

US-Turkish Economic Relations on the Outset of the 21st Century

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Until very recently, the US-Turkish partnership had been characterized as a security dominated relationship. As witnessed over the past decade, the positive shift in both US and Turkish attitudes towards this long lasting relationship in the 1990s, have helped diversify economic relations and increased trade and investment volumes considerably. Now a candidate for full EU membership, Turkey should consider the intensified economic relations with the US not as a threat, but, rather, as an indispensable complement to its European vocation.

This article briefly reviews the history of the US-Turkish economic partnership, and focuses on the transformation that took place over the past decade. Following an assessment of the current situation, an attempt will be made to highlight the unexploited potential that may lead to significant economic and strategic gains for both countries.

1) Looking Back: Not Much Happened!

Turkish-US political relations intensified after World War II, and gained further momentum when Turkey joined NATO in 1952. The security dominated nature of US-Turkish relations between the end of World War II and the end of the cold war, coupled with the closed structure of the economies, restricted the intensity of the economic cooperation between the two allies. Although a few US companies had invested in Turkey in order to benefit from the growing domestic market, the volume of investments was extremely limited. In terms of foreign trade, the picture was not much brighter as bilateral trade was limited to products such as tobacco, textiles, ready-made clothes, and aircrafts.

The Turkish economy remained insulated and state directed for most of the period until 1980. The “import substitution policies” that were in effect in Turkey in the 1960s and 1970s generally played a major role in limiting foreign trade volumes, while protecting the burgeoning Turkish manufacturing industry.

2) The Past Decade: An Astonishing Progress

a) The developments

The 1990s witnessed significant changes in the attitudes of both countries towards each other. However, from the Turkish perspective, the origins of this policy shift dates back to the 1980s. Turkey made a significant economic policy change in 1980 by moving from a relatively closed, “import substitution model” to a liberal economic model, promoting an open economy and export oriented growth. As a result of this fundamental change, Turkey opened its doors for foreign investments, liberalized capital movements, and promoted exports with considerable incentives. The US was targeted to be one of the most important markets in terms of its market size and its potential to invest in Turkey.

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Within this framework, the “Treaty Concerning the Reciprocal Encouragement and Protection of Investments” was signed in 1985, and took effect in 1990. “The Turkish-US Business Council” was formed in 1985, immediately after PM Özal’s visit to the US.

The US, on the other hand, was undertaking a major policy shift towards emerging economies, which would be in a pivotal position in shaping the future of the global economy and trade. In 1994, Turkey was listed among the ten big emerging markets, which included China, India, Indonesia, South Korea, Poland, South Africa, Argentina, Brazil and Mexico. Consequentially, within the Department of Commerce, a new organizational set up, designed to devise the American trade policy to be more proactive in these promising markets, was developed for these countries. Accordingly, the US commercial mission in Turkey was mandated the following duties to encourage American firms’ participation in the Turkish market (TUSIAD, p. 4):

- Provide timely information to American firms about the market and prepare reports about specific export and investment opportunities,
- Encourage American firms to participate in private power plant and power distribution projects,
- Provide the highest possible American participation in Turkey’s privatization program,
- Defend American interests in the building of pipelines that will carry Caspian and Central Asian oil and natural gas to Turkey and beyond,
- Specify environmental projects with appropriate funding resources,
- Help the participation of Turkish public and private sector representatives in trade shows in the US and in Showcase Europe.

Two other initiatives taken by the US in the 1990s, were welcomed by Turkish policy makers: The first being the strong backing of the Baku-Ceyhan Oil Pipeline and the Trans Caspian Gas Pipeline; and the second being the support extended for the structural reforms and stabilization program Turkey was implementing. US support of the economic stabilization program has been crucial in securing the backing of the World Bank and IMF.

Several additional steps were taken in the 1990s. On the institutional front, the “Joint Economic Commission” and “Business Development Council” were established in 1993 and 1996, respectively. An agreement concerning cooperation in agriculture that had expired in 1990 was renewed in 1995. In 1996, an agreement was signed regarding the prevention of double taxation. Another agreement concerning the “Development of Trade and Investment Relations” was signed in 1999, during PM Ecevit’s visit to the USA.

