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To cite this article: Emre İşeri (2010) Eurasian geopolitics and financial crisis: transforming Russian–Turkish relations from geopolitical rivalry to strategic cooperation, *Journal of Balkan and Near Eastern Studies*, 12:2, 173-186, DOI: [10.1080/19448951003791823](https://doi.org/10.1080/19448951003791823)

To link to this article: <https://doi.org/10.1080/19448951003791823>



Published online: 21 Jun 2010.



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## **Eurasian geopolitics and financial crisis: transforming Russian–Turkish relations from geopolitical rivalry to strategic cooperation**

EMRE İŞERİ

### **Introduction**

The economic dimensions of the 2008–2010 financial crisis and its implications for the American-led international economic system on the basis of the US dollar have attracted a lot of attention among economists. Nevertheless, one should also consider the political ramifications of the crisis among rising Eurasian powers, Russia and Turkey, as confidence in American policies has been shrinking at the eve of the multi-polar system or global power shift to the East. Along with the declining confidence of American-led international ordering culminating with the ongoing financial crisis, this paper aims to examine the political ramifications on the rising Eurasian powers, Russia and Turkey. The main contention is that the pattern of their relationship will be a much more challenging one at a time of a tectonic power shift towards the East, mainly due to the fact that these countries are not satisfied with the American dictates more than ever and are beginning to acknowledge the significance of their partnership.

The paper is divided into three parts. In the first part, the global power shift towards the East will be elaborated. Concerns of Eurasian powers, in particular Russian, regarding the American-led international economic order will also be stressed. In the second part of the paper, the political determinants of the past and the present of American (petro)dollar hegemony will be examined and it will be argued that sustainability of the hegemony is in jeopardy, mainly due to the fact that key supporters of the dollar are no longer American erstwhile allies, but potential rivals (China and Russia). Accordingly, in the third part, as American economic influence has been declining, two rising Eurasian powers, Russia and Turkey, have begun to realize the mutual benefit of their cooperation freed from the dictates of the USA. It will be concluded with the assertion that their decision to use the rouble, rather than the dollar, will likely intensify their relations, not in a manner to serve the best interests of the USA in the Eurasian landmass.

### **The post-American world**

On 15–16 June 2009, a Shanghai Cooperation Organization (SCO) meeting was held to discuss the creation of a new reserve currency, which is free from the control of individual nations, in the Russian city of Yakaterinburg. Even though American officials requested to attend as observes to ‘the most important

meeting of the 21st century so far',<sup>1</sup> they were told, no! Most probably, it is a word that Americans will hear much more at a time of global power shift towards the East. Although the USA determined the outcome of struggles to adjust economically to a great extent in the cold war,<sup>2</sup> its influence will be relatively limited on having the final word in the post-cold war struggles. This is mainly due to fact that we are at the conjuncture of a third global power shift towards the East or the 'post-American world' in Fareed Zakaria's terms.<sup>3</sup>

In his book, Zakaria argues that a great transformation or a tectonic power shift has been taking place around the world. This is the third great power shift in the modern era. The first shift, the rise of the Western world, began in the 15th century and accelerated dramatically in the late 18th century. This era produced not only modernity (i.e. science and technology, commerce and capitalism, the agricultural and industrial revolutions), but also the prolonged political ascendancy of the Western nations. The second shift occurred in the 19th century with the rise of the USA. Just after it completed its industrialization, the USA emerged as the most powerful nation since the Roman Empire. In most parts of the last century, the USA had ascendancy over global economics, politics, science and culture. For about 20 years, its dominance has been unravelling in an unprecedented manner in modern history.<sup>4</sup> At the moment, world politics has been passing through the third great power shift of modern times, 'the rise of the rest' in particular the rise of Asia.

At this point, one should note the National Intelligence Council's recent report entitled *Global Trends 2025: A Transformed World*. According to this report, a global multi-polar system is emerging with the rise of China, Russia and others, which is a harbinger of an unprecedented shift in relative wealth and economic power roughly from West to East. The report continues; the USA will remain the single most powerful country but will be less dominant.<sup>5</sup>

This irreversible global shift has been accompanied by the parallel rise of regionalism in Asia and Europe based on the desire of their elites for a more co-equal status with the USA. Given the limited scope, the paper will concentrate on the rise. By the 1980s, East Asian capital began to compete with both US and Western European capital in forming a new kind of transnational business structure at a time when all major indicators point to the economic power of the USA being in stagnation since the 1970s and in decline since the end of the cold war, and its economic strength against Asia is in relative retreat. Suspicion of US

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<sup>1</sup> Michael Hudson, 'De-dollarization: dismantling America's financial-military empire. The Yekaterinburg turning point', 13 June 2009, available at <<http://www.globalresearch.ca/index.php?context=va&aid=13969>> (accessed 2 July 2009).

<sup>2</sup> The USA has played a dual role in international economic relations over the course of the past 60 years: system maker of a liberalizing world economy and privilege taker within that international order to serve its own particular interests. For instance, the US-dominated economic adjustment struggles to design both the Bretton Woods and the post-Bretton Woods monetary order. Moreover, the USA played the determining role at the outcome of the 1985 Plaza Accords and the 1987 Louvre Accords to adjust exchange rates in favour of the USA. M. Mastanduno, 'System maker and privileged taker: US power and the international political economy', *World Politics*, 60(1), 2009, pp. 121–154.

