or collective defence. Turkey, as a strategic ally, was important for NATO. At that time it was bordering both the Soviet Union and Europe's capitalist states, and thus NATO's biggest threat to Turkey was under the influence of the Soviet Union. The strategic relationship between the United States and the Republic of Turkey has been an essential pillar of U.S. national security policy since the beginning of the Cold War. Turkey is a critical military ally of the United States through the North Atlantic Treaty Organization and an essential hub in a broad range of relationships with countries in several vital regions of the world [9].

In the last decades of the Cold War the dominant (neo) realist views on international relations were increasingly challenged by theorists who were focusing on matters such as identity, culture, language etc. In the 1990s this direction in International Relations became well known as constructivism, a name invented by Nicholas Onuf in 1989 [35]. Like constructivists, the strategic culture theorists challenged realism's characterization of actors as 'black boxes', identical entities whose behaviour is determined by the constraints of the system they are manoeuvring in [35].

After the Cold War it was not clear what was going to happen with NATO. From a perspective of realist theory of international relations alliances should not outlive the threats they were created to address. With the disappearance of the common goal it was expected

by many that the alliance would fall apart, as reasons for cooperating ceased to exist [35-37]. According to the Turkish Foreign Ministry, Ever since NATO membership in 1952, the North Atlantic Alliance has played a central role in Turkey's security and contributed to its integration with the Euro-Atlantic community. Turkey, in return, has successfully assumed its responsibilities in defending the common values of the Alliance. Turkey believes that the integration of all Western Balkan countries in Euro-Atlantic structures is the key to lasting peace and stability in the region (Turkish Foreign Ministry).

The long-term cooperation between the two countries has changed recently. Bilateral ties have reached historic lows in the summer of 2018. The major flashpoint has been a Turkish criminal case against American pastor Andrew Brunson. U.S. sanctions on Turkey related to the Brunson case and responses by Turkey and international markets appear to have seriously aggravated an already precipitous drop in the value of Turkey's currency [39].

However, this was not the only case. There are different opinions scientific literature about the cause of conflict of interest in US-Turkey relations. To research the impact on neighboring regions of the conflict and to develop some recommendations, it is necessary to review all causes. The official reason for the imposition of antitrust sanctions is the history of Andrew Baron's passport. In October 2016, he was detained in Turkey for charges of state coup. But everybody knows that the cause of the conflict is deeper. The Kurdish factor has always been the issue of discussions between the two states, which has a certain conflict between the US and Turkey. Some experts believe that the main reason is the desire to create a new political environment in the Middle East and not only.

According to Toi [31] Nowadays the Turkey-U.S. relationship is going through one of the most turbulent periods in history. They share some vital interests, but harmonizing priorities can be difficult.

□ Diverging interests in regional policy, Turkey's failed coup, and the country's authoritarian drift are major factors behind the current crisis.

□ Traditionally, Turkey's ruling center right parties and the military have promoted closer ties to the U.S. and normalized relations in the past. Today, these forces are not acting.

□ Gone are the days of the "model partnership" and parties seem to have resigned to transactional relations

Amid this backdrop, [39] means, that congress has actively engaged on several issues involving Turkey, including the following:

□ Turkey's possible S-400 air defense system acquisition from Russia.

□ Turkey's efforts to acquire U.S.-origin F-35 Joint Strike Fighter aircraft and its companies' role in the international F-35 consortium's supply chain.

□ Complex U.S.-Turkey interactions in Syria - the United States continues to partner with Syrian Kurds linked with Kurdish militants in Turkey.

□ Turkey's domestic situation and its effect on bilateral relations

An important factor is Turkey's attempt to become one of the leading actors in the international system. As Gulseven [18] noted, Turkey's geographical and cultural location at the crossroads of different continents, civilizations and religions may in principle endow Turkey with unique credentials to play a key role in international relations. Turkey is the only Muslim-majority country in the world which is secular, democratic and pro-Western [18]. It needs to be emphasized that foreign policy agenda setting which is a part of entrepreneurial leadership is difficult in 21st century since there is a growing number of other actors that also seek to be a part of the agenda setting. The changing dynamics of global threats not only exposes states vulnerability to them but also its inability to singularly deal with all transnational threats [5]. Regional powers are increasingly operating in a different environment and the trend is towards a multilateral approach in foreign policy

making. As a result of emphasis on multilateralism led to a shift in foreign policy discussions from substantive policy frameworks to a focus on coordination, coherence, comprehensiveness and joined up policy making [29, 33].

