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Turkey's Predicament

In 2013, we wrote a WGR that looked at Turkey's likely rise to regional hegemon status.¹ In that report, we made the case that Turkey was well positioned to return to its historic status as a dominant regional power. This remains our view over the next few decades. However, in the near term, the situation is much less clear.

Turkey has been trying to run a foreign policy of having "no problems" with its neighbors. This stance has become impossible to maintain. Unfortunately for its president, Recep Erdogan, Turkey is encircled by instability and is struggling to develop a response. In this report, we will examine Turkey's geopolitical situation, the risks it faces as conditions deteriorate and how the Erdogan government has responded thus far. As always, we will conclude with market ramifications.

Turkey's Situation

To some extent, Turkey is on the front lines of slow moving geopolitical "tectonic plates" that have been shifting since the end of the Cold War. The Cold War and the superpower duopoly created a whole set of "frozen conflicts." Some were obvious, such as the walls that divided communist Europe from the free world Europe. In Asia, the U.S. demanded a pacifist constitution from Japan to prevent that nation from attacking the region again. However, what was generally unappreciated was the degree

to which the Soviet Union was an empire. Numerous areas were capable of independent nationhood but were trapped inside the Soviet Union by Russia's historic need to always expand its areas of control. Even the Middle East essentially divided along Cold War lines, with Iran, Saudi Arabia, the Gulf States, Israel and Pakistan siding with the free world and Iraq, Syria, Egypt and Yemen aligning with the communist bloc. There was some movement in the Middle East during the Cold War; Egypt and Yemen shifted their allegiances to the West, whereas Iran joined the non-aligned movement after the 1979 Revolution. Although the Mullahs' economic stance was socialist, their aversion to godless communism put them in alignment with India and other non-aligned nations. In the end, the key geopolitical factor that dominated the Middle East was that the Cold War enforced the colonial borders drawn up by Sir Mark Sykes and François Georges-Picot.

Turkey, as it emerged from the collapse of the Ottoman Empire, existed in the borderlands of the Middle East, Europe and the Soviet Union. The U.S. quickly recognized its importance in the waning days of WWII. The Soviets were pressing for military bases in the Turkish Straits, and Greece was facing a communist rebellion. Aligning with Turkey would allow the U.S. to bottle up the Soviet navy in the Black Sea and act as a base of operations to quell the Greek communists. Turkey became a member of NATO and is generally part of both Europe and the Middle East.

¹ See WGR, 4/8/2013, [The Return of the Ottomans](#).

The end of the Cold War tore all these relationships asunder. The Soviet Union fell apart with numerous new nations emerging from the old empire. The Baltic States along with Ukraine, Belarus and Moldova became part of Eastern Europe. The “stans” were established in Central Asia. Both ends of Eurasia blossomed economically. A united Germany emerged as an economic powerhouse and China became one of the most remarkable economic growth stories in history. However, Europe did face some issues. Yugoslavia devolved into several nations which led to a sectarian conflict that eventually required NATO involvement. Although the Middle East borders held together, Saddam Hussein made a bid to absorb Kuwait; this annexation was repelled by a large U.S. coalition.

During the 1990s, the U.S. held the dominant and undisputed position of global hegemon, a true unipolar superpower. The short war against Iraq in the early 1990s signaled to the rest of the world that the U.S. was unmatched in terms of conventional warfare. From the early 1990s until 9/11/2001, U.S. dominance was generally unquestioned.

The events of 9/11 showed that while the U.S. had unquestioned superiority in conventional warfare, it was vulnerable to unconventional attacks.² The Iraq War and the subsequent quagmire that developed further undermined the perceptions of U.S. power. The Great Financial Crisis of 2008 added to evidence that the Washington consensus of democracy and capitalism as the only viable economic and political systems was flawed.

² To be fair, all nation-states are vulnerable to such attacks. Strong countries, however, do not have their sovereignty threatened by terrorist activity.

As perceptions of waning U.S. power have grown, fault lines have opened. Russia has begun to project power into its old area of control. The 2008 invasion of Georgia and last year’s incursion into the Crimea and eastern Ukraine are breakdowns of the post-Cold War order. Meanwhile, in the Middle East, the Arab Spring and the rise of IS have mostly obliterated the Sykes-Picot borders. The recent Iran nuclear deal is also likely to lead to a reduction of American influence in the region.