<sup>3</sup> Fareed Zakaria, *The Post-American World*, Allen Lane, London, 2008.

<sup>4</sup> Ibid.

<sup>5</sup> *Global Trends 2025: A Transformed World*, The National Intelligence Council, pp. 35–29, available at <[http://www.dni.gov/nic/PDF\\_2025/2025\\_Global\\_Trends\\_Final\\_Report.pdf](http://www.dni.gov/nic/PDF_2025/2025_Global_Trends_Final_Report.pdf)> (accessed 11 October 2008).

intentions has fuelled resentment among Asian great powers, which came to light during the 1997–98 crisis in the global financial markets. On the eve of that crisis, the USA rejected Japan's initiative for a regional solution as the Asian situation continued to deteriorate. Rather, Western companies took advantage of the crisis as an opportunity to buy up Asian assets at record low prices, with Asian populations left to fend for themselves.<sup>6</sup>

As Cox indicates, the experience of the Asian financial crisis has prompted a movement towards a regional economy in Asia against dependence on US financial dominance.<sup>7</sup> Hence, it would be reasonable to expect that Asia could develop greater financial and economic independence by establishing ever-stronger regional institutions. The overall picture is Eurasian powers, in particular China and Russia, are moving away from dependence on the US management of international economics and toward their own forms of regional integration. Without a doubt, the 2008–10 world economic crisis, which has been called 'the largest financial crisis in the US since the Great Depression',<sup>8</sup> aggravated their concerns regarding the sustainability of American-dictated international economic order supported by the special role of the dollar's international standing.

### **American (dollar) hegemony**

As Gowan argues:

the dominance of the dollar is not simply the result of the size of the US economy. It is also and importantly the result of two other things: politics and finance ... A state that controls the sources of world oil politically can ensure that oil is priced and largely paid for in its currency—in this case, in dollars—and thus can defend its international dominance.<sup>9</sup>

In other words, the continuing dominance of the US dollar is not a matter of simple economics, but is also 'deeply rooted in the geopolitical role of the United States'<sup>10</sup> that goes back to the early 1970s.

In 1971, the Nixon administration unilaterally took the decision to abolish the Bretton Woods regime, which had been established in 1945 as a fixed exchange rate regime based on a gold-backed dollar, mainly because its future hegemonic rule in global finance and politics looked uncertain under that system. By cutting off the link between the value of the US dollar and the value of gold, Washington relieved itself from the burden of maintaining a fixed par value for the dollar

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<sup>6</sup> Chalmers Johnson, *Blowback: The Costs and Consequences of American Empire*, Henry Holt, New York, 2000, pp. 221–229; J. Stiglitz, *Globalization and Its Discontents*, Norton, New York, 1998, pp. 89–132.

<sup>7</sup> Robert Cox, 'Beyond empire and terror: critical reflections on the political economy of order', *New Political Economy*, 9(3), 2004, pp. 313–314.

<sup>8</sup> IMF says US crisis is 'largest financial shock since Great Depression' (2008), available at <<http://www.guardian.co.uk/business/2008/apr/09/useconomy.subprimecrisis>> (accessed 8 May 2009).

<sup>9</sup> Peter Gowan, 'US hegemony today', in J. B. Foster and R. W. McChesney (eds), *Pox American*, Pluto Press, London, 2004, p. 67.

<sup>10</sup> Bülent Gökay and David Whitman, 'Ghost dance: the U.S. and illusions of power in the 21st century', *Alternatives: Turkish Journal of International Relations*, 3(4), 2004, p. 65.

with the aim of restoring the dominance of US capital though turning the international monetary system into a 'dollar-Wall Street regime'.<sup>11</sup> In the immediate aftermath of the 1973 oil crisis that precipitated dramatic oil prices, the Nixon administration coaxed oil-exporting countries into buying up US Treasury bills and bonds. This initiative of Washington not only assisted and enabled US private banks to 'recycle petrodollars', but also led to US dominance over OPEC, and, more importantly, insured that the US dollar would preserve its status as the principal reserve currency of the global economy.<sup>12</sup> The February 1975 oil agreement between the USA and Saudi Arabia (OPEC's main swing producer) ensured OPEC would price its oil exports in US dollars that further cemented the status of the American dollar in the post-Bretton Woods period by obliging oil-importing countries throughout the world to pay American dollars for oil imported from OPEC members. Hence, 'oil dollars provide the US with an interest-free loan, [and] petro-dollars are repatriated back into the US economy as investment in US treasury notes, stocks mutual funds and bonds'.<sup>13</sup>

This is what Henry C. K. Liu calls the 'dollar-hegemony'<sup>14</sup> in describing the special role of the US dollar as the reserve currency to underpin American primacy. The Nixon administration's instalment of 'the dollar-Wall Street regime' underpinned by petrodollars in the 1970s along with the deregulatory policies of the 1990s (the elimination of proper oversight on financial institutions and efforts) have obliged central banks to hold more dollar reserves than they would otherwise need in order to ward off potential speculative attacks on their home currencies in financial markets. Henry C. K. Liu asserts the main implication of the dollar hegemony as follows:

Dollar hegemony separates the trade value of every currency from direct connection to the productivity of the issuing economy to link it directly to the size of dollar reserves held by the issuing central bank. Dollar hegemony enables the US to own indirectly but essentially the entire global economy by requiring its wealth to be denominated in fiat dollars that the US can print at will with little in the way of monetary penalties.<sup>15</sup>

Hence, 'dollar hegemony' prevents exporting countries that are dependent on the American market from spending domestically; instead forcing them to finance the US capital account surplus, thereby transferring the real wealth to the USA while financing American debt to further develop the US economy.