There is a different opinion that draws attention not to internal but external factors while forming foreign policy. Scholars approached the issue from a rationalist perspective by fixing security as the main foreign policy goal of Turkey and focusing merely on external structural imperatives as the main determinant of Turkish foreign policy. Only a small share of research in this area dealt with the impact of identity and domestic factors [18].

Based on Waltz's and Kissinger's arguments, [34] the head of the Foreign Relations Department at the Turkish Presidency discusses how Turkey will use its nation-state power in the new multipolar international system below. In this context, it will continue to be the part of the existing international community. Turkey's rational approach to foreign policy and its operational capacity, on the other hand, will serve to improve the world system as well as the wellbeing of the societies in various countries. Also, [18, 20] assumed Turkey as a middle power and argued that Turkey's alliance with other states or its neutrality is determined by the international system. He predicted that Turkey will continue to identify itself with the West in the foreseeable future, while maintaining good relations with the Islamic world for pragmatic reasons [18].

According to neo-realist approach, Turkey is on the edge of a historic crossroad and should combine "its historical and geographical depth with rational strategic planning," [14, 18]. In order to take advantage of local and global sources of dynamism and play a greater role in international politics. Turkey has no option to be a peripheral player since it is located at the Centre of world politics and thus destined to play a central role [18].

The main International relations theories such as institutionalism and realism dealt with regional powers as well and according to institutionalism cooperation with neighboring countries is a prominent tool for dealing with challenges in the international system. Thus, institutionalists emphasize regional integration as a major strategy for coping with problems in the region and at the global level. But realists support the idea that regional powers are prominent among those actors who attempt to challenge US control of international affairs and/or US in specific regional policies/politics [3, 33].

We will first see how Ataturk's idea of "peace at home and peace in the world" connected the ideas of national state security at the domestic front with Turkey's foreign policy behavior through the national unity narrative. We will then see how the strategic culture under this national unity narrative, which was held up by the Kemalists (those inspired by Kemal Ataturk), has increasingly been challenged by a narrative that presents Turkey as an assertive regional power. Especially under the rule of the AKP, which came into power in 2002, this narrative gained strength. Once we understand this shift in strategic culture we can see how this reflected on Turkey's role in NATO [35].

It is difficult to differentiate between the realist, institutionalist and constructivist perspectives in defining regional powers. Therefore, we have to accept that a state can be counted as a regional power when it is able to police its borders, prevent other actors to intervene in the region and also make other states accept its legitimacy as a regional power [33]. It can be emphasized, that most scholars focuses on Turkey's increasing regional and even global power. The economic rise, stability in politics, increasing soft power, stabilizing role in the region, increasing cooperation at a multilateral level both at the regional and global levels, and diplomatic leadership can be elements of regional power definition [33]. Another definition of regional power focuses on possession of necessary power resources, using foreign policy tools, claim to be the leader and acceptance by other countries. In terms of possession of necessary power resources, economic and military powers of Turkey stand out in its region. When data on GDP per capita and military expenditure are examined [33].

At the same time, the divergences between U.S. and Turkish interests that have manifested themselves over the last decade are likely to increase [26]. Despite the above, Turkey stays relevant to the Alliance based on crucial elements such as the historical background, geopolitical location strategic diplomatic ties bridging the East and West, participation of its army in NATO as it is the second biggest in size after the USA [7]. With regard to its international role, Turkey will continue to be the part of international order, though the rules of the game slightly changed after the Cold War.

