

## *Chapter Nineteen*

# **Commercial Relations Present Landmark Opportunity for U.S. President Trump and Turkish President Erdoğan**

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The year 2017 marks the first between counterparts U.S. President Donald J. Trump and Turkish President Recep Tayyip Erdoğan. At the conclusion of the 72<sup>nd</sup> United Nations General Assembly in New York, the leaders had concluded their third face-to-face meeting as presidents, building upon meetings held in May at the White House, and during the July North Atlantic Treaty Organization (NATO) Summit in Brussels. The leaders of the two NATO allies enjoy a positive personal chemistry, while the substance of the relationship remains layered with complexities around the security, military, and political dimensions of U.S.-Turkey ties.

However, if there is one area of broad consensus that both presidents reached during their meetings, it is around enhancing the underdeveloped economic and commercial relations between the United States and Turkey. President Erdoğan has previously underlined that Turkey does not find the current investments of American business in Turkey adequate, adding that he would like to see more American investment in the country.<sup>1</sup> Expanding business opportunities for the private sector plays into a shared foreign policy agenda item and constitutes a low-hanging fruit in the U.S.-Turkey relationship. U.S. businesses took notice and are urging the U.S. and Turkish governments to launch a high-level commercial dialogue to devote the time and attention required for business relations to flourish between the world's 1<sup>st</sup> and 17<sup>th</sup> largest economies.

At the crossroads of Europe, Asia, and the Middle East, Turkey represents a historically important trading hub for many U.S. businesses. Indeed, more than 60 Fortune 500 U.S. companies manage their regional operations from Istanbul, with a total of more than 1,500 U.S. firms incorporated

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<sup>1</sup> Oğuz, Şeref. "CEOs give two thumbs up to investing in Turkey." *Daily Sabah*, April 4, 2016. <https://www.dailysabah.com/business/2016/04/05/ceos-give-two-thumbs-up-to-investing-in-turkey>.

in the country. Turkey's success with economic reforms over the last 15 years has earned the country status as a major emerging market and solidified its spot in the G20. U.S.-Turkish business partnerships open new markets in third countries and create value for U.S. businesses overseas that enhances their operations at home. However, over the last three years, while both economies continue to grow, the U.S.-Turkey trade volume fueling these partnerships declined approximately 10 percent from an already modest peak of 19 billion dollars. The bilateral trade volume is among the lowest for the United States when compared with other trading partners within the G20. Furthermore, this decline corresponds to inactive commercial and economic forums held between the U.S. and Turkish governments, discussions which are vital to propel reforms, enabling the private sector to operate and grow.

After a four-year hiatus, the U.S.-Turkey Trade and Investment Framework Agreement (TIFA), led by the Office of the U.S. Trade Representative and Turkish Ministry of Economy, convened in Ankara in September 2017. These meetings came in response to President Trump's and President Erdoğan's decision to deepen commercial relations, and offered an opportunity to better align regulatory reform and market access at the working level. The U.S. and Turkish governments met with their respective private sector representatives beforehand to ensure the discussions addressed the most urgent and high-stakes items. Similarly, the private sector led by the U.S. Chamber of Commerce's U.S.-Turkey Business Council and the Union of Chambers and Commodity Exchanges of Turkey (TOBB) convened a series of consultations with leading businesses and government officials in Turkey and the United States to lay the groundwork for a future U.S.-Turkey high-level commercial mechanism. The meetings were headlined by an international investors meeting with President Erdoğan, followed by sectoral sessions in strategic areas.

Promising sectors of interest include the digital economy, aviation and defense, energy, healthcare, and finance. Turkey has a dynamic, entrepreneurial, well-connected, young population and strong consumer base—one of the most promising demographic profiles in Europe—that will benefit from working with U.S. companies and investors, and vice versa.

## Digital Economy

Take the example of Turkey's most successful startup to-date, a food delivery technology platform called Yemeksepeti sold for 589 million dol-

lars, with a U.S. investor General Atlantic, and technology developed through training in Silicon Valley.<sup>2,3</sup> The e-commerce segment of the digital economy is ripe for continued growth within Turkey. Further development of Turkey's e-commerce sector in conjunction with large marketplace services such as Amazon and the Hepsiburada, dubbed the "Turkish Amazon," can position the country as a regional and global leader given its strategic location, strong infrastructure networks, and diversified industrial base.<sup>4</sup> Fin Tech is an important sector to nurture in support of growing Turkey's e-commerce sector, especially for small and medium sized enterprises looking to export goods internationally and offer services to an international clientele. In 2016, the exit of PayPal's services due to banking IT systems localization laws sent a mixed message to international investors about future challenges in the policy environment for innovative businesses models despite the market potential and openness to foreign investment.<sup>5</sup>