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<sup>11</sup> Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance*, Verso, London, 1999, p. 19.

<sup>12</sup> The term 'the recycling the petrodollars' was coined by US Secretary of State Henry Kissinger to manage the about-to-be-created flood of oil dollars in the 1973 Middle East oil crisis. For an argument that addresses the detrimental role of petrodollar recycling for American hegemony, see D. E. Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets*, Cornell University Press, New York, 1999.

<sup>13</sup> Bülent Gökay, 'Tectonic shifts and systemic faultlines: a global perspective to understand the 2008–2009 world economic crisis', *Alternatives: Turkish Journal of International Relations*, 8(1), 2009, p. 32.

<sup>14</sup> H. C. K. Liu, 'Dollar hegemony has to go', *Asia Times*, 11 May 2002, available at <<http://www.a-times.com/global-econ/DD11Dj01.html>> (accessed 5 August 2009).

<sup>15</sup> H. C. K. Liu, 'Breaking free from dollar hegemony', *Asia Times*, 3 July 2008, available at <[http://www.atimes.com/atimes/China\\_Business/JG30Cb01.html](http://www.atimes.com/atimes/China_Business/JG30Cb01.html)> (accessed 5 August 2009).

In this regard, there was nothing surprising when Dick Cheney put 'deficits don't matter'. Nevertheless, one should clarify that Cheney was right as long as the dollar remains as the world reserve currency and the world continues to support the dollar. Hence, US policy-making elites were not too concerned with the federal budget that moved to deficits of \$158 billion in 2002, \$375 billion in 2003, \$412 billion in 2004 and \$318 billion in 2005.<sup>16</sup> And, these deficits are likely to be exacerbated with the costs of ongoing wars and global financial crisis.

According to Mastunduno:

it is hard to imagine any country other than the United States generating such massive imbalances, even in a single year much less over time, without suffering painful economic consequences ... The reconstruction of a tacit deal once again granted the United States the privilege of living beyond its means while putting difficult choices off to the future.<sup>17</sup>

Nevertheless, there is no guarantee that this tacit deal will last forever to support the USA to live beyond its means in the post-American world. When we consider how the weight of global economic activities has been shifting gradually from the Atlantic to the Pacific in the post-American world, the key US collaborators are also changing. Contrary to the cold war years, taking collective action to overcome the problems of an American dictated international economic order in a manner favourable to the interests of Washington will be a tough task. Hence, as Mastunduno indicates, '... the United States will have to sit down not just with good friends [i.e. Japan] but also with potential adversaries [i.e. China and Russia] and others uncomfortable with America's dominant international position'.<sup>18</sup>

At this point, it is not a surprise to note that China and Russia are questioning the sake of sponsoring American war engines and considering their options to decrease their dependency on the dollar regime, particularly at a time of shrinking confidence in the American economy in general and its currency in particular. Their initiatives in this respect will likely to have significant consequences for the future of Eurasia geopolitics. For our purposes, the paper will rely on the Russian dimension.

### **Russia's position on the American (dollar) hegemony**

Russia has recently headed in the direction of reviving its former policy—that is, to cordon off external powers from its possessively dominated neighbouring territories or the so-called 'back-garden'. Arguably, what have recently caused Moscow to make cantankerous gestures, in relation to the West, are the USA's incautiously growing influences over the Eurasian landmass. The right to rule over these lands, Russia believes, is exclusive to herself, thus, Moscow aspires to drive the American presence away from these areas over which she claims sovereignty.

The geographical area extending from Eastern Europe to the Caucasian Basin, and then across to Central Asia has been named the 'security belt' by traditional

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<sup>16</sup> Financial Report of the United States (2008). Available from <[www.gao.gov/financial/fy2008financialreport.html](http://www.gao.gov/financial/fy2008financialreport.html)> (accessed 2 July 2009).

<sup>17</sup> M. Mastunduno, 'System maker and privileged taker: US power and international political economy', *World Politics*, 60(1), p. 146.

<sup>18</sup> *Ibid.*, p. 152.

Russian geopoliticians. Thus, by penetrating militarily and economically into this 'ex-soviet space', the USA was in defiance of the conventional Russian security concept based upon the fearful defence of this geographical expanse. This defensive reflex of the Russians has always been present, albeit suppressed for a short period of time following the cold war and, due to the USA's offensive foreign policy, noticeably resurfacing after 9/11.

An entire generation of Russian citizens, with living memories of a glorious past state but who also saw the eventual fall of their empire, grew highly irritated with the USA all throughout the 1990s. This was because their new ally, or more accurately, 'friendly foe', was rapidly obtaining new areas of control over what they still considered to be part of their national identity. In the late 1990s, they began to withdraw their backing from the Washington-designated reforms that aimed to open their country to the world. Perestroika and Glasnost, in less than a decade, were refuted by Putin and his close circle; successfully demonstrating that an accommodative posture would inevitably come at the expense of losing a large chunk of territorial control over to Europe and the USA. This once again sparked a deep sense of insecurity with the idea of accommodating foreign powers within the proximity of Russia.