The conclusion is that the reason for the conflict is multilateral. The focus is on internal and external political directions, historical facts and on going events. Depending on the complexity of the issue, it is important to determine the extent of the spread of conflict and its impact on neighboring regions. In the next section, the US sanctions and its impact on the economy of Turkey and the Black Sea countries are discussed.

3. Crisis and Its Impact on the Black Sea Region

The Black Sea was one of the most isolated seas until the 1990s in consequence of the Straits sui generis regime. Since the 1990s, the region has been affected by several alterations. The Cold War ended, the USSR collapsed and its disintegration caused a power vacuum to occur and the “frozen problems” rise in the region; following these developments, the Black Sea Region started to become prominent on the global agenda as one of the primary areas that have witnessed power struggles [8]. According to Horrel [22] The Black Sea region is a crossroads, an intersection between Europe and the Middle East, from the eastern Balkans to the South Caucasus. Like many such points of intersection, it is often a friction point.

It should be noted that Turkey having historic ties and the longest coastline among littoral states in the region. It has started to pursue an active policy to create consciousness of regionalism in the region and to enhance cooperation among all littoral states in the fields of economy, politics, and security; and it has undertaken a leading role in initiating various formations in the region, such as Black Sea Economic Cooperation (BSEC), the Black Sea Naval Cooperation Task Group (BLACKSEAFOR), and the Operation Black Sea Harmony (OBSH) [8].

Consequently, we can conclude that since the 1990s the trade relations between Turkey and the Black Sea countries are deepened. So, increased interdependence implies reflecting on going political and economic changes in one of the other countries as well. In this chapter, the analysis of gross domestic product is considered the impact of the US-Turkey crisis on the Black Sea states.

The concept of measuring and comparing economic activity within and across countries using the gross domestic product (GDP) is rather new in historic terms. Starting with some first attempts to quantify economic activity in the late 19th century for certain countries, comprehensive regular assessments of GDP were only established in the second half of the 20th century. Since then GDP has become the standard indicator to assess nations' development, despite initial and more recent criticism concerning the incomplete representation of a nation's state via GDP and the potential problematic comparison across countries [11, 16].

Recent empirical studies on GDP can be categorized into several groups. According to scientists (Marcuss and Kane, [27]; McCulla and Smith, [28]; Giannetti et al. [17] the current default standard for economic and social progress is Gross Domestic Product (GDP), which is the most extensively established measure of a nation's economic performance. Others think that GDP falls short in evaluating critical aspects of quality of life. It ignores several components that do not involve monetary transactions [25]. Cited in Giannetti, et al. [17], excluding almost all nonmonetary production, such as childcare or

volunteerism and the work done at home [17]. Also, it ignores different visions of the goals of development, such as cultural differences [21].

In this study Gross domestic product (GDP) is a key measure of a nation's economic development and growth. GDP is the standard measure of the value of final goods and services produced by a country during a period. While GDP is the most important indicator to capture these economic activities. The economic development of a region is, as a rule, expressed in terms of its gross domestic product (GDP). This indicator is also frequently used as a basis for comparisons between regions. Also, it is an important indicator of economic activity and growth in a region.

It is noteworthy that the US-Turkey crisis has been the biggest influence on Turkey. The Trump administration imposed sanctions in 2018 against two top Turkish government officials over the detention of an American pastor being held on espionage charges, threatening to plunge already-fraught relations with a vital NATO ally into crisis [19]. Then The US has threatened to impose more economic sanctions on Turkey if it does not free a detained American pastor and doubled its tariffs on metal imports from Turkey. A court refused to release Mr Brunson, and the government in Ankara increased tariffs on imports from the US of cars, alcoholic drinks and leaf tobacco - and the lira recovered slightly.

The following data is reflected in Turkish GDP change with 7 years interval and includes 2012-2019 years. Vision is considered a period before, during and after crisis.

Turkish economic growth slowed sharply after a currency crisis fuelled record inflation rates and curbed consumer demand, raising the spectre of the country slipping into recession. Gross domestic product rose 1.6 per cent year-on-year between July and September, its slowest rate since 2016, when a bungled military coup hit economic activity. On a quarterly basis, output contracted 1.1 per cent, suggesting a technical recession may already be under way [38].

