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Turkey's rather lackluster economic ties with Iran

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Business, trade and investment ties between Turkey and Iran, two competing powers in the region with a combined Gross Domestic Product (GDP) of $1.14 trillion1, have been thwarted for decades from unleashing their full potential mainly by the protectionist policies pursued by the Tehran regime for various reasons.

For one, Iran is keen to safeguard its relatively uncompetitive industry against Turkish manufacturing and industrial products, preserve the hold of Mullahs and of the military on its economy. The ideological hostility toward Turkey, a predominantly Sunni nation, coupled with the long-running historical rivalry in the region, has also played a significant role in impeding the further development of the economic ties.

Sometimes security considerations outweighed trade interests with reference to opening up key industries in the Iranian economy to Turkish companies. In some cases, Turkey has been a victim of internal jockeying for power among the competing interests pursued by the government, religious class and security and intelligence establishments. It is striking to see the deeply entrenched prejudices in Iranian bureaucracy against Turkey that contributed to the decline of what initially appeared to be very promising joint ventures and business deals.

1. Sputtering Trade Volume

The performance on the trade volume between the two countries is disappointing given their combined GDPs and a huge consumer market of some 160 million people tells the sad story of an unfulfilled potential between Turkey and Iran. Encouraged by the new mark on the trade volume that hit $10.2 billion for the first time in 2008, then-Prime Minister and now president Recep Tayyip Erdogan announced during his visit to Tehran in October 2009 that both countries decided to set a goal of $30 billion in trade volume in the next five years. That ambitious target suffered an immediate blow when the trade volume was almost halved within two months of this visit as the new data for year 2009 was announced. The annual trade volume took a nosedive by declining to $5.4 billion, thus representing a 47 percent drop compared to 2008.

Although the 2008 financial crisis might have played a role in the slump, the analysis of data over the years since the crisis suggests that the fundamental problem in preventing the boost in trade and economic ties between Turkey and Iran has more to do with systemic and structural reasons rather than with a temporary shift in the financial and economic conditions on a global scale. More than seven years have passed since Turkish and Iranian officials firstly announced the joint target volume of $30 billion, yet the 2016 trade figure remained at $9.7 billion, slightly below the 2008 figure. In other words, eight years had passed but the trade volume has largely remained about the same.

The unprecedented spike in the trade volume in the years of 2012, 2013 and 2014 is largely attributed to the sale of precious materials, mostly gold payments for the oil and gas purchases Turkey had made from Iran that had difficulties in processing payments and using financial institutions because of the sanctions on Tehran over the controversial nuclear programme. Therefore, that should not count as the real trade but rather as funds transferred in gold and by other means. In fact, the major corruption probes of Dec. 2013 in Turkey revealed how Iran used middleman Reza Zarrab, an Iranian national with connections to the Iranian government, to stage an illicit gold trade and fictitious trade in commodities in order to run a financial scheme and move Iranian state funds around.

Such illicit business activities placed Turkey at odds with its main ally, the United States, that has own unilateral sanctions imposed on Iran in addition to the sanctions that were approved by the United Nations Security Council resolutions. Zarrab apparently bribed senior Turkish government officials, including three ministers, who were later forced to resign from the government in a major shake-up. The case against Zarrab was later dropped and the investigation was interrupted after the intervention by the Turkish government. Zarrab was later arrested by the agents of the Federal Bureau of Investigation (FBI) in Miami on March 2015 and indicted on money laundering charges and violating of the Iran sanctions bill. He was placed in pre-trial detention and the case is still pending in the US district court in Manhattan.

In January 2017, the last available data according to the Turkish Statistical Institute (TÜİK) suggested that Turkey's monthly export to Iran was $275 million, a drop of 4.4 percent compared to the same period last year. Turkey's imports from Iran accounted for $563 million in the same period, indicating a whopping 56 percent increase over the same period last year. That suggests that a chronic trade balance favouring Iran has come back after breaking even only for the year 2016 largely due to the low crude oil prices. In other words, the current trade relations with Iran are rather contributing to widening Turkey's current account deficit (CAD), which is one of the major challenges faced by the Turkish economy. The CAD stood at $2.76 billion in January, up by almost $561 million on an annual basis according to the Turkish Central Bank's report[2], corresponding to the 12-month rolling deficit of $33.16 billion.