The Soviet Union's last leader M. Gorbachev, voicing all these points and pushing the world to the brink of a 'New Cold War', accused the USA of mounting an imperialist conspiracy against Russia.<sup>19</sup> This accusation of Gorbachev's was based upon his observations regarding NATO's enlargement plans that included former Soviet Union countries, and upon Washington's proposal for a bigger defence budget and a missile shield in Central Europe (through which the USA inherently nullifies any prospects for permanent peace with Russia). Despite the USA's declaration that its proposal to build a missile defence shield in Poland and the Czech Republic was to counter a nuclear strike by Iran, Gorbachev was not satisfied and he was not alone in Moscow. It is not clear whether the Iranian factor is indeed the main driving factor for the American proposal to build a missile defence shield in Central Europe, but it is crystal clear that Moscow has been sceptical about American interference in Eurasia with its rhetoric of the 'war on terror'. Along with the East–West energy corridor, colour revolutions, Kosovo's independence from Russia's ally Serbia with the support of Washington and NATO's enlargement strategy, the missile defence shield proposal justified the Kremlin's concerns regarding the USA's ambitions in containing a resurgent Russia.

Naturally, this uncertainty and mistrust has led Russia into a 'security dilemma', whereby, Russia is determined to increase its own security by aligning its policies with regional Eurasian powers (i.e. Iran and China) that are in-line with the 'Neo-Eurasianism' thesis of A. Dugin.<sup>20</sup> The geopolitical concept of Neo-Eurasianism rejects Western values (i.e. democracy and free market economy) and its principal objectives are to ensure the integrity of Russia and to contraposition against Atlantism (Anglo-American policies). In order to achieve these

<sup>19</sup> 'Gorbachev: US could start a new cold war', *Telegraph*, 6 May 2008, available at <<http://www.telegraph.co.uk/news/worldnews/europe/russia/1933223/Gorbachev-US-could-start-new-Cold-War.html>> (accessed 30 March 2009).

<sup>20</sup> Aleksandr Dugin, 'Pax Russica: for a Eurasian alliance against America', *New Perspectives Quarterly*, 25(4), Fall 2008, pp. 56–60.

aims, Dugin suggests forming a Eurasian geopolitical bloc directed against Atlantism in order to weaken the USA's impact on the world; starting, most critically, with its impact on Europe. As it will be elaborated below, rapprochement with NATO member and EU candidate Turkey, which is located at an ideal venue to export Russian energy resources to Europe through bypassing Ukraine, is critical.

Russian armed forces Chief General Yuri Baluyevsky, discussing the perceived threat from Washington, indicates with these words that:

The course of the United States toward global leadership and its desire [is] to get a foothold in [the] regions where Russia traditionally is present. The next threat is the enlargement of the N.A.T.O. bloc to the east and the fact that this alliance is involved in local conflicts near Russia's borders.<sup>21</sup>

This perception from the Kremlin has led to the emergence of Russia's New National Security Strategy or the so-called 'Medvedev Doctrine' through which Moscow declares to the international community that Russia's strategic aspirations cannot be trifled with by either the USA or those countries (located within Russia's periphery) that may become perceived instruments of the USA's global strategy.<sup>22</sup> It is this same threat perception that has incited Russia into rapprochement with Eurasian regional power, Turkey.

Following the political wreckage of the Bush administration, the new president Barack Obama and his team set to the task of reinstating the USA as a global leader and promoting international cooperation among nations. This alteration in US foreign policy surely means that the USA is now predisposed to recover its severed relations with Moscow. Especially for containing Iran's nuclear ambitions and winning the war against a resurgent Al-Qaeda in Afghanistan, the American new president seems aware of the fact that securing Russia's cooperation is of a strategic priority. Needless to say, entering into a cooperation scheme with Russia would be a tough challenge for the Obama administration, not only due to deep wounds created in the Bush era, but also, the American sourced global financial crisis that has had devastating consequences on Russia's dollarized economy. Hence, as the third largest American dollar reserve holder, Russia has begun to question the sake of being so dependent on the dollar regime.

In this regard, at the turn of 21st century, Russia entered into a unique relationship with the US dollar: it became the only country in the world to have both a highly dollarized domestic economy and an internationally significant level of dollar foreign exchange reserves. By 2007, oil-rich Russia had moved into third place behind China and Japan on the list of countries with the largest foreign reserve holdings and its growing financial clout coincides with increasing tensions with the USA over human rights, Middle East policy and the authoritarianism of Moscow domestically. Moreover, as the world's leading gas producer and the most significant non-OPEC oil producer, Russia plays a pivotal

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<sup>21</sup> Marcel de Hass, 'Russia's upcoming revised military doctrine', *Power and Interest News Report*, available at <[http://www.pinr.com/report.php?ac=view\\_report&report\\_id=622](http://www.pinr.com/report.php?ac=view_report&report_id=622)> (accessed 11 April 2009).

