

The Post-COVID-19 Economic Recovery: U.S.-Turkey Commercial Ties that Bind

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ABSTRACT *This paper examines the commercial opportunities that will endure in key sectors for the United States and Turkey in the midst of the coronavirus pandemic and its aftermath. These sectors include financial services and capital markets; supply chains and logistics; healthcare; digital economy; defense and aerospace; energy; travel and tourism; and women in business. While defense and security ties have traditionally led the U.S.-Turkey relationship, this piece argues that the pandemic offers the two countries mutual benefits from more robust economic and commercial cooperation in less prominent sectors such as healthcare, the digital economy, and finance.*

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The United States of America (U.S.) and the Republic of Turkey have enjoyed a strategic relationship as allies of the North Atlantic Treaty Organization (NATO) for approximately 70 years and share a history of bilateral cooperation dating back to the Ottoman Empire. The overall relationship has ebbed and flowed in recent years due to political, diplomatic, and military disagreements. Despite some discord, U.S.-Turkey commercial relations have held steady and even increased to back-to-back historic levels in 2018 and 2019, reaching a bilateral trade volume of \$25 billion in goods¹ and services.² It is within this context that in 2019, U.S. President Donald J. Trump and Turkish President Recep Tayyip Erdoğan reinvested in the promise that enhanced economic and commercial integration holds for the United States and Turkey, setting an ambitious bilateral trade goal of \$100 billion.

For Turkey, 2019 proved to be a re-balancing year with the country posting 0.9 percent growth³ after its first recession in more than 10 years. Turkey continues to be the world's largest host nation for refugees –with nearly 4 million people living in Turkey, the vast majority from Syria. Turkey estimates the country has spent more than \$40 billion since 2011 on refugee-related outlays. The COVID-19 pandemic has occurred against the backdrop of this fragile economic recovery. The International Monetary Fund (IMF) report on the Great Lockdown of 2020 and economic projections revises Turkey's annual

growth to negative 5 percent, followed by 5 percent positive growth in 2021.⁴ In order to overcome this period as quickly as possible, closer cooperation between the United States and Turkey can support the economic recovery in both countries and help to realize the full potential of this strategic pillar of the relationship.

What are the prospects for U.S.-Turkey commercial relations in the aftermath of this global event? This paper examines the U.S.-Turkey commercial ties that will bind both nations to greater cooperation in key sectors of the economy.

Financial Services and Capital Markets

Much like the United States, consumer spending has fueled Turkey's economic growth, making up the majority of both countries' GDP. Rising purchasing power combined with access to affordable credit options through loans and deferred payment plans have helped extend the backbone of this growth. These priorities continue in the COVID-19 period with Treasury-backed loans for hard-hit companies and consumer loans with deferred payment terms offered by state-owned banks. Many Turkish companies have taken out loans in foreign currency (dollar- or euro-dominated loans) for large projects in the construction and energy sectors, which have contributed to Turkey's development and improved the country's infrastructure. These

dollar- and euro-denominated loans account for more than 95 percent of long-term loans,⁵ which are now more difficult to repay because of widening spreads between the Turkish lira and dollar/euro. As of March 2020, there was approximately \$185 billion in outstanding private sector debt in Turkey, approximately \$178 billion in long-term debt and approximately \$8 billion in short-term debt.⁶ According to data from the Central Bank of Turkey, Turkish banks have \$79 billion in short-term foreign currency debt due by February 2021. Turkey's overall external debt stands at \$450 billion. The country's 12-month foreign debt obligations have been reported at \$168 billion, with approximately half that amount due by August.⁷

For at least three years, economists have warned of a looming balance of payments crisis in Turkey. Thanks to swift government interventions, this crisis has been averted, or at least delayed. However, recent measures taken in Q2 of 2020 to temporarily cut off three large foreign banks to lira-dominated transactions, and indirect measures for capital controls could emerge as long-term deterrents of investment into Turkey's capital markets and financial services. As Council of Foreign Relations Economist Brad Setser stated, "the magic that makes Turkey's financial system work has long been the foreign currency swap market."⁸ Liquidity concerns are mounting following strict regulatory limits placed on Turkish banks' ability to conduct transactions in foreign exchange swaps and interventions by the Central Bank of Tur-

