

*April 8, 2013*

## **The Return of the Ottomans**

Over the past two weeks, Turkey has taken two significant actions. First, while President Obama was visiting the region, Israeli PM Netanyahu offered Turkey an apology for the 2010 commando raid on the *MV Mavi Mamara*, a Turkish ship that was delivering aid to the Gaza Strip. The vessel was trying to run an Israeli blockade, which was put in place to prevent the region from receiving arms shipments. In the raid, nine people on the Turkish ship died, including eight Turks and one American. Ten Israeli commandos were wounded.

The raid was roundly condemned by Turkey and as a result PM Erdogan broke diplomatic relations with Israel. Israel had enjoyed generally good relations with Turkey prior to this event, although Israel tended to have better dealings with the secular rulers than with Erdogan's Justice and Development Party (AKP), which is moderately Islamist. Severing relations isolated Israel and this problem became more acute after the Arab Spring and the change of power in Egypt. Turkey used the disagreement to boost its anti-Israel stature in the region.

However, President Obama apparently convinced the Israeli government to offer the apology and Turkey accepted the apology. Both nations will resume normal relations and exchange diplomats.

The second critical development was a negotiated ceasefire between the Erdogan government and the Kurdistan Workers

Party (PKK), a Kurdish group that has conducted an insurgency against Turkey since the mid-1980s. Its leader, Abdullah Ocalan, has been imprisoned since 1999 on terrorism charges. Members of Erdogan's intelligence services and Ocalan agreed to a ceasefire in March. Although it remains to be seen if the ceasefire will hold, both sides appear committed to ending the nearly three-decade civil conflict.

In this report, we will examine why these two events signal more than just a normalizing of relations with Israel and a peace deal with the Kurds. These two actions indicate a significant change in Turkey's foreign policy, paving the way for the country to expand its role as a regional hegemon. As always, we will examine the ramifications of these events on the financial and commodity markets.

## **From Empire to Nation and Back**

The Ottoman Empire, which began in 1299, lasted until the end of WWI. Modern day Turkey was established in 1923 by the Treaty of Lausanne, which ended with the War of Turkish Independence. The key leader of the Turkish independence movement was Mustafa Kemal Ataturk. In order to create modern Turkey, Ataturk created a nation built on the Turkish identity. Religion and ethnic distinctions were brutally suppressed. The new state was constructed as secular; there was firm separation of state and religion. Most public expressions of religion were discouraged, including headscarves for women. Non-Turks were not allowed to express their ethnic culture either. Kurdish and Armenian language and culture were suppressed.

The reason for this stance was that Atatürk wanted to change the national identity away from the Ottoman Empire, which was Islamic but ethnically tolerant, to a secular Turkish state. Such a position would be more easily tolerated by surrounding nations that had been previously part of the empire.

In this new nation, the military was designated as the protector of the secular nature of the state. Thus, the military has generally suppressed religious parties and has participated in three coups over the past 50 years.

This system worked reasonably well because the Middle East was generally stable. After WWI, the French and British divided up the former Ottoman Empire to add colonies to their already large empires. These borders were designed to control the local population. Tribal, ethnic and religious groups were split or linked within borders to allow the colonial powers to divide and conquer. In such a world, Turkey had established borders and effectively acted in a similar fashion, imposing “Turkishness” on its population.

After WWII, the British and French empires steadily fell apart. Pan-Arabic, secular, socialist authoritarian regimes replaced the colonial rulers which allowed Turkey to maintain its inward looking policies. These regimes followed policies which were similar to the colonial powers, such as creating divisions between ethnic and religious groups. This “divide and rule” approach allowed authoritarian regimes to hold power. The U.S. replaced the British and the French as the outside hegemon; America wanted to ensure that the region’s oil supplies remained in Western hands. The Soviets tried to infiltrate the region, building relations with Egypt, Syria and Iraq, but the U.S. was able to undermine

their efforts by creating allies in Iran and the Gulf Kingdoms. Turkey became part of NATO due to its proximity to the U.S.S.R., which supported Turkey’s domestic political policies. Essentially, the U.S. was supportive of Turkey’s regime, wanting a stable ally on the Soviet border.

However, regional stability began to crack as early as 1979. The Iranian revolution ousted the Shah and removed a significant American ally. The Shah was replaced by a theocratic government led by the Ayatollah Khomeini. Iran has been trying to spread its revolutionary brand of Shiite Islam ever since, which has been a destabilizing influence on the region, especially in Lebanon where Iran’s paramilitary proxy, Hezbollah, is active.

Iraq became problematic, invading Kuwait in 1990 and triggering the Gulf War. After removing Iraq’s army from Kuwait, Iraq was under sanction until the 2003 invasion during the Bush administration. Removing Saddam Hussein from power along with the Baath Party led to a power vacuum in Iraq and revealed serious religious and ethnic divisions which had been in place since colonial times. The U.S., instead of simply replacing Hussein with another strongman, opted to create a democracy. Unfortunately, the democratic process exacerbated the aforementioned divisions. President Obama ended U.S. military involvement in Iraq last year.