The revival of the concrete actions aimed at developing economic relations between the US and Turkey was a clear indication of changing policies toward intensified economic relations between the two allies. The Turkish side had long defended the perspective that the security dominated bi-lateral relations had to be diversified and that the US had to relax some of its import duties on goods imported from Turkey. Turgut Özal, Prime Minister at the time, emphasized that Turkey favored increased trade over aid, by

asserting Turkey's stance of "trade, not aid!". However, the Gulf War and the subsequent UN sanctions against Iraq, also, were instrumental in changing the US Administrations' attitude towards Turkey. Turkey suffered severely from the sanctions against Iraq, ranked one of Turkey's top trading partners before the Gulf War. As such, part of the initiatives taken by the US was aimed at compensating the losses incurred by Turkey.

The results of this policy shift and the subsequent steps taken by both countries were reflected positively in the figures. As seen in Table 1, trade volume increased nearly 70 percent in 9 years. During that same period, while fluctuating considerably, the volume of foreign investment permits granted to US companies more than tripled compared to the previous decade. Tourism has been an area where satisfactory progress was recorded.

TABLE: 1
Foreign Trade, US Investments, and US Tourists Visiting Turkey

	US Investments in Turkey* (\$ million)	US Exports to Turkey (\$ million)	TR Exports to the US (\$ million)	US Tourists Visiting TR (1000)
1991	460.87	2,467.50	1,005.60	79
1992	197.55	2,734.80	1,109.90	182
1993	248.34	3,428.90	1,197.50	254
1994	158.32	2,752.40	1,574.90	271
1995	231.37	2,768.10	1,797.90	290
1996	179.44	2,846.60	1,778.20	326
1997	174.48	3,539.50	2,121.10	365
1998	297.20	3,505.50	2,542.70	439
1999	292.51	3,217.10	2,629.40	395

*Investment permissions. Actual investments are less than these figures suggest.

b) Major issues

Despite substantial progress recorded in many areas, a number of issues appear to be restricting further increases in bilateral trade volumes and US investments to Turkey. (TUSIAD, pp. 6-9)

i) **Protectionist Measures**

Textile Quotas: Based on value and with a share of 1.7%, Turkey is the 20th largest exporter of textiles and ready-made clothes to the US. Turkish exports of these goods to the US are regulated by both the MFA between Turkey and the US (1985), and by the WTO Textiles and Clothing Agreement (effective January 1, 1995). These limitations cover 80% of Turkey's exports of textiles and ready-made clothes to the US. Currently, the US imposes quotas on 21 textile and 21 ready-made clothing categories in its imports from Turkey.

Anti-Dumping and Compensatory Duties: In the US import regime, the most important protectionist measures are anti-dumping and compensatory duties which have been imposed following investigations opened on the grounds that imports are hurting domestic industries. Since 1985, Turkish commodities potentially exportable to the US have been put under investigation and, consequently, have lost their competitive position in the US market. Moreover, when there has been an increase in the exportation of some Turkish commodities to the US, they have been put under investigation on the grounds that they constitute a threat to the US domestic industries. After Turkey's decision to abolish cash incentives to exports in 1996 and the recognition of this decision by the US, the probability of investigations leading to compensatory duties has declined.

Presently, among Turkish exports to the US, AD duties are imposed on construction iron, iron-steel tubes and pipes, and pasta. Furthermore, iron-steel tubes and pipes, and pasta are also subject to compensatory duties. All these protectionist measures have adversely affected Turkey's exports to the US – for instance, the decrease in Turkish pasta exports to the US has been nearly 85%.

Section 201: Other impediments to Turkish exports to the US are protectionist measures implemented within the framework of "Section 201" of the US Trade Law. According to "Section 201", unlike anti-dumping and anti-subsidy investigations, in cases where imports are determined to harm or to constitute a threat to domestic industries, only "unfair trade practices" are taken into account. Imports from all countries are included in the evaluation.

On January 12, 1999, nine US-based steel companies and the American United Steel Workers Union opened an investigation against steel rod and wire imports. Demanding protectionist measures are implemented within the framework of "Section 201", these companies and the Union applied to the US International Trade Commission (ITC). The ITC finalized its report on July 12, 1999. Most recently, on February 11, 2000, the White House issued a statement declaring that protection is granted to this sector. The measure will take the form of a "tariff-rate quota" and will remain in effect for three years. A similar protection of 19% was granted for the carbon-based pipes.

FDA Practices: The Food and Drug Administration of the US Department of Health requires that all imported packaged food products carry nutrition facts. Some Turkish food products and producers are included in the FDA's "detention list" because of their failure in meeting this requirement. The imports of Turkish raisins treated with pesticides and lead are not permitted, either. As of December 1996, this practice has been expanded to include Turkish exports of all kinds of raisins (automatic detention).