As for Georgia, we can conclude that Georgia's economy is sensitive to regional and global challenges. On background of evolving integration and tough economic ties, negative impacts of foreign shocks are continuing, that besides global factors was caused by unfavorable economic situation in trade partner countries, euro's global sustainability trend, dollar's instability and the depreciation of national currency in the region countries. The economic development problems of Georgia are reflected in the Lari devaluation, rising prices and decrease in economic growth. It is obvious that in case of currency crisis and inertness, it possibly convert into financial crisis and especially in the collapse of currency [x], but the crisis did not have as big impact as on Turkey. According to the World Bank in Georgia's information, over the past decade, Georgia's economy has grown at an average annual of 4.5 per cent. This was despite numerous shocks, including the global financial crisis of 2007-2008, the drop in commodity prices since 2014, et al., which impacted key trading partners, the decline in volume of foreign transactions due to unpredictability of markets; this is especially noticeable on the background of impaired negative balance sheet and depreciation of the national currency exchange rate [1]. We have the following data:

In the case of Ukraine, when considering the GDP change, the internal political situation of the country should be taken into account in recent years. It is noteworthy that much of the economic impact on the economic situation had internal political tensions than external factors. On the basis of the above, we can say that in the case of Ukraine, the reason for radical change of GDP was not only the crisis of the US-Turkey.

The conflict in the eastern part of Ukraine - and more generally the souring of relations with Russia - is still impairing the economy. According to the IMF (International Monetary Fund), in 2018 the country recorded a 3.5% GDP growth, driven by domestic demand as household consumption represents almost 70% of GDP. Estimates for 2019 and 2020 forecast respectively are around a growth rate of 2.7% and 3%.

Below is the change in Bulgarian GDP in recent years. Financial Times (2019) noted that Bulgaria’s recent record of delivering solid economic growth is set to continue, according to economists and business leaders in Sofia, despite the obstacles of bureaucracy and corruption.

As for Romania, we have the following data. Romania's GDP growth rate remained above 4% each of the first three quarters of 2018, driven by private demand for consumption, but also by the continuing build-up of inventory [15].

Russia is now the main import source for the Turkish economy. Imports from Russia account for about 13% of overall imports. The high level of economic relations between Turkey and Russia has become the most important component of their bilateral multidimensional relations. The Russian economy experienced two major shocks in 2014, narrowly avoiding recession with moderate growth of 0.6%. The first shock was the sharp decline in oil prices during the third and fourth quarter of 2014, exposing Russia’s extreme dependence on global commodity cycles. The second shock was the economic sanctions resulting from geopolitical tensions, which negatively affected investor appetite for Russian investments.

This data is also reflected in the graph shown in Figure 1 and Figure 2

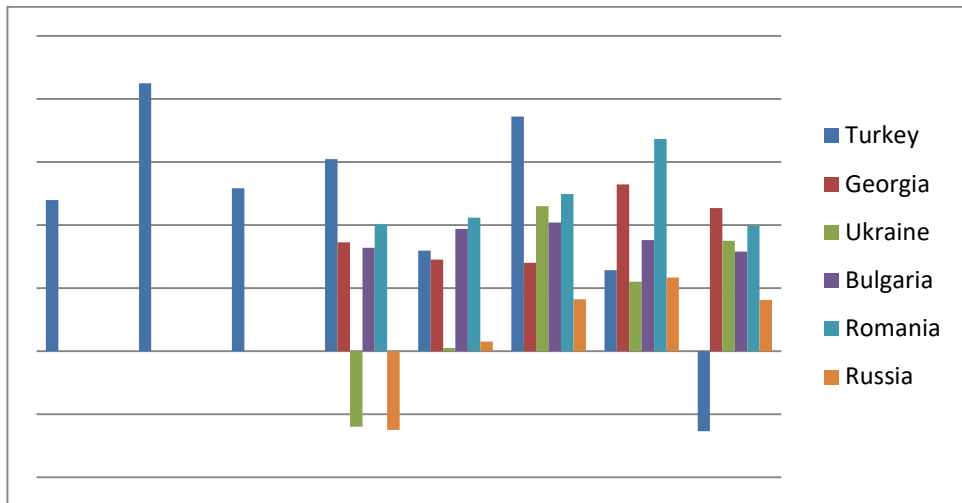


Fig. 1. Black Sea Region, (Real GDP, 2015-2019)