(Source: Wikipedia)

Turkey finds itself surrounded by turmoil. To Turkey’s north, the war in Ukraine sits across the Black Sea. The collapse of both Syria and Iraq and the rise of IS have led to turmoil on its southern border. To its east, although Georgia is currently quiet, the Russian incursion has not been resolved; its proxies still control Tbilisi’s rightful territory. In addition, Iran is in the midst of emerging from sanctions and looking to expand its influence. And to its west, Greece, its long-time enemy, is going through yet another financial crisis.

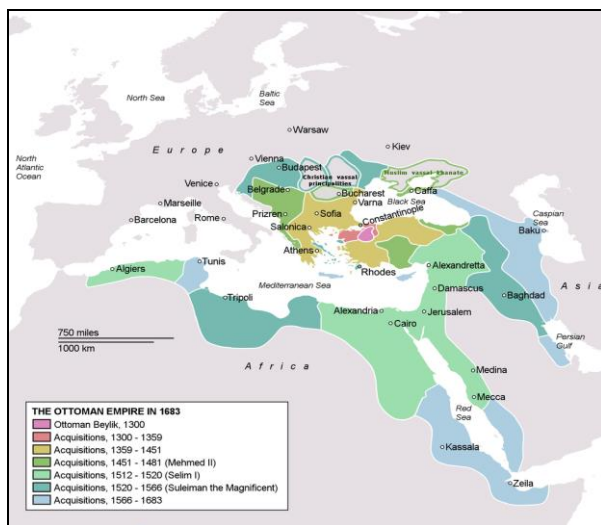
For the past several years, Turkey has tried to avoid involvement in the growing turmoil. However, as the old saying goes, “you may not be looking for trouble, but trouble is looking for you!” Turkey is

facing internal dissent caused, in part, by the chaos in the region and the growing flows of refugees fleeing regional wars.

Turkey’s Risks

These are the primary risks we see Turkey facing.

The Breakdown of Sykes-Picot: The Ottoman Empire began in 1299 and ended in 1922. By the late 1600s, the empire was massive.



(Source: Atilim Gunes Baydin)

Turkey was a successful empire builder partly because it managed its territory with a relatively light touch. It tended to grant a high degree of local autonomy (at least for that time in human history) and showed a remarkable level of tolerance for different religions and ethnicity.

However, by the onset of WWI, its holdings had been reduced to Anatolia, the area east of the Bosphorus, the Levant, the east coast of the Red Sea and the west coast of the Persian Gulf. After WWI, the rest of the empire was broken up by the allies; modern Turkey was created on the Anatolian peninsula by Ataturk.

The areas south of the Turkish republic were controlled by France or Britain, either as colonies or protectorates. Ataturk’s Turkey was mostly focused on Turks—it was a secular, ethnic state that tended to discourage other ethnic groups and frowned on public displays of religion. This was a major reversal from the policies of the Ottoman Empire. Running a successful empire requires a degree of tolerance; in running a smaller state, a government can be intolerant.

In Turkish history since 1922, the state has mostly maintained its secular nature even though many Turks are observant Sunni Muslims. Additionally, it has suppressed non-Turkish ethnic identity, especially against the Kurds. The nation-states established after Sykes-Picot in the Levant tended to be secular authoritarian regimes as well. In fact, the lines drawn by the colonists were designed to facilitate outside control. Thus, these states were often run by ethnic or religious minorities that would be reliant on the outside power. When these states became independent, the rulers gravitated toward authoritarianism to maintain control.

The Iraq War and the inability of the U.S. to create a stable government in Iraq, along with the onset of the Arab Spring, revealed the insecurity of artificially-created states. As Iraq and Syria fell apart, Turkey found itself facing both opportunities and threats. The threats come from the radical IS and the potential of an emerging Kurdish state. The opportunities lie in the end of authoritarian regimes in both Iraq and Syria.

For some time, one of Turkey’s foreign policy goals has been the ouster of Syrian President Bashar Assad. And so, Turkey seemed to offer at least tacit support to jihadists and, to some extent, IS. Turkey

generally allowed foreign jihadists to move across its borders to join radical groups, including IS. To support the jihadists, Turkey initially did not allow the U.S. to base air operations against IS from Turkish airbases. Turkey's position clearly ran counter to U.S. interests.

