

Policy Brief

Beyond Borders: Rethinking Türkiye-Iraq Connectivity in a Shifting Region

No. 20

July 2025

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Introduction

Recent normalization between Türkiye and Iraq, underscored by intensified bilateral agreements and high-level diplomatic exchanges, has opened opportunities for deepened economic integration. However, persisting tensions rooted in domestic Iraqi politics, regional power dynamics, and historical water disputes continue to pose challenges. In this light, Türkiye's foreign policy towards Iraq is an excellent case to understand the entanglement of geopolitics and geoeconomics in 21st century Middle East. Based on field work in 2024 and 2025² as well as desk research, we explore the economic statecraft of Türkiye towards Iraq in the last couple of years; its achievements as well as limitations and new challenges. We argue that Türkiye's approach to Iraq should be evaluated as a case of middle power economic statecraft towards its own neighbor, mobilizing domestic security, economic and political stakeholders in a coordinated effort to enhance geopolitical and geoeconomics interests in an intersecting fashion.

It is in the regional and global dimension that we observe both the capacity and limitations of Türkiye's economic statecraft. Typically, economic statecraft is associated with great powers such as the US using sanctions or China utilizing strategic investments to secure geopolitical advantage. However, the sectoral breakdown of Türkiye-Iraq connectivity and insights from field interviews indicate Türkiye's partially utilized potential for economic statecraft towards neighboring regions.

Unlike global powers such as China or the US, middle powers like Türkiye cannot unilaterally dominate key economic decisions with partner states. Yet, similar to these greater

¹ This paper is part of the research project: "Turkey-Iraq Relations: Opportunities and Tensions in Security and Connectivity" which is a project of CATS Network. The Centre for Applied Turkey Studies (CATS) at the Stiftung Wissenschaft und Politik (SWP) in Berlin is funded by Stiftung Mercator and the Federal Foreign Office. CATS is the curator of the CATS Network, an international network of think tanks and research institutions working on Turkey.

powers, Türkiye possesses the capability to align economic alliances among domestic capital groups and channel them towards specific strategic investment areas. The construction sector in Iraq exemplifies this approach, reflecting a well-orchestrated convergence of state interests with business activities. Field interviews underscore that Turkish companies initially enter the Iraqi market through trade before investing in related infrastructure, illustrating a clear state-coordinated economic strategy.

Economic Statecraft: Bilateral Relations

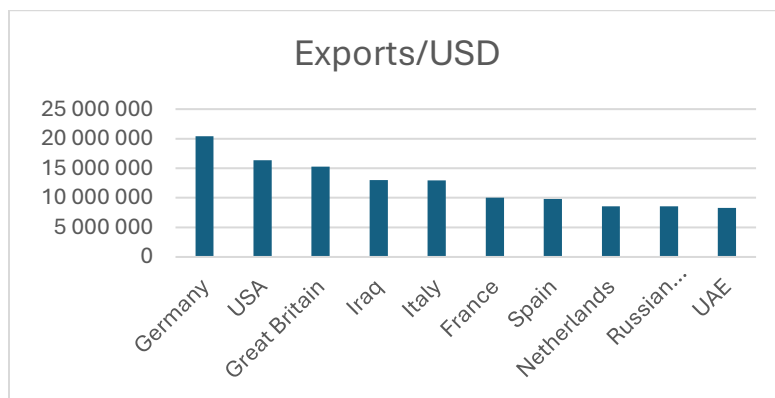
Türkiye's relations with Iraq represent a strategically significant, yet frequently underappreciated, component of Ankara's broader connectivity to regional and global production and trade networks. These bilateral ties hold considerable promise, as evidenced by the envisioned Development Road Project, robust trade volumes, and emerging opportunities for collaboration in energy and water infrastructure—particularly as Iraq undergoes reconstruction and Türkiye seeks sustainable economic growth.

A key milestone in advancing this potential was the bilateral agreement signed in March 2024. While [media coverage largely focused](#) on its security dimension—particularly Iraq's decision to designate the PKK as a banned organization, paving the way for enhanced counterterrorism cooperation—Turkish political elites have highlighted a broader institutional framework. [This agreement also established](#) Joint Permanent Committees across a range of sectors including trade, water, agriculture, energy, health, and transportation.

Our fieldwork underscores the strategic importance of these committees to both Turkish bureaucratic actors and business elites. For them, the process of establishing structured, intergovernmental coordination mechanisms marks what they describe as the “institutionalization of bilateral relations” anchored in connectivity. From Türkiye's perspective, institutionalization is a critical concept—connoting the stabilization of economic linkages, the possibility of insulating connectivity agendas from political and security disruptions, and a continuity of engagement that transcends electoral cycles in both countries. Finally, institutionalization, as our interviews suggest is hoped to bring a partial bypass to the negative impact of KRG-Baghdad tension over bilateral relations, including trade, customs and energy.