The comparison between Turkey's exports to Iran with a consumer market estimated at 80 million and the United Arab Emirates (UAE) with 9.4 million shows how Iran lags behind the Gulf nation despite having a larger market. It also confirms the difficulties for Turkish companies in penetrating into the Iranian market. Turkey's exports to Iran amounted to 3.5 percent of the overall Turkish exports in 2016 while the UAE took 3.8 percent, rendering the Gulf state as 7th largest export destination for Turkish products. The opposite is happening with respect to the imports to Turkey. Iran accounted for 2.4 percent of the Turkish imports overall in 2016 while the UAE remained at 1.9 percent. The trade volume between Turkey and the UAE was recorded as $9.1 billion in 2016, an increase of 36 percent compared to the previous year.

2. Trade mostly based on oil and gas

A deeper look in the trade between Turkey and Iran exposes the problems in the qualitative aspect of trade, which not only favours the Iranian side but is mainly based on the hydrocarbon sales to Turkey as well. Iran is the number one supplier

of crude oil to Turkey, with 26.7 percent in the total share in Turkish imports as of December 2016 according to the data from the Energy Market Regulatory Authority (EPDK). [3] Iraq came in second with a 23.45 percent share in Turkey's crude imports in the same period.

As the crude price is determined globally and by the availability of many sellers, Turkey has more alternatives to Iran's oil. When the US imposed sanctions on Iran's oil and gas sales, Turkey was able to cut its imports from Iran dramatically even though it had received waivers for a certain period of time in 2012 and 2013. [4] However, in natural gas imports which require a long-term contract commitment and fixed investments in billions of dollars for the infrastructure such as laying down pipelines and pumps, Ankara is more dependent on Iran.

The last available data from Turkish regulator EPDK shows that Turkey imported 15.39 percent of its natural gas from Iran in December 2016. [5] Turkey's other pipeline gas suppliers are Russia (50.70 percent) and Azerbaijan (10.67 percent). The rest is secured from the LNG contracts and purchases on spot markets, mainly from Algeria (10.32 percent) and Nigeria (3.49 percent).

It appears that Iran made more progress in promoting its own interests when Islamists were in power in Turkey. The first contract for 10 billion cubic meters of gas sale on an annual basis between Turkey and Iran was signed during a coalition government led by Necmettin Erbakan, the father of political Islam in Turkey and a mentor to Turkish president Erdoğan. Erbakan's love affair with Iran helped finalise a 25-year-long contract on August 8, 1996 when he was the prime minister. From Turkey's border provinces to the capital of Ankara, many cities today rely on Iranian gas to a great extent. That made Turkey dependent on Iran for almost one-fifth of its gas imports, an unnecessary leverage that Iranian hawks never fail to bring up every time they talk about Turkey's reliance on Iran.

Unlike other suppliers such as Russia and Azerbaijan, Turkey has often encountered problems with Iran when it comes to the natural gas trade. For one, the relatively poor infrastructure of the pipeline on the Iranian side has caused interruptions especially during winter time when many residential customers need the gas flow for heating their homes. Citing a peak demand at home, Iran had decided to divert the gas flow to domestic customers on several occasions, leaving the daily pump volume to Turkey below the agreed minimum amount under the contract. What is more, Turkey asserted that Iranian gas quality remained poor compared to the products of other suppliers.

Another major challenge Turkey has encountered with Iranian gas refers to pricing. Turkey pays the most for Iranian gas according to the reported figures. As an official confirmation of the price would amount to a breach of confidentiality of the contract, the figures reported in the media, which presumably came from reliable leaks from Turkish government circles, are considered to be accurate. The Turkish government has never denied or refuted these figures either. While the cost of Iranian gas per 1,000 cubic meters was $507 in 2013, Turkey paid $428 for Russia, and $349 for Azerbaijan. [6] In other words, Turkey buys the most expensive natural gas from Iran.

As opposed to other suppliers such as Russia and Azerbaijan that adjusted their prices depending on the changing market conditions as envisaged in the contract, Iran has proved to be quite stubborn on offering discounts, forcing the Turkish government to seek an international arbitration. When Turkey invoked the relevant article in the contract in 2003 based on the different market conditions and supply-demand fluctuations, Iran balked at Turkey's request. As a result, Turkey had to apply to the International Chamber of Commerce (ICC) on March 2004 in order to resolve the differences on pricing. The arbitration lasted five years and the ICC ruled in favour of Turkey, determining that Iran did not fulfil its obligations in the contract and levied a hefty $760 million fine unto the Iranian gas company.