U.S. tech firms have much to offer Turkey in the fields of education and digital literacy. Tech companies such as Google, HP, IBM, Intel, and Microsoft have robust programs in Turkey aiming to contribute to both educational technology and also curriculum development. In September 2017, Turkey's *Daily Sabah* reported, "the country seeks to invest more in coding and IT education as part of a drive to reform its education system. It also works to make all schools 'smart' with the FATİH project in which millions of tablet computers are being delivered to students and smart boards are being installed in classrooms." Improvements made to educational curricula and Organization for Economic Cooperation and Development (OECD) Program for International Student Assessment (PISA) scores will empower Turkey to break out of the middle-income trap. Advanced skills such as coding and programming will help train Turkey's future generations to fully participate in the digital economy as both consumers and producers.

Certainty in the policy environment is of paramount importance for companies when making significant medium- and long-term investments.

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<sup>2</sup> Yemeksepeti. <https://www.yemeksepeti.com/en>.

<sup>3</sup> Sloat, Sarah. "Delivery Hero Acquires Turkey's Yemeksepeti." *The Wall Street Journal*, May 5, 2015. <https://www.wsj.com/articles/delivery-hero-acquires-turkeys-yemeksepeti-1430802002>.

<sup>4</sup> Delevingne, Lawrence. "The Amazon.com of Turkey? This investor thinks so." CNBC, February 23, 2015. <https://www.cnbc.com/2015/02/23/the-amazoncom-of-turkey-this-investor-thinks-so.html>.

<sup>5</sup> Meyer, David. "Here's Why PayPal Is About to Suspend Operations in Turkey." *Fortune*, May 31, 2016. <http://fortune.com/2016/05/31/paypal-turkey-suspension/>.

Turkey's new personal data protection law has united the private sector to submit comments on the draft regulations under this law to ensure that Turkey will be able to fully embrace innovative technologies integral to Turkey's Industry 4.0 program, cloud computing, and big data analytics. Furthermore, open Internet platforms and dataflow marked a turning point in Turkey's democracy when its valiant citizens and president stood up to the attempted coup of 2016 in large part due to technologies that facilitated real-time communication.<sup>6</sup> A new U.S.-Turkey commercial data sharing framework will be key to keep tech partnerships growing and vital for all companies that operate internationally from Turkey. Such a solution can only be established through government-to-government engagement on important commercial issues to unlock the full potential of the two countries' private sectors.

## Aviation and Defense

Business between U.S. and Turkey aviation and defense industries have traditionally been strong given the NATO alliance and Istanbul's rise as a global aviation hub. From helicopters, fighter jets, avionics, engines, and more, U.S. defense firms have led the bilateral commercial relationship in terms of export volume and breadth. Defense procurements in Turkey are required to have an industrial participation/offset component, whereby foreign companies integrate Turkish companies within their supply chain for the subject procurement, or co-develop a new technology.<sup>7</sup> This program has contributed to the growth of Turkey's defense industry, with two companies now on the top 100 list of global defense contractors.<sup>8</sup> U.S. companies in the defense industry are eager to work with their Turkish counterparts on large-scale defense projects such as Turkey's new missile defense shield, so that it is fully interoperable with NATO's systems. Indeed, Turkey's announced purchase of Russia's S-400 missile defense system is as much a commercial issue as it is a political issue. The choice

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<sup>6</sup> Vicente, Geovanny. "3 Steps to Strengthening Post-Coup Democracy in Turkey." Telesur, Opinion, January 23, 2017. <https://www.telesurtv.net/english/opinion/3-Steps-to-Strengthening-Post-Coup-Democracy-in-Turkey-20170123-0010.html>.

<sup>7</sup> "Industrial Participation/Offset Guideline." Republic of Turkey Ministry of National Defence Undersecretariat for Defence Industries (SSM), April 2011. [http://www.ssm.gov.tr/home/institutional/Documents/2011\\_IP\\_O\\_Guideline.pdf](http://www.ssm.gov.tr/home/institutional/Documents/2011_IP_O_Guideline.pdf).