In 2008, Russia launched a military raid on Georgia. The Putin government was unhappy with Georgian President Saakashvili, believing he was treating two regions in the country, South Ossetia and Abkhazia, unfairly. Russia invaded these two regions and occupies them to this day.

The Arab Spring further undermined regional stability. Governments in Tunisia and Egypt were removed. Qaddafi was ousted from Libya during a civil conflict (with assistance from NATO). There was significant unrest in Bahrain that was quelled by intervention from Saudi Arabia. Perhaps most critical for Turkey was a major uprising in Syria which has led to a civil war.

As the established order has recently come under pressure, the one country that might be able to maintain it has refused to intervene. The U.S., after the misadventures in Iraq and Afghanistan, is taking a much more distant approach to the Middle East. President Obama has decided to focus more on Asia and is forcing regional powers to maintain order. Thus, the U.S. played a minor role in Libya and only offered intelligence and logistical support in Mali (see WGR, 1/28/2013, [The Complicated Case of Mali](#)). Despite calls to take action in Syria, the U.S. has refrained.

### **Turkey's New World**

Previously reliable borders and frozen ethnic and religious divisions are steadily becoming unstable. Now Turkey is facing a cauldron of instability in both Syria and Lebanon.

In the aftermath of the Iraq War, the Kurdish region in Iraq became autonomous. The Maliki government in Baghdad is steadily losing control in "Kurdistan" as the leadership makes its own deals with energy companies to expand its oil and natural gas production. In Syria, the Kurds there have become effectively independent and the Assad regime brings its loyal troops west to try to secure the Alawite regions of the country. Lebanon, which has been periodically wracked by civil conflict, is

starting to see further divisions driven by the civil conflict in Syria.

In the post-Ottoman period, European powers would not tolerate Turkey projecting influence in the region. Ataturk focused the nation inward, creating the nation of Turkey. However, in the new world, where colonial borders are fraying and the global hegemon is unprepared to intervene, Turkey is being forced to change...or better, return to its Ottoman policies.

This need likely explains the two historic changes noted above. To operate in this evolving environment, Turkey needs to rely less on Turkish nationalism and more on broader platforms. Essentially, to act as a regional hegemon, Turkey will need to embrace other ethnic groups. In a region where religion is important, maintaining the secular position of Ataturk won't work.

Turkey has more to gain by wooing the Kurds into a greater Turkey. Not only could Turkey gain control of significant regions of present day Iraq and Syria, it would also act as a beacon for Iranian Kurds as well. Of course, there are other considerations as well. Erdogan cannot run for prime minister again and wants to run for president. In the current constitution, the president is a mostly ceremonial post but Erdogan wants to amend the constitution to expand the president's role. To do so, he needs the support of the Kurdish parties. And so, to help in this end, he has fostered peace talks with the PKK.

Peace with the Kurds will offer other benefits as well. Turkey is a net importer of energy. By building Kurdistan's energy resources, Turkey could gain access to these assets. Already Turkey has made major investments in Kurdistan, including a power station. It is proposing new pipelines that

would allow Iraqi Kurds to export oil without relying on Baghdad-controlled pipelines. Turkey is also a major exporter to the Iraqi Kurds.

In order to expand Turkey's influence, it needs to have better relations with Israel. Although Turkey's stance after the *Mavi Mamara* incident won kudos in the Arab world, it has paid little tangible diplomatic benefits. Israel has good intelligence in the region; Turkey could use this intelligence as it expands its role in the area. It could also use its military equipment.

In addition, Israel has made significant inroads in developing offshore natural gas assets. The Israelis have also been assisting Greece and Cyprus in these efforts. Turkey is afraid it will be excluded from this potential bonanza, but poor relations with Greece and the division on Cyprus (see last week's WGR) will make it nearly impossible to negotiate a share. However, Israel may be able to act as an arbiter in this matter.

### **Ramifications**

The key issue driving Turkey's new role is the changing of America's superpower stance. For the past several WGR forecast issues, published at year-end and at mid-year, we have consistently named the uncertainty about America's superpower role as a major geopolitical factor. The need for Turkey to assume a regional hegemon role is tied to that issue.

Unfortunately for Turkey, memories in the region tend to be long. The long period of Ottoman rule hasn't been forgotten and will likely be resisted. It will take serious diplomatic skill for Turkey to expand its power without triggering a negative reaction.

However, geopolitics, like nature, abhors a vacuum. As Iraq and Syria become increasingly unstable, some other power will need to fill the void. In the absence of U.S. influence, Turkey or Iran are the most likely to project their authority into these areas.

For Turkey to accept this role, jettisoning the vision of Ataturk will be necessary. It appears that Erdogan is in the process of reshaping Turkey's politics to support this change.

In terms of markets, uncertainty in the Middle East usually brings higher energy prices. We expect Brent crude oil to benefit the most from any tensions that develop as borders are redrawn.

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