Customs Duties and High Tariffs: The US has complained of the high customs duties Turkey imposes on alcoholic beverages and the high tariff protection by Turkey on many agricultural and food products. Among crops cited are wheat, corn, and sorghum. These duties are said to be higher than those agreed within the framework of WTO.

ii) Intellectual Property Rights

US sensitivity towards the protection of intellectual rights within the framework of “Section 301” of the US Trade Law creates a problem in Turkish-American economic relations. Because of insufficient practices in the protection of these rights, Turkey has been on the USTR’s “priority watch list” since 1989. Upon the initiation of an investigative process by the USTR in 1999, the International Intellectual Property Alliance, composed of 1350 US firms operating in movie, music, book, and computer software industries, made a set of recommendations regarding Turkey’s IPR practices. Stating that Turkey should remain in the “priority watch list”, the Alliance underlined the following deficiencies in Turkey’s IPR practices:

- Turkey’s copyright law should be brought up to the Bern and TRIPs standards.
- Turkey should provide a more effective enforcement of its copyright law.
- Turkey should make changes in its 1986 Movie, Video and Music Works Law.

iii) Government Procurement:

The US is also concerned with limitations and frustrations generated by the fact that Turkey is not a signatory of the WTO Government Procurement Agreement (USTR, p. 403).

3) The Future: Full of Potential

Looking at the table below, one might ask whether Turkey and the US are mutually benefiting from the advantages of their partnership? The reply to this question would be a simple, resounding, “no!”. Undoubtedly, there appears to be tremendous potential in further improving the achievements made thus far.

TABLE: 2
Share of Selected Countries in US Foreign Trade and Direct Investments (1999, percent)

	<u>TURKEY</u>	<u>MEXICO</u>	<u>S. KOREA</u>	<u>EGYPT</u>
US EXPORTS	0.34	9.09	2.40	0.31
US IMPORTS	0.22	8.98	2.55	0.05
US DIRECT INVESTMENTS	0.11	3.02	0.77	0.20

Despite astonishing progress recorded over the last ten years, Table: 2 clearly reveals the insignificance of the current level of trade and investments between the US and Turkey. This can also be interpreted as a major potential to be exploited. Let us take a closer look at these areas with potential.

a) US Direct Investments:

On the direct investment front, many opportunities await US investors in, particularly, the following sectors (Argüden, pp. 66-67):

- **Energy:** Turkey's growing energy demand requires a considerable amount of investments in this sector. It is expected that 340 power plants with a total capacity of nearly 90,000 MW will be installed in the coming 20 years. In addition to the local demand, the US Administration's strong support for the Baku-Ceyhan Oil Pipeline and the Trans Caspian Gas Pipeline through Turkey accentuate the importance of Turkey in this domain.
- **Telecommunications:** Turkey is continuing its liberalization efforts in telecommunications services. Despite some delays in the privatization of Turk Telecom, many investment and joint venture opportunities exist in this rapidly developing sector. Joint investments in the surrounding countries are also promising.
- **Agribusiness:** Turkey has been a rich country in terms of agricultural products. The GAP (Southeastern Anatolia Project), one of the mega projects in the world, will further increase the output levels while enhancing Turkey's competitive position in several crops. GAP, as a regional development project, offers considerable investment opportunities to US investors, whether it be in construction, machinery or agribusiness.
- **Infrastructure:** There are major infrastructure projects that are essential to supporting Turkey's economic transformation. Ports, rail and road projects, bridges and airport terminals are just a few of such projects.
- **Information technology:** US companies, which are the world leaders in computers, software, internet and e-commerce applications, can not only invest in Turkey but also utilize Turkey as a hub for their operations in the region. It is hoped that the Intellectual Property legislation, expected to finalize soon, would yield more opportunities in this field.
- **Tourism:** Continuing growth in the tourism sector makes Turkey an attractive destination for European and Russian tourists. Moreover, the increasing number of Americans traveling to Turkey clearly opens the doors for more US direct investments in this sector.

b) Trade:

Another area exhibiting high potential is foreign trade. Despite a significant increase in foreign trade volumes, the diversity of Turkish export products is still limited to a few product groups such as textile, tobacco, iron and steel, and some agricultural crops such as apricot, raisin, olive oil and tomato paste. This has largely been due to Turkey's inability to produce and market diverse export goods that are competitive in the US market. Turkish jewelry exports have increased from 0 to nearly 250 million dollars in less than 10 years. Similar success stories are likely in many other product groups provided that proper investment is made in market research, promotion and marketing efforts. Among the industries with a competitive edge one can cite glassware, tiles, ceramics, leather goods, food products and automotive parts. (Şahinalp, p.37)

c) Tourism:

Tourism has become the single most promising sector over the past decade. As seen in Table: 1, the number of Americans visiting Turkey has increased five fold over the last 9 years. It is expected that a new record will be set in 2000 with 550,000 American tourists visiting Turkey. The introduction of direct flights between three major US cities and Istanbul by Turkish Airlines, and continuous promotional activities, have played a key role in tourism. Tourism is not only a source of income for Turkey but also an effective vehicle of bringing the two people closer. Through increased number of Americans visiting Turkey each year, Turkey has gained a new tool of promoting Turkey among Americans. Therefore, the number of destinations and frequency of direct flights need to be increased while promotional activities are intensified.

d) Banking and Securities Markets:

US institutional investors have long been the major players in the emerging Turkish stock market. A number of American commercial banks, some of them having operations in Turkey, have engaged in several financing deals with Turkish companies and banks. On the other hand, several US investment banks have been active in debt financing for the government and equity financing for the private sector. Countless mutually profitable projects exist in the areas of private equity, venture capital and mortgage financing.

4) Epilogue:

A concerted effort is needed to further augment both the volume and diversity of the economic relations between the two nations. Despite a number of areas requiring further work, both governments have already accomplished some significant steps, and a favorable trade and investment environment was created. However, many Turkish officials and businessmen believe that there is room for improvement. The US has not assisted Turkey in her quest to recover from losses incurred by the Iraqi sanctions. Nor have there been concrete steps taken by the US Administration concerning the “Free Trade Agreement”, proposed by Senator Moynihan in 1999, and the “Qualified Industrial Zones” that have been discussed for some time. It appears that more convincing and tangible steps are expected from the US Administration in order to proceed successfully.

The Turkish Government, on the other hand, has not yet finalized required legislation concerning the arbitration issue. Hence the delay of a substantial volume of much needed US investments in the Turkish energy sector. Moreover, the structural reforms that were incorporated in the stabilization program have not been addressed thus far, creating a major obstacle in the success of the program, and consequentially, hindering the increase of foreign direct investments.

The US, for the first time ever, brought together three key institutions – the TDA (Trade Development Agency), OPIC (Overseas Private Investment Corporation) and the US Ex-

Im Bank – under the name of “Caspian Finance Center”, in Ankara. The underlying objective of this initiative was to encourage American companies to increase trade to, and investments in, Turkey through programs developed and coordinated by these organizations. In addition, the activities of the Commercial Service have been upgraded following the declaration of Turkey among the first ten Big Emerging Markets. The Commercial Service assists US businesses in establishing contacts and obtaining information and guidance concerning specific industries and projects. It is imperative that more emphasis be put on the role of the Turkish business community in reaching third markets in the Balkans, Caucasus, Central Asia and the Middle East, as well as the quality of the human capital that exist in Turkey.

Turkey, should also concentrate its efforts to develop a strategic approach to its commercial and economic relations with the US. It is suggested that, in order to promote Turkey as an investment destination and as a trade partner, a new organization, serving potential investors, exporters and importers needs to be set up in the US, as well as in other important centers. This organization, which can be named as the “**Turkish Investment and Trade Center**”, should bring together private and public sectors and be independent from the Government. Furthermore, this specialized body should be equipped with all the necessary resources in order to focus on promotional activities as well as guiding the Turkish and the US businesses in the respective markets.

The “**Turkish Investment and Trade Center**” should give priority to promoting US investments in Turkey, as direct investments are crucial in increasing trade volumes between the two countries. Thus, promotional activities should be complemented with incentives in selected industries and regions. Education of the Turkish business community about the opportunities, the regulations and business culture of the US is another important item. The US market should be regarded as one of the most stable and permanent markets for the Turkish products. Therefore, required contacts and investments have to be made with a long-term perspective. While focusing more on products with a high value added, Turkish companies should be informed of, and encouraged to participate in, business fairs and shows in the US.

Another important task lies in the field of encouraging and supporting business people of both countries to realize the opportunities offered by the respective economies. Most of the future works focusing on specific sectors and concrete projects remain to be carried out by the business people of the two countries. Both parties have to exploit all possible venues to bring the business people of the two nations together.

Despite the recent bitterness in Turkish-US relations caused by H. Res. 596, the “Affirmation of the United States Record on the Armenian Genocide”, and the continuing disappointment generated by the sanctions against Iraq, the two nations have been enjoying the best period of their relationship in their entire history. The efforts made by the respective Turkish Governments and the US Administrations over the past decade have provided an unprecedented climate for increased trade and direct investments.

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