Commodity Trade is the most critical component of connectivity, especially as the Türkiye-Iraq crude oil pipeline remains closed. According to the Turkish Statistical Institute, in 2024, Türkiye exported over \$11.2 billion worth of goods to Iraq, while imports from Iraq totaled approximately \$550 million, reflecting a significant trade surplus in Türkiye’s favor. Table 1 provides a comparative perspective on 2024 export figures, highlighting Türkiye’s top ten export destinations.

Table 1: Türkiye’s Top 10 Export Destinations in 2024



Source: Turkish Statistical Institute, 2025

These exports mainly go through the KRG areas. Thus, although “trade is not always conducted directly with the KRG, actors based in the KRG consistently act as intermediaries. Only around 20% of the goods stay in the Kurdistan Region; the rest are distributed to other parts of Iraq.” (*Political elite interview, 2025*) As interviews with business leaders and experts in the Kurdistan Region of Iraq (KRI) reveal, mediation by KRG actors does not always facilitate trade; at times, it actually creates additional barriers. Ongoing tensions between the KRG and Baghdad over customs procedures and tax allocation have created a multilayered system of obstacles. These include ambiguity around customs duties, inconsistent rules governing how long goods can be stored in the KRG before transiting to southern Iraq, and challenges related to visa issuance and mobility for Turkish businesspeople (*Business elite interview, 2025*). These issues further extend to questions such as who can cross beyond KRG territory and through which security checkpoints.

Against this backdrop, Iraq's position as Türkiye's fourth-largest export destination highlights a relationship with untapped potential. As one prominent member of Türkiye's business community noted:

Doing business in a country like Iraq requires substantial effort from us. There are always problems; it is not manageable from a distance. For example, Iraqi ambassadors technically have the authority to issue one-year visas but rarely give more than six months—they avoid taking responsibility. Consuls can issue three-month visas but will not proceed unless they receive confirmation from Baghdad. We cannot travel from the north to the south or vice versa. At the Mosul border gate, at least five out of every ten people face delays unless someone with influence intervenes. Even with printed visas, one in every ten travelers is held up (Business elite interview, 2025).

These obstacles present themselves not just to commodity traders but also service traders such as construction companies or health providers such as hospital owners/managers. Easing these bureaucratic and logistical constraints would not only improve Türkiye-Iraq commercial relations but also strengthen linkages extending into Europe and the broader Middle East.

Energy cooperation has long been a pillar of Türkiye-Iraq economic ties. Iraq-Türkiye Pipeline Agreement was signed in 1973 which led to the building of Kirkuk-Yumurtalık Pipeline in 1977 and its extension with a second pipeline in 1987 during Iran-Iraq War. The agreement was amended in 2010 and modified in a de facto fashion in 2013, when the KRG [“built a spur linking three of its major fields to the ITP’s 40-inch pipeline.”](#) This prompted the protest of Baghdad, claiming this transportation of oil as unlicensed. In [March 2023](#), however, Türkiye suspended the flow of approximately 450,000 barrels per day of Iraqi oil—including 370,000 from the KRG)—through the Kirkuk-Yumurtalık pipeline. The move [followed a ruling by the International Chamber of Commerce \(ICC\)](#), which ordered Ankara to pay \$1.5 billion to Baghdad for unauthorized exports between 2014 and 2018. At the core of the dispute is Baghdad's assertion that its national oil marketer, SOMO, holds exclusive authority over all exports. On 21st of July, 2025, Turkey announced its withdrawal from the 1973 deal. News agencies [report](#) that the move is related to Turkey seeking a new deal, that is more aligned with contemporary needs and opportunities of both countries.

Türkiye's shutdown of the pipeline in fact, acknowledged Baghdad's newly enforced control over loading operations at Yumurtalık terminal and underscored the general tone in 2020s towards Iraq: "Türkiye will not interfere between KRG and Baghdad and will remain neutral as they sort out their disputes." (Elite interview, 2025) Meanwhile, [the U.S. is pressing](#) for the reopening of the pipeline to stabilize global oil markets—a priority heightened by Israeli and U.S. strikes on Iran and the potential closure of the Strait of Hormuz. Domestically, the continued shutdown places significant economic strain on KRG authorities. The budget crisis, worsened by the export halt and ongoing disputes over oil revenue allocation, has intensified ahead of Iraq's elections. [Notably](#), "Iraq's finance ministry has made the controversial move of suspending salary payments to civil servants in the Kurdistan Region." In this context, progress in Türkiye-Iraq energy cooperation hinges on the resolution of tensions between Baghdad and Erbil.

