

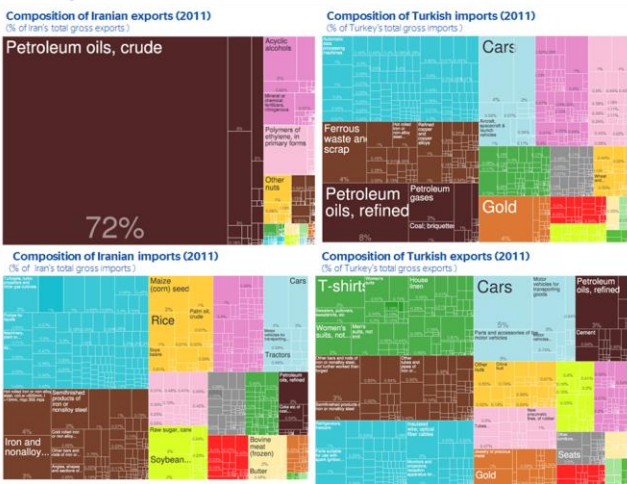
Global Hot Topics

The Iran Deal: pros and cons for the Turkish economy

Alvaro Ortiz and Tomasa Rodrigo. BBVA Cross Country Emerging Markets Unit

The P5+1 nuclear deal with Iran constitutes an important milestone with significant international implications, especially for the Middle East. The net effect of the agreement is positive, since it avoided an immediate nuclear escalation in the region. Part of the deal's success has been to circumscribe the negotiations to the nuclear issue and to avoid discussions on regional security issue, but an extension to these topics in the future cannot be ruled out. The deal will benefit Turkey in economic terms, but challenges to its geopolitical position will also arise.

Turkey - Iran bilateral trade relations



Source: Economic Complexity Index & BBVA Research

A clear opportunity for the Turkish economy...

The “opening up” of Iran will benefit Turkey through different channels:

- **The energy channel:** The main problem with Turkey's current account deficit is the energy import bill and the new situation in Iran will help to alleviate the gas and oil bills.

In terms of **gas**, Iran is the second-largest gas provider (22% of its total imports via pipeline in 2014) after Russia (65% in 2014). **Turkey is paying one of the highest gas prices to Iran, but the Iranians have already signaled potential gas discounts** if Turkey increases the demand, a situation which could be reinforced after the opening of the new pipeline route with Russia.

The oil links can also be important. **Turkey also meets around 26 percent of its oil demand** with Iranian resources, despite the sanctions on the country. After the imposition of sanctions, Turkey slashed its imports from

the country dramatically and turned to other countries, including Iraq. According to experts, Turkey's energy imports from Iran could increase dramatically as imports from Iran were reduced significantly after the agreement on sanctions (to 5.2 million tons last year from 9.7 million tons before sanctions in 2011). Above all, if Iran exports oil to the rest of the world via pipelines, Turkey can be the most convenient transit country in terms of both energy security and feasibility. That may underline Turkey's role as an energy hub and it could strengthen Turkey-Iran relations through pipeline diplomacy. Under such a scenario, Iran may assume vital importance to Turkey's security for the sake of sustainable oil flow.

- **The potential export market:** the deal will benefit Turkey in terms of trade. Turkey has been one of the main exporters to Iran, but Turkish exports were severely restricted because of the embargo. **The relief of sanctions opens the door to a rebuilding of trade relations.** In fact, **trade volume** between the two countries, which totaled USD13.7bn in 2014, is expected to be **targeting USD35bn by the end of 2016**. The current **Preferential Trade Agreement** between Ankara and Iran **will also help to expand the volume of trade to Iran**, raising hopes of higher sales of goods, electronics, medicine, cosmetics, plastics, forestry products and furniture, automotive products and iron and steel products as is shown in the above Figure. In addition, there is also an opportunity for cooperation between Turkey and Iran in the tourism and construction sectors.

...but important challenges in the geopolitical landscape

Despite the economic possibilities that the nuclear deal presents to Turkey, **the difference between the regional policies of both countries poses some concerns.** One of the main worries that separates the two countries is **the Syrian war**. Iran continues to support the Assad regime, providing him with weapons and military support, while Turkey is implacable that there cannot be a solution for Syria as long as Assad is in power.

The Iran nuclear deal also heralds important challenges in the region. There are **increasing concerns about the possible intentions of Iran to increase its strategic influence over the Middle East** and establish its hegemony over the region's affairs. **This would open new geo-strategic challenges for Turkey, which means that it will need to reformulate its Middle East policy.** However, some opportunities could also arise, as Turkey could become a pivot country to counterbalance the influence of Iran in the region.

Summing up

The historical nuclear deal between the P5+1 and Iran opens a period of opportunities and challenges for Turkey. On the one hand, the agreement will bring significant economic benefits for Turkey through an increase in their trade relations, investments and energy flows. On the other hand, it poses some challenges since some differences between both countries from a geopolitical point of view remain (Syria). Beyond this, Turkey can play an important balancing role in the region in the coming years.

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