<sup>22</sup> Javier Morales, *Russia's New National Security Strategy: Towards a 'Medvedev Doctrine'?*, 25 September 2009, available at <[http://www.realinstitutoelcano.org/wps/portal/rielcano\\_eng/Content?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/ari135-2009](http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari135-2009)> (accessed 2 November 2009).



role in these markets, in which resources are priced in and sold for US dollars. The Russian government, the Russian public and Russia's most lucrative companies have all had a critical stake in the international dollar regime.

The extensive dollarization in Russia throughout the 1990s prompted a steady economic dependency on the American currency, thereby, the USA itself. When Russia became one of the largest dollar reserve holders along with its key role in the dollar-denominated oil and gas markets, the power balance between the USA and Russia became a complex one. As Juliet Johnson explains:

While these relationships remained hierarchical inasmuch as Russia's extensive and multifaceted use of the dollar supported US economic power, they also reflected an increasing interdependence as Russia's relative international weight in the reserves and natural resources arenas grew. These overlapping, rapidly evolving layers of currency dependence and interdependence perhaps inevitably fuelled a political debate within Russia over the dollar's extensive role in its economy, one which came to a head in 2006.<sup>23</sup>

In April 2006, Russia officially started the anti-dollar campaign with two remarkable events: Russian finance minister Aleksei Kudrin's questioning the sake of the dollar's international dominance and legislation of the Kremlin-backed United Russia Party's initiative in the Russian State Duma to ban the usage of the American dollar in domestic pricing.

According to Johnson, there are mainly three reasons for this anti-dollar campaign in Russia. First, due time President Vladimir Putin's endeavour to reinforce the Russian state and re-consolidate state power after the disastrous consequences of the shock therapies and financial crisis of 1990s on the Russian economy. Second, increasing opposition to US foreign policy in Moscow's 'back-garden' along with the re-emergence of Russian nationalism and the rise of 'Neo-Eurasianism' have also played their roles in the minds of Russian policy-making elites. As the famous Russian economist M. Chazin indicates, American dollar hegemony would soon come to an end and the world would probably give way to the emergence of five currency zones: USD, Euro (EU), Yuan (China), Golden Dinar (Arab countries) and Rouble (Russia). In that regard, Moscow has to take all its efforts in order to consolidate domination of the rouble in the region, 'otherwise Russia might face catastrophic consequences: western Russia would enter Euro zone, southern Russia—the Muslim, and Eastern Russia—the Chinese'.<sup>24</sup> In this context, the Kremlin has begun to look for ways to break Moscow's dependence on the American dollar that has been perceived as a threat to Russia's power and identity, thereby, its rebirth from the ashes of 'the greatest geopolitical catastrophe of the century'.<sup>25</sup> Last, but not least, the dollar's weakness vis-à-vis the rouble and the euro ignited economic officials in the Kremlin to concern that unsustainable American macroeconomic policies might

<sup>23</sup> J. Johnson, 'Forbidden fruit: Russia's uneasy relationship with the US dollar', *Review of International Political Economy*, 15(3), 2008, pp. 380–381.

<sup>24</sup> Cited in Povilas Žielys, 'The role of rouble in Russian geopolitical visions', 3 September 2009, available at <<http://www.geopolitika.lt/?artc=3202>> (accessed 18 September 2009).

<sup>25</sup> Putin's prepared remarks at 43rd Munich Conference on Security Policy, available at <<http://www.washingtonpost.com/wp-dyn/content/article/2007/02/12/AR2007021200555.html>> (accessed 5 September 2009).

jeopardize Russia's economic stability with its immense amounts of dollar reserves. The main concern of Moscow is the huge risk of settling the accounts in the American dollar, which is a highly volatile currency and Washington might one day use its currency as a political tool to undermine Russia's revival.<sup>26</sup> To sum up, the persistent weakness and/or volatility of the American dollar and the rising anti-US sentiments led Russians to reconsider the sake of pursuing their relationship with the dollar.

In the light of these arguments, as the largest natural gas reserve holder in the world, Russian ambition to create an SCO energy club or the so-called 'gas OPEC' by pricing the gas in a basket of currencies, rather than merely in dollars should be noted. In addition to this, it is also known that Russia has been cutting its dollar reserves and selling its Russian Ural blend crude oil in roubles since 2006. In that context, prospective SCO member Iran's 'oil bourse' initiative, which aims to sell oil for a basket of currencies and establish an exchange market for all interested parties including oil producers as well as those customers, is complimentary with Russian initiatives. Given that with an anti-US strategy in their minds these two countries have abundant hydrocarbon resources, as Ariel Cohen indicates, 'If successful a Russian-Iranian cartel could cause a major power shift [at the expense of the US], as Russia is also the world's second-largest oil exporter, while Iran is a founding member of OPEC.'<sup>27</sup> Russia and Iran offer significant advantages in terms of their proximity to energy thirsty rising countries such as China and India along with the European Union (EU).