Investments, like trade and energy, constitute a crucial channel of Türkiye-Iraq connectivity—one that is steadily growing but remains underleveraged. Field interviews reveal that Turkish investment in Iraq often follows the trajectory of trade, described by one respondent as "selling flour first and then opening a mill." Yet, business leaders now express a strong desire for broader and more strategic investments, signaling a shift in approach.

As one high-level business representative [emphasized](#), "Most of our investments so far have been concentrated in the KRI. In this regard, we have somewhat lagged in the South. Given that around 83% of Iraq's population resides there, we must begin to assess investment opportunities in the southern provinces moving forward."

Construction remains the lead sector in this strategic realignment. During a joint visit to Iraq with Türkiye's Minister of Industry and Technology, Erdal Eren, President of the Turkish Contractors Association, [announced](#) Turkish firms' readiness to engage in a broad set of infrastructure projects—including the Development Road, Baghdad metro, ring road, as well as hospitals, schools, housing, energy, tourism, and essential water infrastructure like treatment plants, irrigation systems, and dams.

Labor has been a crucial component of Turkish investments in Iraq. However, interviews with business elites highlight recent challenges in mobilizing Turkish labor to these projects,

especially in the construction sector: “Until about a year ago, we were working exclusively with Turkish workers, but now we also employ Asians due to wage competition. Since the earthquake in Türkiye, much of the workers has been engaged in rebuilding efforts there. So it makes harder to attract qualified Turkish labor to Iraq.” (Business elite interview, 2025)

The Turkish business community underscores the enabling role of Prime Minister Sudani’s administration in supporting investment flows. However, interviewees repeatedly stressed that without consistent, high-level coordination between the two states, such investments are difficult to execute. The expectation is that recent efforts to institutionalize bilateral relations, if sustained, will lower operational risks and open space for deeper economic integration. One concrete evidence in support of this argument is the doubling down of construction contracts in the last year (Business elite interview). Construction is a key sector in all the metrics presented by the state stakeholders such as ministers in [key meetings](#).

Water resource management has emerged as a critical dimension of Türkiye-Iraq bilateral connectivity, shaped by longstanding disputes and intensified cooperation efforts. Iraq faces severe water scarcity, exacerbated by climate change, inefficient resource management, and upstream infrastructural developments. Türkiye has also been affected with water shortage due to climate change. Against this backdrop, Türkiye and Iraq have initiated comprehensive cooperation frameworks aimed at addressing these shared challenges. Notably, the appointment of a Special Representative for Water by Türkiye in 2018 underscored Ankara’s commitment to deeper collaboration. Field interviews with water experts indicate significant developments, including reciprocal visits to critical water infrastructures such as the Mosul Dam, capacity-building programs, and joint technical assessments. In 2024, both countries agreed to establish a Joint Permanent Committee focusing specifically on water management. Recent negotiations have culminated in mutual understandings, notably a fixed [water release agreement of 500 cubic meters per second](#), signaling progress in addressing Iraq’s water concerns.

However, key challenges persist, including Iraq’s fragmented water governance system, which involves multiple ministries and overlapping jurisdictions. Interviews highlight that such fragmentation complicates effective implementation of bilateral initiatives. Security concerns further complicate cooperation, especially in sensitive border regions, restricting the mobility of

technical experts and complicating project execution. Additionally, issues of corruption within Iraq pose ongoing difficulties.

Ultimately, enhancing Türkiye-Iraq connectivity through water cooperation requires sustained high-level diplomatic engagement, clear governance structures, and continued investment in joint infrastructural and capacity-building projects, offering a strategic opportunity to stabilize bilateral relations and improve regional water security.

Economic Statecraft: Regional and Global Dimension

Türkiye's active support and engagement in Iraq's **Development Road Project (DRP)** highlight a significant intersection of economic statecraft and foreign policy with regional and global actors. Development Road Project most recently progressed [through a quadrilateral memorandum](#) involving Türkiye, Iraq, the UAE, and Qatar in April 2024, that aims to create a comprehensive connectivity corridor linking the Persian Gulf to Europe via Türkiye. This corridor will include 1,200 kilometers of railways and motorways stretching from Iraq's southern port of Al Faw to the Türkiye-Iraq border. Also named as the Dry Canal, it will complement Middle East existing transit routes such as Red Sea and the Suez Canal.