<sup>8</sup> "Two Turkish firms in top 100 defense companies." *Daily Sabah*, September 14, 2016. <https://www.dailysabah.com/defense/2016/09/15/two-turkish-firms-in-top-100-defense-companies>.

for the Russian system is linked to the transfer of advanced technology and intellectual property, a portion of the deal that is actively being discussed. U.S. Senators, led by ranking member of the Foreign Relations Committee Senator Ben Cardin, have voiced concerns that the June 2017 U.S. sanctions against Russia may be applied in the case of this purchase.<sup>9</sup>

Istanbul's rise as a global aviation hub has received significant support from U.S. businesses exporting aviation parts, exploring additive manufacturing in Turkey for airline engines, and technical training for servicing machinery. Turkish Airlines flies to more countries than any other airline in the world, and has established itself as a successful global brand. Istanbul's new airport, which is set to be the world's largest by 2019,<sup>10</sup> provides additional growth opportunities, such as the September 2017 order for 40 Boeing 787 Dreamliner planes that Turkish Airlines announced.<sup>11</sup> A sale of this magnitude, estimated at 11 billion dollars, would support U.S. and Turkish jobs by activating a robust network of manufacturing suppliers. In conjunction with this signing, Boeing has announced a Turkey National Aerospace Initiative that aligns the company's investment and programs with the Turkish government's Vision 2023 program and Turkish airline and aerospace service companies and industry suppliers in the areas of research, engineering, and skills development. This announcement follows debate about required commercial offsets for aviation sales in Turkey. Boeing's Vice Chairman Ray Conner recently stated that, "working together with Turkey, we [Boeing] are now taking our collaboration to the next level, which will accelerate the growth of Turkish aerospace industry while achieving Boeing's long-term objective to expand its presence in the marketplace."<sup>12</sup> Thus, the U.S. industry prefers positive incentives, including Turkey's new intellectual property law facilitating world-class patents and R&D over commercial offsets which are labeled inefficient—they effectively raise aircraft costs for Turkey's airlines, while doing little

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<sup>9</sup> Lardner, Richard. "Senators Urge Trump to Robustly Enforce Russia Sanctions Law." Associated Press (AP) via U.S. News, September 29, 2017. <https://www.usnews.com/news/politics/articles/2017-09-29/senators-urge-trump-to-robustly-enforce-russia-sanctions-law>.

<sup>10</sup> "Turkey to build world's biggest airport in Istanbul." Airport Solutions Turkey, September 19, 2016. <http://www.airportsolutions.com/turkey/turkey-build-worlds-biggest-airport-istanbul>.

<sup>11</sup> "Turkish Airlines to place orders for 40 Boeing 787-9 Dreamliners." Reuters, September 21, 2017. <http://www.reuters.com/article/us-boeing-orders-turkey/turkish-airlines-to-place-orders-for-40-boeing-787-9-dreamliners-idUSKCN1BW35R?il=0>.

<sup>12</sup> "Turkish Airlines orders 40 Dreamliner aircraft from Boeing." *Daily Sabah*, September 22, 2017. <https://www.dailysabah.com/business/2017/09/22/turkish-airlines-orders-40-dreamliner-aircraft-from-boeing>.

to support the type of sustained economic development that more open markets can provide.

## Energy

Turkey is one of the world's busiest transshipment routes for oil and natural gas supplies, and an increasingly critical energy hub. Three U.S. energy company CEOs were in Istanbul in July 2017 for the World Petroleum Congress,<sup>13</sup> a few months after President Erdoğan's visit to Washington, where he stated that the energy and defense sectors were among the brightest for expanding bilateral cooperation. BP, together with the State Oil Company of Azerbaijan (SOCAR), is leading Turkey's largest energy project to-date which is developing the southern gas corridor, delivering gas from the Caspian Sea into Europe across Turkey.<sup>14</sup> Renewable energy in Turkey is also ripe for growth and investment. General Electric opened a new wind turbine blade production facility in Western Turkey (Bergama) because of the country's strong fundamentals for renewable energy production—especially in wind power.<sup>15</sup>

U.S. Secretary of State Rex Tillerson joined the aforementioned World Petroleum Congress in Istanbul in July 2017 where he received a lifetime achievement award for his tenure at ExxonMobil Corporation, stating, "Turkey is an important partner in our [U.S.] efforts to promote greater energy security because it sits at the crossroads of vital energy resources along supply routes and routes to consumers. The United States looks forward to engaging with Turkey on projects that will increase global energy security, such as the Southern Gas Corridor and the Eastern Mediterranean Gas."<sup>16</sup> Given regional energy security and pipelines flowing into Turkey from Iran, Iraq, Azerbaijan, Georgia, and potentially Russia and Israel in coming years, collaboration among U.S. and Turkish authorities in this space can help ensure business and commercial diplomacy flow smoothly.