In this context, Moscow has begun to look for ways out of the American dollar hegemony by aligning with the other rising Eurasian powers. At this point, one should mention President Medvedev's call for China, Russia and India to 'build an increasingly multipolar world order' at the St Petersburg International Economic Forum on 5 June 2009. According to Hudson, what actually President Medvedev meant was that:

We have reached our limit in subsidizing the United States' military encirclement of Eurasia [i.e. the NATO missile shield, military aid to Georgia, American military buildup in the oil-rich Middle East and Central Asia] while also allowing the US to appropriate our exports, companies, stocks and real estate.<sup>28</sup>

In the same speech, Mr Medvedev considered the current order as 'the artificially maintained unipolar system' that is based on 'one big center of consumption, financed by a growing deficit, and thus growing debts, one formerly strong reserve currency, and one dominant system of assessing assets and risks' by concluding 'what we need are financial institutions of a completely new type, where particular political issues and motives, and particular countries [read the US] will not dominate'.<sup>29</sup>

During his briefing at the SCO summit in Yekaterinburg, Medvedev indicated 'the incumbent set of reserve currencies and the U.S. dollar as the main reserve currency has failed to accomplish their function ... we will not be able to do

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<sup>26</sup> J. Johnson, 'Forbidden fruit', op. cit., p. 381.

<sup>27</sup> Ariel Cohen, 'After G-8 summit: China and the Shanghai Cooperation Organization', *China and Eurasia Forum Quarterly*, 4(3), 2006, p. 52.

<sup>28</sup> Michael Hudson, op. cit.

<sup>29</sup> Cited in Michael Hudson, op. cit.

without new reserve currencies'.<sup>30</sup> In this regard, he revealed his ambition for the rouble to acquire that kind of a status. He also proposed that Russia and China should invest some of their reserves in each other's debt instead of buying only US Treasuries.

Needless to say, realization of these ambitions is mainly dependent on Russia's path of relations with the other rising Eurasian powers. At that point, Russia's agreement with emerging Eurasian power, Turkey, to use the rouble in their trade relations is a significant step and prone to critical regional geopolitical ramifications that will likely be not in the best interests of the USA in the Eurasian landmass.

### **From geopolitical rivalry to cooperation in the Eurasian landmass: Russia–Turkey relations**

The two geopolitical statements—the first from Sir Halford Mackinder in the immediate aftermath of the First World War, the second by prominent American strategist Zbigniew Brzezinski in 1997 in the post-cold war period—have defined the pattern of Turkey and the rest of the Eurasian countries' relation to the world for more than a century.<sup>31</sup> First, Mackinder's Heartland theory, which is probably the best-known geopolitical model that stresses the supremacy of land-based power to sea-based power, was defined in his paper entitled, 'Democratic Ideals and Reality' (1919). Emergence of a consolidated power bloc in 'the Heartland', which is roughly Central Asia, could allow that power to exploit the region's rich natural resources and eventually ascend to global hegemony. Mackinder's theory provided the intellectual ground for the US cold war foreign policy. Nicholas Spykman was among the most influential American political scientists in the 1940s. Spykman's Rimlands thesis was developed on the basis of Mackinder's Heartland concept. In contrast to Mackinder's emphasis on the Eurasian Heartland, Spykman offered the Rimlands of Eurasia—that is, Western Europe, the Pacific Rim and the Middle East. According to him, whoever controlled these regions would contain any emerging Heartland power.

Spykman was not the author of containment policy that is credited to George Kennan, but Spykman's book, based on the Heartland thesis, helped prepare the US public for a post war world in which the Soviet Union would be restrained on the flanks.<sup>32</sup>

In the context of the bi-polar structure of the cold war years, Turkey, which was sharing borders with Communist Russia and located proxy to oil and gas regions that could be used militarily by the USA to cut Russia's access to energy resources, served as a critical flank in the Rimlands or the so-called 'Northern

<sup>30</sup> Cited in Yuri Zarakhovich, 'Medvedev clings to advancing the ruble as reserve currency', 26 June 2009, available at <[http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=35184](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=35184)> (accessed 2 November 2009).

<sup>31</sup> F. William Engdahl, 'The Eurasian pipeline calculus', 17 June 2009, available at <<http://www.globalresearch.ca/index.php?context=va&aid=14007>> (accessed 2 November 2009).

<sup>32</sup> Brian W. Blouet, 'Halford Mackinder and the pivotal heartland', in Brian W. Blouet (ed.), *Global Geostrategy: Mackinder and the Defence of the West*, Frank Cass, London, 2005, p. 6.

Tier'<sup>33</sup> to contain the USSR in the cold war. Hence, Turkey's manoeuvring space out of the American bloc remained limited throughout the cold war years.

The imprint of Mackinder on US foreign policy has also continued in the aftermath of the demise of the geopolitical pivot, the USSR. 'Mackinder's ideas influenced the post-Cold War thesis—developed by prominent American political scientist Zbigniew Brzezinski—which called for the maintenance of "geopolitical pluralism" in the post-Soviet space [or the Eurasian landmass].'<sup>34</sup> Brzezinski has emphasized the geo-strategic importance of the Eurasia landmass in his 1997 book entitled, *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives*.<sup>35</sup> He claimed that the USA's primary objective should be the protection of its hegemonic superpower position in the 21st century. In order to achieve this goal, the USA must maintain its hegemonic position in the balance of power prevailing in the Eurasian region. Therefore, Brzezinski called for the implementation of a coordinated US drive to dominate both the eastern and western rimlands of Eurasia. Hence, the US should prevent emergence of a consolidated bloc in the Eurasian landmass to prolong its primacy.