The price dispute erupted again in 2012, resulting in another suit filed by Turkey at the ICC for the overpricing of natural gas sales by Iran after the bilateral talks with Tehran were inconclusive. The ICC once more ruled in favour of Turkey on Jan. 20, 2016 in an interim decision, stating that a discount between 13.3 and 15.8 percent is warranted based on the market conditions that required an adjustment of price under the contract.[7] The price changes covered the period between Jan. 1, 2014 to Sept. 19, 2011. Iran is expected to pay $1.9 billion as compensation to Turkey according to Iran's Deputy Petroleum Minister Hamid Reza Araqi. [8] The fact that Turkey had to take Iran to arbitration twice under similar conditions shows the difficulty in promoting trade and economic ties with the Tehran regime.

In order to diversify its suppliers, Turkey had long ago approached Turkmenistan to bring its gas to the Turkish market using the Caspian route through Azerbaijan and Georgia, bypassing Iran. The framework agreement for the supply of 30 billion cubic meters of gas to Turkey (16 billion cubic meters were to be forwarded to the European market) was signed in Ankara on Oct. 29, 1988. That was followed by a 30-year agreement for the sale of 16 billion of cubic meters of gas that was signed between the two countries in Ashkabat on May 21, 1999. Unfortunately, these agreements have never been realised amid the lobbying efforts by Iran to change

the route from the Caspian Sea to its own territory. The unresolved differences in the Caspian Sea among the littoral countries including Iran also had a role in this failed contract. In the meantime, Iran has been purchasing Turkmen gas at substantially low prices and reselling it to Turkey with a huge mark-up.

3. Turkish investments blocked

On the investment side, Iran has displayed a fairly protectionist approach when it comes to allowing Turkish firms to enter the Iranian market. The effect of two notorious examples on how Iran thwarted Turkish investments at a great cost to Turkish companies still lingers on today. In the first case, mobile phone service provider Turkcell signed a deal worth of $3 billion with Iran in what was touted as the largest foreign investment Iran set to receive in decades. [9] Yet the Iranian Revolutionary Guards Corps (IRGC) and conservatives had managed to block the deal that was successfully awarded to a consortium led by Turkcell on Feb. 18, 2004.

The contract was later given to South Africa's MTN Group, Africa's largest mobile-phone operator, following a bill in the Iranian Parliament that revised the terms of the agreement, effectively reducing the share of Turkcell. Turkish GSM operator was kicked out from the contract eventually. Then Turkish Prime Minister and now president Erdogan paid a visit to Tehran on Sept. 26, 2004 with a large business delegation but was unable to resolve the differences. Turkcell took the case to the arbitration panel in Hague in 2008 invoking the 1996 intergovernmental deal called the Agreement on Reciprocal Promotion and Protection of Investment. The case was brought to the United Nations Commission on International Trade Law (UNCITRAL).

In the complaint, Turkcell claimed it incurred losses in amounting to $600 million. In a statement to Turkey's Capital Markets Board on Oct. 16, 2014, Turkcell declared that the tribunal held that it had no jurisdiction to hear the claims brought under the Turkey-Iran bilateral investment treaty. [10] On March 28, 2012, Turkcell also brought a $4.2 billion lawsuit against MTN in the United States District Court for the District of Columbia alleging that the company bribed officials, arranged meetings between Iranian and South African leaders, and promised Iranian weapons and United Nations votes in exchange for a licence to provide wireless services in Iran. [11] Following the US Supreme Court's ruling on April 2013 in another case that interpreted the Alien Tort Statute and that set a precedent, Turkcell decided to withdraw the lawsuit from the US court. [12] Turkcell said it dropped the lawsuit "in order to file a lawsuit in another jurisdiction." [13] The company filed a revised lawsuit against MTN in Johannesburg, South Africa.