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<sup>13</sup> "22nd World Petroleum Congress." <http://www.22wpc.com/22wpc.php>.

<sup>14</sup> "The Southern Gas Corridor." BP Azerbaijan. [https://www.bp.com/en\\_az/caspian/operations/projects/Shahdeniz/SouthernCorridor.html](https://www.bp.com/en_az/caspian/operations/projects/Shahdeniz/SouthernCorridor.html).

<sup>15</sup> "Production begins at new wind turbine blade plant in Turkey!" LM Wind Power. July 11, 2017. <https://www.lmwindpower.com/en/stories-and-press/stories/news-from-lm-places/production-begins-at-new-wind-turbine-blade-plant-in-turkey>.

<sup>16</sup> "Remarks at the World Petroleum Council Congress Opening Ceremony." U.S. Department of State. July 9, 2017. <https://www.state.gov/secretary/remarks/2017/07/272448.htm>

## Finance

High growth rates in 2017 (5.1 percent for the first half of the year) are prompting U.S. portfolio managers and capital markets firms to revisit investments in Turkey.<sup>17</sup> International financial institutions such as the World Bank, International Monetary Fund, OECD, JPMorgan, S&P, and Moody's, among others, have all upwardly revised their economic growth projections for Turkey in 2017 and beyond. The Turkish lira, after suffering a near 20 percent decline against the dollar in 2016, has been ranked the most undervalued and highest yielding amongst emerging markets based on OECD purchasing parity.<sup>18</sup> The higher-than expected growth in 2017 is fueled in part by favorable base-period effects following the security challenges and failed coup attempt in 2016, but also due to export growth, consumer confidence, and large infrastructure projects.

Turkey's stock market, Borsa Istanbul (which has benefited from a technology and services partnership with NASDAQ) has witnessed a record year.<sup>19</sup> At multiple junctures throughout the year, the stock market has eclipsed its newly established highs. Driven in part by favorable financing conditions for emerging markets in 2017 and also Turkey's Credit Guarantee Fund for small and medium-sized enterprises, the country's banking industry is seeing record profits and activity.<sup>20</sup> This additional liquidity in the financial system aided by a pause in the country's elections cycle has raised more capital for Turkish companies issuing initial public offerings (IPOs) in 2017—both domestically and internationally—since 2011.<sup>21</sup> Some of these Turkish companies are linked to U.S. brands such as Domino's Pizza and Burger King, while others have benefited from partnerships with U.S. companies and financial firms (such as two of Turkey's

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<sup>17</sup> McCrum, Dan. "Investors look on the bright side in Turkey." *Financial Times*, September 27, 2017. <https://www.ft.com/content/7e293bfe-a36e-11e7-9e4f-7f5e6a7c98a2>.

<sup>18</sup> Courcoulas, Constantine. "World's Cheapest Currency Has Goldman and BlueBay on Its Side." *Bloomberg Markets*, August 25, 2017. <https://www.bloomberg.com/news/articles/2017-08-25/world-s-cheapest-currency-has-goldman-and-bluebay-on-its-side>

<sup>19</sup> "Nasdaq Technology Goes Live in Borsa Istanbul Derivatives Market (VIOP)." *Mondovisione*, March 14, 2017. <http://www.mondovisione.com/media-and-resources/news/nasdaq-technology-goes-live-in-borsa-istanbul-derivatives-market-viop/>

<sup>20</sup> Dursun, Bakir, and Ezgi Erkoyun. "Turkey loan guarantee fund a boon for banks' loan growth, earnings." *Reuters*, May 11, 2017. <http://www.reuters.com/article/turkey-banks/turkey-loan-guarantee-fund-a-boon-for-banks-loan-growth-earnings-idUSL8N1IC31B>.

<sup>21</sup> Ozsoy, Tugce and Ersoy, Ercan. "Turkey's High Profile IPO's aren't Living up to the Hype." *Bloomberg*, July 19, 2017. <https://www.bloomberg.com/news/articles/2017-07-19/star-listings-from-turkey-languish-in-post-ipo-trading-doldrums>.

largest conglomerates Koç Holding and Sabancı Holding). Long-term sustainability of financial markets, given the dependency upon approximately 200 billion dollars in external financing and non-performing loans held in foreign currencies, will depend upon recommitment to Turkey's structural reform agenda. Accelerating this reform agenda will contribute to lowering inflation, increasing employment and domestic savings while stabilizing the Turkish lira when interest rates in high-income countries—especially the United States—begin to increase.