Brzezinski's geopolitical vision on the Eurasian landmass has largely defined the USA's relations with Turkey and the newly independent countries in the post-cold war period. As later confirmed by the Silk Road Strategy Act (SRSA) of 1999,<sup>36</sup> the USA supported the East–West corridor mainly to bolster newly independent countries' independence from Russia and breaking Russian monopoly over energy resources and their transportation routes. In this framework, the Baku–Tbilisi–Ceyhan (BTC) oil pipeline and the parallel Baku–Tbilisi–Erzurum (BTE) gas pipeline were realized. Besides, relatively new projects such as the Trans-Caspian pipeline and the Nabucco pipeline have been projected to be operational in the mid-2010s.

According to SRSA, Washington restricted Turkey's role to an energy corridor to transport Newly Independent States (NIS)'s energy resources to the Western energy markets and bolster their independence from Russia. However, Turkey's best interests could not be pursued with this limited role in the 21st century. Along with its erstwhile ally, the USA, it has become an increasingly incalculable partner and force in world economic and political affairs; Turkey has begun to figure out the significance of entering a cooperative scheme with another emerging Eurasian power, Russia, both in terms of politics and economics.

At the conjuncture of slowly collapsing American dollar hegemony led global economic system, the choices for Eurasian powers have begun to define themselves. In this situation of a declining economic influence of the USA, the

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<sup>33</sup> 'Northern Tier' describes the northernmost Near and Middle Eastern countries on the border of or near the Soviet Union. Along with Greece, Iran and Afghanistan, Turkey was considered an indispensable country for the success of the US containment policy in Europe. See: Vassilis K. Fouskas, *Zones of Conflict: US Foreign Policy in the Balkans and the Greater Middle East*, Pluto Press, London, 2003, pp. 63–75 and Rouhollah Ramazani, *The Northern Tier: Afghanistan, Iran, and Turkey*, Princeton University Press, Princeton, NJ, 1966.

<sup>34</sup> Igor Torbakov, 'Reexamining old concepts about the Caucasus and Central Asia', 2 April 2004, available at <<http://www.eurasianet.org/departments/insight/articles/eav020404a.shtml>> (accessed 10 April 2008).

<sup>35</sup> Zbigniew Brzezinski, *The Grand Chessboard: American Primacy and Its Geostrategic Importance*, Basic Books, New York, 1997, p. 223.

<sup>36</sup> Silk Road Strategy Act of 1999, available at <<http://www.govtrack.us/congress/bill.xpd?bill=h106-1152>> (accessed 3 September 2009).

various nations across Eurasia, in particular Russia and Turkey are looking for establishing new regional arrangements which could secure export markets, in fact to build new markets. The future of any economic cooperation among the states of Eurasia, including Turkey, rests on the resolution of vital energy supply issues. Here Eurasia is fortunate to straddle some of the richest energy regions on our planet, in Russia as well as the Caspian Basin state of Kazakhstan and the contiguous Middle East Gulf region. Here Turkey is in a position to play a central role given its geographic and historical role as a bridge between East and West, North and South—Europe and Eurasia.

Given that Russia has abundant hydrocarbon resources to export to Western markets and Turkey with its pledge to become a regional energy hub is more than willing to transport these resources, the degree of Russian–Turkish economic cooperation will determine the future shape of the emerging Eurasian economic space. Without a doubt, both Turkey and Russia have it within their common interests to contribute to the regional countries becoming stable and strong states. Both Turkey and Russia have many substantial reasons for entering into a cooperation scheme in order to enhance peace and stability in the region in question. As the NIS are strengthening their interdependence and state structures, Turkey and Russia can work in collaboration to build peace and welfare in Central Asia on the basis of a ‘positive-sum game’. By leaving aside their relative gain considerations, both Turkey and Russia have significant opportunities to progress peacefully towards a deepened regional cooperation. For instance, Turkey’s normalization process with Armenia and Kurdish opening will likely open new channels of cooperation between Ankara and Moscow. The Russian ambassador to Turkey, Vladimir İvanovsky, points out that in the case of enhancing peace and stability in the region—through Russian-led energy investment projects such Samsun–Ceyhan, electricity from Armenia, Northern Iraqi energy developments—Turkey will certainly become one of the world’s energy junctions.<sup>37</sup>

While Moscow and Ankara have begun to acknowledge the sake of entering into a cooperation scheme, it is no surprise to note that Russia is Turkey’s key trade partner and energy exporter and Russia is Turkey’s largest trading partner following the EU with \$28 billion in 2007 alone.<sup>38</sup> As Turkish Prime Minister Recep Tayyip Erdoğan mentions, Russia is ‘an important country from the perspectives of trade, investment, tourism, and energy security’.<sup>39</sup> Turkish firms have invested around \$6 billion in projects throughout Russia. Nevertheless, energy—both gas and oil—is the most significant item in the Turkish–Russian trade volume. Given Turkey’s ever-increasing energy needs, in 2007, Turkey imported 23.15 billion cubic metres of natural gas through both Western and Blue Stream pipelines, up 18 per cent from the year before. Turkey, as the third largest

<sup>37</sup> ‘Rusya Büyükelçisi: Ermenistan ve Kürt Açılımlarını Destekliyoruz’, *Radikal*, 24 October 2009, available at <<http://www.radikal.com.tr/Radikal.aspx?aType=RadikalDetay&Date=&ArticleID=960919>> (accessed 2 November 2009).

