

# **The reason Turkey's economic collapse is so scary is that Iran, Russia, and Syria are waiting in the wings**

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Samantha Lee/Business Insider

- **Lots of things are going wrong in Turkey at once, driven by the collapse of its currency, the lira.**
- **The West needs Turkey to be strong, as Turkey is a physical buffer between Europe and the war in Syria.**
- **US sanctions have annoyed Turkish President Recep Tayyip Erdogan, who says he is now in search of “new friends.”**
- **The worst-case scenario for the West? Potential “new friends”**

**include Iran, Syria, and Russia — Turkey's neighbors, who also suffer from US sanctions.**

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What if Turkey collapses?

It's not outside the realm of possibility. Turkey's currency is in free fall. Inflation is at 15% and climbing. The Turkish economy could enter a recession. The US has imposed economic sanctions on the country because President Recep Tayyip Erdogan refuses to hand over an American preacher who has been jailed there.

Lots of things are going wrong in Turkey, all at once.

As this map shows, Turkey may not be important economically— in terms of contagion to the rest of the global economy — but it sure is important strategically and militarily.

Turkey is the bridge between the democratic, peaceful West and the war-ridden dictatorships of the East.

How strong do we want this bridge to be?



Countries ranked by the percentage of their exports that go to Turkey.  
Credit Suisse

## **Turkey is the thing that physically prevents the wars in the Middle East from rolling into Greece**

If you are not confident about where Turkey is on the map, you are not alone. It's only when you see Turkey's borders that you realize why everyone is freaking out about the lira crisis.

On its Western flank, Turkey borders Greece and Bulgaria, Western-facing members of the European Union. A few years ago, Turkey — a member of NATO — was preparing to join Europe as a full member.

Turkey's other borders face six nations: Georgia, Iran, Iraq, Syria, Armenia, and Nakhchivan, a territory affiliated with Azerbaijan. Five of those are involved in ongoing armed conflicts or outright war.

Turkey is the thing that has physically prevented the Islamic State terrorist group from rolling into Greece. It keeps the Syrian war inside Syria. It prevents the Russians from rolling back into Bulgaria. And it deters the Iraqis, Iranians, and Kurds from escalating their various conflicts northward into Europe.

That's the reason Turkey has the largest standing army in Europe. We need Turkey to be strong and stable, in other words.

That's why two recent moves by Erdogan are so chilling:

- His op-ed article in The New York Times on Sunday, in which he described his angry response to US economic sanctions: "Turkey has alternatives. Failure to reverse this trend of unilateralism and disrespect will require us to start looking for new friends and allies."
- His belief that interest rates are "evil." His central bank — which he now controls — has declined to increase interest rates to fight the country's spiraling inflation. He has historically argued that high interest rates actually *cause* high inflation. (In reality, high interest **drives down** inflation by making money more expensive and therefore more scarce. It is not clear that Erdogan understands basic economics.)



The lira has lost 45% of its value against the US dollar this year.

Yahoo Finance

In the immediate term, Erdogan's economic illiteracy is particularly worrying: Turkey's biggest, easiest weapon to contain its crisis is higher interest rates.

In principle, when a central bank raises interest rates, it sells bonds, taking in currency from those sales, and thus makes its own money more scarce and more valuable.

High rates would also encourage savers to put money into Turkish banks. That is exactly what Turkey needs to prevent a run on its central bank and a wider economic collapse. And it is the one tactic Erdogan — bafflingly — doesn't believe should be used.

He is condemning his nation to an inflation spiral that will, unchecked, look like the hyperinflation of the Weimar Republic.

## **The worst-case scenario: a Turkish government in search of ‘new friends’ to bail it out**

From a strategic or military point of view, Erdogan “looking for new friends” is even more worrying. Turkey suddenly has a lot in common with Iran, Syria, and, across the Black Sea, Russia: They are all the targets of US sanctions.

Do we really want Turkey to turn toward Iran, Syria, or Russia? Because that’s one potential outcome if the West cannot find a way to keep Erdogan inside the fold.

What is the endgame here, if Erdogan doesn’t reverse course on interest, or if the US maintains or increases its sanctions?

The worst-case scenario is a Turkish government that cannot pay the army that controls its borders, in search of “new friends” to bail it out.

Thus the lira continues its plunge.

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