Will Putin's Economic Sanctions directed against Turkey bring Down Erdogan?

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The Russian plane shot down by the Turkish air force Nov. 24 has brought President Recep Tayyip Erdogan and Russian President Vladimir Putin into serious confrontation. The economic warfare that began shortly afterward has been inflicting heavy damage on Turkey ever since.

At the outset, Turkish politicians seemed unconcerned about possible effects of the political crisis on the economy. Back then, while Mehmet Simsek, the deputy prime minister responsible for Turkey's economic policies, stated that Russian economic sanctions would not have any — or at least only limited — effect on the economy. Erdogan was trying to ignore any such economic effects by saying that nothing would happen, even if natural gas were to be cut, because Turkish citizens are used to coping with difficulties.

The sanctions caused major problems and bankruptcy in the tourism, construction, food and textile industries, and a chain reaction in banking sectors on the day the sanctions became effective Jan. 1 — this despite the fact that Putin had not yet played his strongest trump card: energy.

Turkey has reached the point of losing its economic relationship with Russia, which in 2013 was the fourth major importer of Turkish goods and was second in volume of trade volume with Turkey. In the last two years exports decreased by 50%, first because of Russian economic issues due to Western sanctions, and then in part because of Turkish-Russian tensions. Exports decreased to $3.5 billion while the volume of trade decreased by 25%.

The main sectors that have been affected by Russian sanctions are food and agriculture. In the agricultural sector, $700 million of exports are at risk. According to the Assembly of Turkish Exporters, in the period of December 2015-January 2016, exports to Russia regressed 56% compared with the same period a year earlier.

The first large victim of the crisis was Aynes Food Industry and Trade Inc., a dairy company that had been hoping that expansion into the Russian market would help it overcome recent setbacks. Instead, Aynes suffered yet another reversal, and appealed for a delay in its bankruptcy proceedings due to its loss of the Russian market. Chairman Nevzat Serin said, "We lost time to seek alternative markets as a result of the Russia crisis. Our products perished at the [Russian] border gates because of the embargo and we ran out of cash." The company was not able to make the coupon payments of the bond issues, worth 100 million Turkish lira (about $34 million).

The tourism sector saw a sudden drop in Russian tourists, from 3.5 million in 2014 to 2.8 million in 2015. The numbers are expected to get worse in 2016.

Putin and Foreign Minister Sergey Lavrov have both issued calls to their citizens not to travel to Turkey for security reasons.

Erdogan then asked Turkish citizens to vacation domestically instead of going abroad, and the government released a new economic plan to restructure the debts of the tourism sector.

Murat Ersoy, the owner of ETS Tours, one of the largest tour operators in Turkey, claimed that there is a fall in the number of tourists as a result of the Russian crisis and the war in Syria.

Ersoy said that the government's encouraging domestic tourism and offering debt restructuring to the sector are sound steps.

"We are at the closest point to this hot spot. Tourism … has not been doing well around the world this year but since we are nearer to the close combat area, we are affected more," he said.

On the other hand, more pessimistic tourism professionals are concerned that the loss of employment in the sector may reach 500,000 people.

Economist Guldem Atabay Sanli from Egeli & Co. Investments said the problems in the tourism sector are more related to Turkey's internal issues, terrorism and the Russia crisis rather than global economic conditions. She said, "Last year overall tourism income decreased 15% and went down to $26.6 billion. We expect this decline to reach to 30% with the Russian effect this year."

In recent weeks, news of bankruptcies is also coming from the leather sector, which depends mainly on Russia. Companies shut down one by one in Zeytinburnu, the heart of the leather industry in Istanbul, and in Laleli, the marketplace where Russian individuals and small companies buy heavily, there is almost no action. Serhat Karabaki, owner of ISNOVA, which has been selling leather to Russia for the last 20 years from its 20 store locations, told Al-Monitor, "As a result of the political crisis, 80% of the producers in Zeytinburnu have stopped working. We had 20 stores in Russia. We decreased this number to 11. Our clients won't even answer our calls anymore."

The crisis may also lead building contractors to lose their largest market. Putin, in a January speech, hinted at extending sanctions to the approximately 300 Turkish construction companies operating in Russia.

According to data from the Turkish Contractors Association, Turkish contractors completed 1,921 projects worth $61 billion between 1972 and 2015. These figures indicate that Russia is the largest market for Turkish contractors.

The challenges in other sectors has caused a confidence crisis in the banking sector. The banks hesitate to issue new loans and are calling in previous loans depending on their forecasts that the Russia crisis, compounding the slowing domestic market, will cause problems in loan repayments.

A senior officer of a private bank in Turkey told Al-Monitor, “Many companies that face difficulties in loan repayments ask for suspension of bankruptcy and the banks refrain from issuing new loans.” He also said that they do not issue loans for companies strongly dependent on Russia.

Hakan Ates, CEO of Denizbank in Turkey, owned by Russian Sberbank, said that the coming few years will be hard as a result of bad debts in the tourism sector.

So what is the exact amount of the damages inflicted on Turkey, and will these difficulties grow?

In an email, Orhan Okmen, president of JCR Turkey rating bureau, said that unless the political tension ends, the economic challenges for the Turkish companies will increase in 2016 and the cost of the sanctions for food, tourism, construction and retail sectors will be about $15 billion. Okmen also implied a possible fall in the credit ratings of the companies that heavily work with Russia.

Economist Atilla Yesilada of Global Source said Russia sanctions will widen:

> “The business world and the government presumed that the Russia crisis would be temporary and would ease in time. They thought that the economic relations would be kept away from political relations. However, their predictions were wrong. The sanctions of Russia and its regional allies will last for long years and will leave permanent damage.”

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