It is, as all stakeholders we interviewed are quick to highlight, [essentially an Iraqi Project that will bolster economic development throughout Iraq](#), establishing not just transportation networks but also production networks through industrial zones. It is a development model, [intended but still uncertain to accomplish lessening corruption and ensuring growth](#). According to Türkiye's political elite, this initiative is seen primarily as a strategic route to bolster Türkiye's transit hub ambitions, enabling rapid movement of goods between Europe, the Middle East, and Asia. The project promises substantial economic dividends through customs duties, transit fees, and expanded trade volumes. However, the Turkish bureaucracy is cautious about potential trade-offs, particularly regarding increased transit of Chinese goods, which could intensify competitive pressures on Turkish manufacturing sectors. China is a competitor in manufacturing but also in investments in Iraq especially infrastructural construction sector.

Strategically, the Turkish government recognizes this project as more than merely economic—it is an instrument of geopolitical influence. In several interviews as well as in the

speech by Prime Minister Sudani (Spring 2025, Anadolu Ajansı, Ankara), we received the confirmation of this strategic importance, both at the level of Türkiye's presidency and all other relevant Turkish stakeholders. As emphasized by Turkish policymakers, institutionalizing these economic ties ensures continuity and reduces vulnerability to electoral and leadership changes in both countries. Such institutionalization through committees, new customs and new connection through Development Road Project is also a geopolitical investment. [As one commentator underlines](#): “For Türkiye one of the greatest expected benefits of the DRP is its intended function in ensuring the territorial integrity of Iraq.” The road would connect various regions of Iraq that are in need of investment (the previously rebellious Basra as well as the [KRG that contests the route and the border crossing](#)) yet also quarrel about regional autonomy with varying levels of success and rigor. The settling of these disputes through the economic incentive disseminating from the construction and operation of Development Road would play to the geopolitical interests of Türkiye in its immediate neighborhood.

Italian infrastructure company PEG, conducted the feasibility studies as well as the design of the first phase of railway. Sudani himself in Spring 2025 speech at Ankara, announced that Iraq wishes to have more international players beyond the initial four countries: "We do not want to remain limited to four countries. Others can participate in terms of financing or implementation. There is interest from the United States—American businesspeople visited last month and expressed interest in becoming involved in the project.” This potential for expansion of the stakeholders brings both competition to Türkiye and perhaps also opportunities for collaboration with European and/or American actors in its implementation. The Development Road Project embodies Türkiye's nuanced economic statecraft approach, leveraging infrastructure and strategic investment to foster regional connectivity, economic integration, and geopolitical influence. However, sustained success hinges on overcoming internal political frictions within Iraq, effectively managing competitive dynamics with other regional powers, notably Iran, as well as coordination with other such as Qatar and UAE and maintaining consistent diplomatic momentum.

Conclusion

Diplomatic momentum and coordinated economic policymaking—both domestically and regionally—are critical prerequisites for the successful execution of economic statecraft. In 2025,

however, two key developments complicate this trajectory: intensifying competition from China and the escalating conflict involving Israel, the US, and Iran. China now rivals Türkiye not only in trade but also in infrastructure investment and strategic energy projects. Critically, [Chinese companies are involved in oil fields](#) accounting for 50–67% of Iraq’s total oil production—a figure that significantly strengthens Beijing’s long-term leverage over the Iraqi economy. Turkish bureaucratic and business stakeholders interviewed during fieldwork consistently acknowledged this competitive pressure from China, especially in high-value sectors such as energy, logistics, and construction.

At the same time, the regional security environment poses serious risks to Türkiye–Iraq connectivity. The widening war threatens to obstruct the physical flow of goods and people through chokepoints such as the Strait of Hormuz, a vital artery for Gulf-based trade. More critically, it risks destabilizing Iraq itself, potentially dragging the country into direct or proxy conflict. Several plausible scenarios include but are not limited to: a resurgence of ISIS disrupting commercial and transit routes as in the past; Iran targeting U.S. military and diplomatic assets in Iraq; and escalating Shi’a political mobilization both within Iraq and across its borders. In a year marked by national elections, these dynamics further endanger Iraq’s already fragile political balance and could amplify decentralization trends in both the northern Kurdish region and [the southern provinces](#)—fracturing the very political cohesion required for regional connectivity projects to succeed. However, if realized, the Development Road Project will also signify Iraq’s improved relations with the GCC countries, provide an alternative connectivity to the Gulf to Europe through Turkey, and overall will become yet another example of a wider trend of regional economic integration that has been a future of [“Gulf-based regional order”](#) project.

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