### **U.S.-Turkey Manufacturing and Exports**

Market access challenges have contributed to the approximate 10 percent decline in the U.S.-Turkey trade volume<sup>22</sup> due to steep tariff increases and localization policies disadvantaging foreign companies. Turkey's current account deficit is commonly referred to as the "Achilles heel" of the economy, and a driving force to reduce imports and localize production. Expanding Turkey's participation in the U.S. Generalized System of Preferences<sup>23</sup> program will be good to discuss within the context of duty-free goods or tariff reductions for U.S. products into Turkey, so that both sides can benefit. Regulatory hurdles that U.S. medicine- and medical device companies face can be eased through systematic cooperation between the U.S. and Turkish food and drug administrations that will bring the latest life-saving innovations to Turkish patients and the country's growing medical tourism industry. Turkey's hospital infrastructure has dramatically improved over the last decade and the growth of universal healthcare in the country has the potential to bring future budget challenges that favor cost over quality.

The overarching themes of technology transfer and high-value added investments that are supported by tax and land incentives in Turkey can be addressed within the format of a Cabinet Minister-level commercial dialogue. Industry claims the best investment incentive is an enabling policy environment that protects intellectual property rights and consults the private sector on legislative changes affecting the business environment. Thus, technology transfer must be positively incentivized with business-

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<sup>22</sup> "Trade in Goods with Turkey." U.S. Census Bureau. <https://www.census.gov/foreign-trade/balance/c4890.html>.

<sup>23</sup> "Turkey and the U.S. Generalized System of Preferences (GSP) Program." USTR. <https://ustr.gov/sites/default/files/Turkey%20GSP%20handout%20March%202013%20final.pdf>.

friendly regulations, such as Turkey's new patent law, enhanced market access, and ongoing dialogue for predictability, transparency and rule of law. Continuous improvements in each of these areas within bilateral work streams will offer clear opportunities for U.S. and Turkish private sectors. Turkey will attract higher value-added investments from U.S. companies to boost productivity in traditionally strong, but often inefficient, industries such as manufacturing and agriculture. U.S. companies will benefit from an expanded, more reliable export market and export hub. Furthermore, U.S.-Turkey partnerships in education technology and curricula can help Turkey break out of the middle income trap.

The Trump administration is struggling with a systematic review of the existing bilateral dialogues it has inherited from previous administrations. A rebrand of the U.S. Commerce Department-led U.S.-Turkey Framework for Strategic and Commercial Cooperation (FSECC) and the U.S.-State Department's U.S.-Turkey Economic Partnership Commission can be rolled-up into a single dialogue that targets the overarching priorities for President Trump and President Erdoğan and their respective private sectors: "U.S.-Turkey Jobs and Exports Forum."

Where there is a will, there is a way. Both presidents agree to upgrade U.S.-Turkey business ties and enjoy positive personal chemistry, as President Trump declared during the 2017 United Nations General Assembly Meetings, "We have a great friendship as countries. I think we're, right now, as close as we have ever been. And a lot of that has to do with the personal relationship."<sup>24</sup> That personal relationship should be effectively leveraged to launch a U.S.-Turkey jobs and exports forum.

While the necessary and frequent political and defense dialogue continues, it is imperative to compartmentalize and insulate bilateral economic and business cooperation through such a high-level strategic commercial dialogue that will pave the way for new opportunities. Where previous mechanisms have fallen short, President Trump's administration can now lead the charge in engaging Turkey to grow bilateral trade volumes to reach historic heights of more than 25 billion dollars in coming years. As Turkey's government transitions to an executive presidential system and the state of emergency winds down, there is an opening to enhance regulatory and trade policies in a way that will support the growth of jobs and

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<sup>24</sup> "Remarks by President Trump and President Erdoğan of Turkey Before Bilateral Meeting." The White House, September 21, 2017. <https://www.whitehouse.gov/the-press-office/2017/09/21/remarks-president-trump-and-president-erdogan-turkey-bilateral-meeting>.

exports in both the United States and Turkey. Progress made in the commercial sphere will likely come with a diplomatic upside that helps both governments navigate the more challenging facets of the U.S.-Turkey relationship for years to come.