In the second case, a Turkish company trading under the name TAV Airports Holding was literally kicked out by the Iranian Revolutionary Guards Corps (IRGC) in 2004 after spending millions of dollars on a 11-year contract to operate Terminal One of the city's new international airport and build a second terminal for $193 million that was awarded to TAV on July 2003 as part of the build-operate-transfer deal. [14] The airport, named after the late Ayatollah Ruhollah Khomeini, was opened briefly with only one flight allowed to land before the Iranian army moved in and shut the airport. The decision was purportedly made on concerns for national security. The army claimed that entrusting the airport's operation to TAV "threatens the security of the country as well as its dignity". It further noted that "Unfortunately airport officials took this untimely decision without taking into account either security constraints or the Supreme Council law on national security banning the use of foreign forces." [15]

The issue has quickly become a bilateral matter between Turkey and Iran. It is worth noting that Turkey's Prime Minister Binali Yıldırım, then as a minister for transportation, went to Tehran to inaugurate the opening of the airport with Iranian officials on Feb. 1, 2004. [16] The airport started the formal operations on May 8, 2004 but within a few hours the IRGC moved in to occupy the tower, and terminate the operations altogether. The second civilian plane was diverted to another airport in the region and escorted by Iranian fighter jets. The airport was reopened on May 13 with full control by the IRGC after the Turkish company was forced out. Turkey has raised the issue on a bilateral level on numerous occasions with no success.

These terrible experiences in the Iranian market by two major Turkish companies deeply rattled Turkish investors' confidence in Iran, resulting in most big businesses shying away from this market. It has exerted an impact on the psyche of Turkish businesspeople for years to come. This is one of the reasons why many Turkish firms were reluctant to rush into Iran after the major powers agreed to a nuclear deal with Tehran in 2015 following long negotiations in exchange for a relief on the sanction regime in Iran.

Another botched deal in recent years was the agreement to explore gas in Iran's South Pars field by the government-owned Turkish Petroleum Corporation (TPAO). The agreement, valued at $6 billion, was signed on October 2009 during Erdoğan's visit to Tehran but was eventually abolished in 2014 after five years of negotiations. The main reason for Turkey's withdrawal from the Pars field was because the plots offered by Iran were found to be less promising as opposed to the initial offers. In other words, Tehran had tried to short-change Ankara by not allowing the TPAO to tap into potentially lucrative fields. The US pressure on Turkey also played a role in

the decision. Turkey claimed it would reconsider its decision if Iran made a new offer with new conditions. [17]

The only major exception in the long line of failures of Turkish investments in Iran appears to be the purchase of Iran's Razi Petrochemical on Feb. 20, 2008 by the Turkish fertiliser company Gübretaş (Gübre Fabrikaları T.A.Ş.) for $656 million. The sale, dubbed as the second largest purchase abroad by a Turkish company, was subjected to major controversy when the main opposition party submitted a motion in the parliament on March 29, 2013. [18] The motion asked the government to reveal the minority stakeholders in the Gübretaş-led joint venture, specifically mentioning two Turkish firms, namely AsyaGaz (Asya Gas Enerji ve Petrokimya Ürunleri Sanayi ve Ticaret Anonim Şirketi) and Tabosan (Tabosan Muhendislik lmalat ve Montaj Şirketi) that were involved in the purchase of Iranian Razi Petrochemical. The motion stated that AsyaGaz was set up only 20 days before the sale and alleged that it may be a shell company. Tabosan was reported to be on the verge of bankruptcy at the time of the sale yet it still embarked on a major deal. [19] Moreover, they were both granted a credit line of 20 million euro each from Turkey's state-owned banks Vakifbank and Halkbank on April 7, 2008, some three weeks prior to the sale. Both AsyaGaz and Tabosan own up to 23.91 percent and 10.88 percent in shares respectively in Razi Petrochemical. [20]

The sale later became subject to a probe by Turkish investigators who were looking into Iranian intelligence activities in Turkey as part of their investigation into the Iran-backed deadly terror group Tevhid Selam, funded and supported by the IRGC's Quds Force. Several suspects, including an Iranian intelligence operative named Sayed Ali Akber Mir Vakili, who were wiretapped by the judge's order revealed how Gübretaş and the alleged shell companies AsyaGaz and Tabosan were discussed among the suspects. The probe also uncovered a Turkish man identified as Hakkı Selçuk Şanlı, who reportedly helped to set up the Quds Force operation in Turkey on orders from then-Revolutionary Guard Commander Nasir Takipur in the 1990s, who coordinated Gübretaş's sale. The probe into Tevhid Selam was hushed up by the Turkish government when it implicated senior officials.

4. Transportation hurdles

Iran has also been implementing several measures to prevent Turkey from using Iranian territory as a gateway to central Asian countries including Turkmenistan, Uzbekistan and Afghanistan. The perpetual problem stems from the difficulties and restrictions faced by the Turkish transportation industry when it comes to delivering the load to a destination in Iran or transiting Iran for a third country.