At the same time, for domestic political reasons, Erdogan's party, the AKP, attempted to gain Kurdish support to expand its power. The AKP's plan worked better than they expected; Kurdish parties did very well, so well, in fact, that Erdogan was unable to form a government.

This has led to an about face by Erdogan. He has begun aggressively attacking Kurds whom he claims are affiliated with the PKK, which is considered a radical Kurdish group. Turkey has invited the U.S. to operate at its airbases against IS, and has agreed to attack the proto-state along with the U.S. However, Turkey has also been aggressively launching air strikes against Kurdish groups in Syria. At the same time, Turkey's internal security forces have been arresting suspected IS members and have worked to stiffen border controls to reduce the flow of immigrants to IS.

Erdogan appears to have two goals in mind with the change in policy. First, it appears that he will call for new elections soon; his hardline stance against the Kurds and jihadists are likely a bid to sway secularists to vote AKP. Second, although Turkey has been supportive of Kurdish separatism in Iraq as a bid to weaken that state, it does not want to see a Kurdish state develop on its southern border. If Syrian Kurds were to join up with Iraqi Kurds, they could potentially form a state. Thus, Erdogan remains friendly to Iraqi Kurds, supporting their oil sales, for example, but he is working to prevent broader unity.

Supporting IS is a dangerous ploy. The group's goal of building a caliphate means that it isn't trying to build a nation-state in the Western sense and will not be content to merely attack Turkey's enemies. It is also possible that groups other than the Kurds will try to fill the vacuum that overthrowing Assad or defeating IS would cause. On the one hand, Turkey fears getting involved in Iraq and Syria; if the U.S., with the best conventional military in the world, could not easily contain the region, what hope would Turkey have? At the same time, not becoming involved means that Turkey may find a new, hostile force on its southern border.

Russia and the Black Sea: Russia's invasion of the Crimea and eastern Ukraine could eventually become a problem for Turkey. If the U.S. decides to become militarily involved against Russian aggression under NATO authority, Turkey, due to its control of the Bosphorus, may find itself either denying the U.S. carrier groups access to the Black Sea, in accordance with the Montreux Convention, or ignoring the convention and honoring its responsibility to NATO. Upholding the convention will keep Turkey on good terms with Russia, which it needs for energy, but hurt its relations with Europe and the U.S. Supporting NATO will likely rupture its relations with Putin. This risk isn't immediately pressing. We doubt the Obama administration would consider a hot war with Russia over Ukraine. However, the next president may decide a hot war with Russia is unavoidable.

Iran: Iran's goal is to become a regional hegemon. Although Turkey and Iran have generally good relations, ultimately, Turkey has similar aims. Turkey is a Sunni nation and will likely find itself in conflict with Iran at some point over regional domination. Of course, Egypt, Saudi Arabia, Jordan and,

silently, Israel, will likely try to create a coalition of sorts to contain Iranian designs. Unfortunately, Egypt, Turkey and Saudi Arabia will each try to lead the group and will not look kindly on being subordinate to any one of the three. Iran will likely be able to exploit these differences and expand its power. Building this coalition will take great skill and it isn't obvious whether the leadership of Egypt, Turkey or Saudi Arabia has the ability to make this work.

And so, despite efforts to remain aloof and isolated, Turkey will likely be drawn into the regional maelstrom that has developed after the Cold War. This situation will force Turkey into making difficult choices in the coming years and face risks it hasn't been accustomed to taking since the days of the Ottomans.

Ramifications

Turkey is going to be a key nation in the Middle East for the next few decades. If it mishandles this role, the potential for instability and war in the region will increase. In addition, as noted above, Turkey has ties to Europe as well, and if

conditions in Europe deteriorate, Turkey could find itself drawn into conflicts involving Russia, Greece or other Eastern European nations. Having sober and talented leaders will be important to Turkey's ability to manage these challenges. At present, the Erdogan government is looking increasingly like it will not be that talent the world needs.

In the short run, Turkey's decision to attack IS is supportive for U.S. goals in the region. However, we expect a half-hearted effort as the primary target is Syrian Kurds. Essentially, Erdogan is trying to woo Turkish nationalist votes to regain control of the government. Unfortunately, Kurdish fighters have been effective against IS and so Turkey's attacks on the Kurds will likely increase instability in the region. So far, this has not been bullish for oil prices. At some point, the most likely market fallout will be a rise in oil prices, prompted by a widening conflict in the Middle East.

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