Source: author’s calculations based on ceicdata

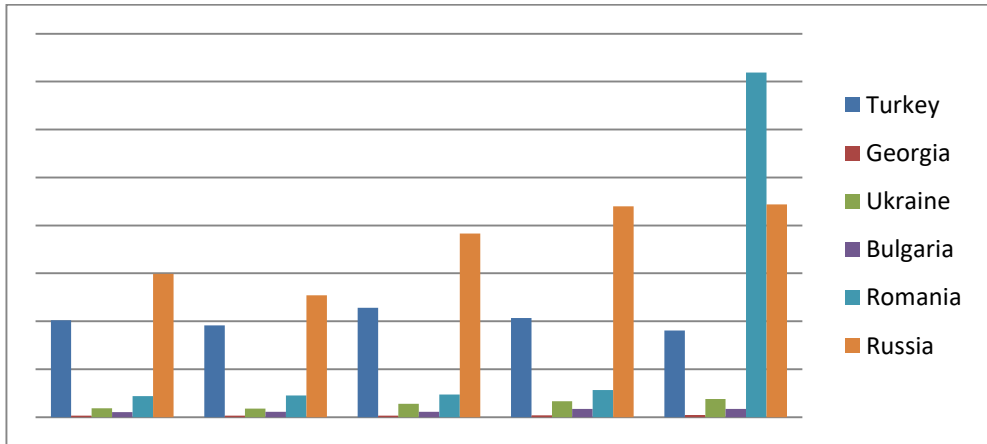


Fig. 2. Black Sea Region, (Nominal GDP, 2015-2019)

Source: author's calculations based on ceicdata

Based on the above, we can say that the US-Turkey crisis has had some impact on the Black Sea region. In Turkey, the results of sanctions are still in the face. According to the latest data, the lira has again come under severe stress in recent weeks (March, 2019), due to concerns over monetary and fiscal policy, with last year's currency crisis still fresh in the minds of investors. In late March, the offshore overnight swap rate sky-rocketed and the Central Bank's international reserves plummeted in attempts to prevent short-selling of the currency. The economy will likely contract this year amid feeble domestic demand due to persistently high inflation, rising unemployment and currency weakness [32].

4. Overall Findings and Recommendations

The overall conclusion of this study showed that (1) based on the analysis of scientific literature, the reasons for the US-Turkey conflict are multifaceted; (2) The US-Turkey crisis had a much greater impact than the relationship between the two states;

Vector autoregressive models (VAR) have encountered enormous success and they have been extensively used for forecasting purposes. They have become valid substitutes/complements of the structural macro econometric models (SMMs). The main advantage of VAR models with respect to SMMs is their higher manageability in the specification, estimation and simulation stages [2].

The complete analysis of the causes of the economic crisis and their way of crossing the road is a necessary condition that is easy to overcome and avoid. The following actions are needed to achieve this goal:

- Determining the factors influencing the country's economic potential
- Developing practical methods of solving the problem based on scientific research
- Establish real plans by the government to avoid potential threats to the crisis
- The use of additional political and economic instruments to solve current problems caused by crisis.

5. Conclusion

The purpose of the work was to study the impact of the US-Turkey crisis on the Black Sea economies. Based on the analysis of official documents and scientific thesis, various causes

of the US-Turkey crisis were discussed. To better assess the situation, we discussed the chronology of two states intergovernmental relations from the perspectives of leading theories of international relations.

The study uses a model in which growth of real GDP is used as the dependent variable. The paper reflects the real and nominal GDP change in the countries of the Black Sea region in 2012-2018. A six-year interval includes pre-crisis and subsequent period. Based on the results presented, recommendations have been made to minimize the negative effects of the crisis.

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