According to the International Transporters Association (UND), this problem has continued for some 20 years in violation of the existing treaty agreement of 1994 and the protocol by the Joint Economic Commission (JEC) dated 2001. [21] According to the UND, Iran has been unlawfully charging Turkish truckers an additional fuel surcharge of $750 for transit passages and $550 on the return for each truck in addition to other fees, resulting in a loss of millions of dollars. Because of Iran's practices, 90 percent of the transportation routes between Iran and Turkey were taken over by Iranian drivers with tens of thousands of Turkish truckers giving up on the Iranian route.

The problem had remained unresolved for years despite several JEC meetings during which Turkish representatives repeatedly raised the matter. Only after Turkey was forced to implement counter measures to the Iranian representatives, the latter reportedly agreed to reduce the fuel surcharges that would save 21 million Euros for the Turkish trucking industry which is estimated to dispatch some 30 thousand to 35 thousand trucks to Iran annually. [22] The agreement, reached during a joint meeting on Jan. 13-15, 2015, has nevertheless not been implemented fully by the Iranian side. Industry representatives continue reporting the problems encountered while dealing with Iranian border and customs officials.

The problems in modernising existing customs border gates and opening new ones to facilitate trade have lasted for years, hurting the transportation industry and adding further costs to the Turkish businesses. Currently, there are three border crossings between the two countries located along the common border that runs for 499 kilometres: Gürbulak (connects to Bazargan in Iran) in the eastern province of Ağrı, Kapıköy (Razi) in the eastern province of Van and Esendere (Serow) in the south-eastern province of Hakkari. From time to time, Iran shuts down these border gates citing security concerns. On August 2015, Iran closed Gürbulak unilaterally, claiming that Iranian trucks were attacked in Turkey. [23] On the Kapıköy crossing point which is open only for small vehicles, Iran said it could not complete the 75-km road it was supposed to build on the Iranian side in order to make the border fully operational for trucks. Instead, it proposed that Turkey should build it and pay for the expenses. [24]

5. Promising tourism

Perhaps one of the most promising aspects on the economic ties between Turkey and Iran is the booming tourism. Turkey has proven to be one of the leading destinations for Iranian tourists. According to Turkish government data, 1.7 million Iranians visited Turkey in 2016, representing 6.7 percent of all tourists who came to Turkey that year. [25] The number appears to have remained constant in recent years. The visa free regime offered for Iranian citizens by Turkey helped them stay in the country for up to 90 days. The number of Iranians who come to Turkey to

use the country as a transit point rather than as a destination is also included in the total figure.

Despite the fact that the number of foreign travellers to Turkey has dropped by 30 percent in 2016 compared to the year before, the drop in Iranian tourists was negligible by only 2.07 percent. For the month of January 2017, the number of Iranian tourists has increased to 101,636 from 92,260 in January 2016. In other words, while Turkey recorded a 9.81 percent drop in January for a month-on-month comparison overall, the number of travellers from Iran to Turkey increased. In contrast, the number of Turkish tourists who visit Iran is quite low. In 2016, the number of Turks who visited Iran was recorded at 244,000 according to the Turkish Statistical Institute (Turkstat) figure. The figure for the year 2015 was 164,000. [26]

6. WTO and other problems

Another stumbling block in halting the flourishing of trade between Turkey and Iran is the fact that Iran is not a member of the World Trade Organization (WTO) due to the opposition by the United States. The WTO helps promote trade and offers a trade-related dispute mechanism for members to resolve their differences. The lack of such a mechanism has been an irritant in the bilateral trade and economic ties for many years. This has become much more important for Turkey given the fact that the 164-member WTO's landmark deal called the Trade Facilitation Agreement (TFA) formally entered into force on Feb. 22, 2017. [27] The deal provides expediting the movement, release and clearance of goods, including goods in transit.

According to the projections of the Turkish government, the WTO agreement may create an additional $20 billion from export revenue and $40 billion from a rise in the Gross Domestic Product (GDP) in the Turkish economy, not to mention its share from the job creation of some 20 million in the overall figure. [28] Many issues that were dealt with by the TFA have proved to be difficult to resolve on a bilateral level with the Iranian government. This is especially true for the transportation industry and movement of goods through customs. Turkey has so far lodged complaints against three trading partners, namely Egypt, South Africa and Morocco using the WTO dispute settlement mechanism.