<sup>38</sup> Interagency special 2007 report, International Contracting and Technical Services Department, Under Secretariat of the Turkish Prime Ministry for Foreign Trade; cited in Tuncay Babalı, ‘Turkey at the energy crossroads: present and past’, *Middle East Quarterly*, 16(2), Spring 2009, pp. 25–33.

<sup>39</sup> Mensur Akgun, ‘Rusya’nın Önemi’, *Referans*, 1 September 2008, available at <[http://www.referansgazetesi.com/haber.aspx?HBR\\_KOD=105190](http://www.referansgazetesi.com/haber.aspx?HBR_KOD=105190)> (accessed 7 September 2009).

importer of Russian gas after Germany and Italy, depended on Russia for almost two-thirds of its gas imports.<sup>40</sup>

Following the slowing trade activity, mainly due to the global financial crisis, a trade volume of \$38 billion is predicted for 2010, with both Turkey and Russia agreeing on a joint target to increase the trade volume to \$100 billion in the next five years. This illustrates why, for sound economic and security interests, Turkey has chosen not to be openly defiant of Russia's regional interests.

Turkey has aimed to assuage Russian concerns on the East–West energy corridor by approving the rival project to the Nabucco, the planned South Stream. The project is designed to bypass Ukraine, through which 80 per cent of Russia's gas exports to Europe now flow, and it is envisaged to have a similar capacity to the Nabucco. In addition to political considerations, Turkey also won Russian support for an oil pipeline from the Black Sea port of Samsun to the Ceyhan terminal on the Mediterranean. Turkish–Russian energy relations will not likely be restricted to hydrocarbons. Recently, Russia won a tender for the construction of Turkey's first nuclear plant.

More importantly, Turkey and Russia have begun to use the Turkish lira and the Russian rouble in foreign trade, rather than the American dollar, which will likely boost the trade volume between Turkey and Russia. Indeed, along with the increasing trade volume, some Turkish businessmen have been mentioning the agreement as 'a historical achievement' for Turkish–Russian economic relations.<sup>41</sup>

Beyond economic relations, along with reciprocal investments, prospective establishment of a rouble economic zone will likely serve as a tool to upgrade Moscow–Ankara relations to the rank of 'strategic partnership'. This kind of an opening in foreign affairs will certainly increase both rising Eurasian powers' political leverage out of American dictates in the Eurasian landmass.

## Conclusion

This paper aimed to consider political ramifications of the global economic crisis among rising Eurasian powers, Russia and Turkey, as confidence in American policies has been shrinking with global power shifting to the East. Along with the declining confidence in American-led international ordering, particularly in the aftermath of the post-September 11 period, culminating with the ongoing financial crisis, this paper aims to examine the political ramifications on the rising Eurasian powers, Russia and Turkey. The main contention is that the pattern of their relationship will be a much more challenging one at a time of a tectonic power shift towards the East, mainly due to the fact that these countries are not satisfied with the American dictates more than ever and are beginning to acknowledge the significance of their partnership.

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<sup>40</sup> *Annual Report 2007*, BOTAŞ (Petroleum Pipeline Corporation), p. 49, retrieved 7 January 2009; 'Natural gas sale and purchase agreements, natural gas pipeline activities', *Portrait of BOTAŞ Activities*, retrieved 21 January 2009; 'Natural gas and LNG purchases, (gas) trade movements 2007 by pipeline', *BP Statistical Review of World Energy 2008*, p. 30, cited in Tuncay Babalı, 'Turkey at the energy crossroads: present and past', *Middle East Quarterly*, 16(2), Spring 2009, pp. 25–33.

<sup>41</sup> 'Rusya ile ticaret tuttu, Rusya'ya ihracat hedefi 5 milyar dolara çıktı', *Zaman*, 10 September 2009, available at <<http://www.zaman.com.tr/haber.do?haberno=890384>> (accessed 2 November 2009).

The paper is divided into three parts. In the first part, the global power shift towards the East was elaborated. For the purpose of the paper, Eurasian rising power Russia's concerns regarding the American-led international economic order were stressed. In the second part of the paper, the political determinants of the past and the present of American (dollar) hegemony were examined and it was asserted that sustainability of the hegemony would likely be in jeopardy in the 21st century, mainly due to the fact that key supporters of the dollar are no longer American erstwhile allies, but potential rivals (China and Russia). Accordingly, in the third part, as American economic influence has been declining, two rising Eurasian powers, Russia and Turkey, have begun to realize the mutual benefit of their cooperation freed from the dictates of the US-led global order underpinned by the American dollar. In that regard, Ankara–Moscow has begun to use the rouble, rather than the dollar, in their trade relations.

Even though it is not possible to assert that a consolidated Russian–Turkish bloc would rise as a Eurasian counter-hegemonic bloc against the USA in a manner to Mackinder and Brzezinski's strategic statements, it is likely that these old geopolitical rivals will find many areas of cooperation, particularly in the energy sector, which will transform them into 'strategic partners' in the Eurasian landmass. Given that deepened Russian–Turkish economic relations will mean challenging American interests and undermining its led projects—for instance Ankara–Moscow agreed on the South Stream that is clearly an alternative to the Washington favoured Nabucco—the USA's regional influence will steadily decline in the Eurasian landmass and the Obama administration does not have much political leverage to prevent this at a time of ongoing financial crisis and war in Afghanistan.

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