Another major hindrance in front of Turkish traders and investors is the dual exchange rate system in Iran with a divergence between the official and unofficial market rates. The currency fluctuations in the world made it harder to manage this dual rate system for businesses that trade with Iran. Under the sanctions regime, banking complications and difficulties in processing financial transactions have also obstructed the trade between the two countries for many years. Although many

Iranian banks were reconnected to the global transaction network SWIFT after the lifting of sanctions on Tehran, problems are still being reported. Turkish initiatives to use local currencies in the trade with Iran have so far had limited success.

The absence of a free trade agreement (FTA) is also another stumbling block in bilateral trade. The preferential trade agreement (PTA) that had been negotiated for ten years was finally signed in 2014. [29] Since the agreement came into force in January 2015, it did not produce the expected results of lowering the tariffs covered by only a limited number of goods. Iranians, known for savvy negotiation skills, managed to limit the concessions Turkey received on industrial goods to 125 items only. Considering that Turkish exports to Iran largely comprise industrial goods, the PTA left substantial trade out of the scope of the agreement. In fact, machinery exports to Iran which accounted to $475 million in 2014 decreased by 11 percent in 2015. Turkey, ranked as the sixth machinery exporter to Iran, is set to lose further market share to other players. [30]

In contrast to the difficulties associated with entering the Iranian market which was ranked at the 120^{t}h place by the World Bank in 2016 in terms of its business index (1 being the most business-friendly), many Iranian companies find it easy to establish themselves in the Turkish market which was ranked at 69th place in the same survey. According to the Union of Chambers and Stock Exchanges (TOBB), Iranians set up 298 firms in Turkey in 2016, [31] becoming the second largest country with foreign-owned companies in Turkey. It was not surprising to see that Syria was the leading country considering that almost 3 million Syrians are living in Turkey as refugees and were granted rights to open businesses.

The spike in the number of Iranian-owned companies in Turkey started in 2011 with 590 firms established in one year, an increase of 41 percent compared to the previous year. Given that Iran is not a major trading partner of Turkey, some representatives in Turkey questioned this sudden increase by asserting that some of these companies may be shells for the Iranian regime to penetrate third markets using Turkey as a springboard as well as circumvent the sanctions imposed on Iran by the UN, US and EU. In the police investigation file into Iran-backed Tevhid Selam terror group, investigators discovered that the IRGC Quds Force has been setting up businesses in various provinces of Turkey as a cover to plant operatives and fund their operations.

The rivalry between Turkey and Iran exerted an impact on Turkey's economic and trade ties in third countries, especially considering that in this respect Iran enjoys significant leverage. For example, Turkish companies and contracting firms complain about the favouritism displayed for Iranian companies by Iraqi officials in tendering

and contract awarding processes. Instead of competing on the price and quality of workmanship on a level playing field, ideological reasons put Turkish firms at a disadvantage with respect to their Iranian competitors in the Iraqi market.

CONCLUSION

The prospect of seeing a serious development in the trade and economic ties of Turkey with Iran commensurate with the size of their economies and markets looks rather dim as long as the security-oriented approach by the Iranian leadership helps shape policies with respect to Turkey. Tehran sees trade and economic policies as an extension of its political leverage and does not refrain from using these ties to advance its political goals. Iran has indicated time and again that it will be ready to sacrifice economic ties to send a political message to its partners.

In fact, angry with the criticism from Turkey's leaders on Iran's policies in Iraq and Syria, Iran decided to postpone the Turkey-Iran Business Forum that was to be held on February 25 in Tehran and attended by Turkish and Iranian ministers. [32]

The bias and even animosity toward Turkey remain deeply entrenched in Iranian bureaucracy.

Iran, a multi ethnic society with a large Azeri Turkish population, has always shown scepticism in opening up to Turkish business initiatives, fearing that it may weaken the Mullah regime and undermine the establishment. At the same time, Tehran knows it cannot shut Turkey out altogether, thereby allowing only a limited number of Turkish firms, mainly small and medium sized enterprises (SMEs), to do business in the Iranian market. Iran also realises that it needs Turkish manufactured goods especially machinery to support its own industry and can procure materials from the Turkish market when it comes under international pressure.

Therefore, Iran will always keep Turkey at an arms' length, trying to manage trade and business relations on its own terms that will benefit the Iranian establishment most at the expense of Iranian people and to the detriment of its oil dependent economy. In a nutshell, as long as Iran acts as a non-state and as an ideological actor rather than as a rational player with a realistic approach in regional politics, expecting Turkey to have economic and trade ties with Iran on a sustainable growth pattern will be largely infeasible.

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