Enhanced access for Turkish businesspeople and truck drivers into the EU will further help the flow of goods, transit and collaboration with Turkey's largest market -an added benefit for U.S. companies repositioning their European presence for a post-Brexit and post-COVID-19 world

key to defend the value of the Turkish lira.⁹ These measures came after Turkey's Treasury sold more than \$2 billion in debt, taking advantage of a recent drop in yields, and an increase in the foreign exchange-lira swap market transaction limits.¹⁰

However, mixed messages and a retreat from traditional capital markets standards could elongate the economic recovery period in Turkey and make future bond-issuances to tap global investors in a more risk-adverse world more challenging. A 'back-to-basics' approach to Turkey's monetary policy and financial buffers will attract new investment flows. Emerging markets like Turkey are facing challenges with dwindling foreign currency reserves and an urgency to stop the depreciating value of their domestic currency. Turkey leads the pack in vulnerability in this group, with Central Banknet foreign currency reserves at \$26 billion in May, down from \$40 billion at the

Broader cooperation between Turkey and the United States to coordinate coronavirus research and development, treatments, vaccines, ventilator production (including parts, operation, and inputs) and PPE supply chains can help the global response

start of the year. Bankers contend that state-owned banks sold approximately \$30 billion in foreign exchange currency markets to defend the Turkish lira, which has fallen approximately 15 percent, lowering the value of the funds exchanged. The ability to access finance can be improved with long-deferred structural macroeconomic reforms that will help Turkey meet its goals by restoring confidence and credibility to Turkey's monetary and fiscal policy. Such reforms could be taken within the context of coordination with U.S. economic institutions as a means to open a new swap line with Turkey's Central Bank, or an alternative financing facility of the U.S. Treasury. U.S. Ambassador to Turkey David Satterfield has recently said, "There are certain requirements set by the open markets committee of the Fed [U.S. Federal Reserve] with respect to potential eligibility Turkey has since intensified swap talks with other allies such as China, Japan and the United Kingdom, and secured

a \$15 billion swap line with Qatar. Analysts estimate Turkey will need to secure tens of billions of dollars' worth of funding to avert a currency crisis.¹¹ Coordinated actions with the G20, IMF and access to swap lines with partnering nations can help increase access to capital flows while encouraging foreign investment in the COVID-19 economic recovery period and beyond.

Expanding Role of Turkey Wealth Fund and Prospects for U.S.-Turkey Cooperation

Minister of Treasury and Finance Berat Albayrak recently briefed investors of a plan to raise state banks' core capital, estimated at almost \$3 billion that would follow the \$15.4 billion COVID-19 stimulus package announced in March.¹² When deferred debt payment and corporate tax cuts across various sectors are included, the total relief package is worth \$28.5 billion. This additional capital came from the Turkey Wealth Fund, which was established in 2016 as a strategic investment arm of the public sector to boost overall economic growth. The fund manages the Turkish government's ownership stakes in leading companies and institutions such as Turkish Airlines, Turk Telekom, and Borsa İstanbul. While not a traditional sovereign wealth fund that invests in and manages a country's financial reserves from natural resource extraction, the Turkey Wealth Fund is poised to take on a greater role in the country's economic recovery, one that the IMF has broadly supported.

Turkey's Wealth Fund can look to international markets for higher-return investments that can help fund local projects in Turkey, as many of the world's largest sovereign wealth funds do. The U.S. stock market and real estate market are two prime investment targets in the portfolio of the world's leading sovereign wealth funds. Collaboration with both Turkish and U.S. financial advisory firms can be beneficial to structure these investments and explore new bilateral investment vehicles targeted at the key sectors with high export potential such as: defense and aerospace, medical supplies and pharmaceuticals, supply chains and logistics, digital economy, energy, women's entrepreneurship, and travel and tourism. For example, Turkey, via its Wealth Fund, can make strategic investments in the United States that boost Turkey's growing exports and market share. These partnerships could include assisting The Scientific and Technological Research Council of Turkey (TÜBİTAK) to commercialize Research and Development (R&D) developed from their incubators and innovation centers, which include a presence in Boston, Chicago, and the San Francisco area. Overall, Turkey's financial services industry will be very active during the COVID-19 economic recovery period with mergers and acquisitions that will likely lead to the consolidation of many Turkish industries and an opportunity for new foreign direct investments.

The following is a snapshot of how U.S.-Turkey collaboration in these strategic areas can accelerate both

countries' economic recovery post-COVID-19.

Trade

It is noteworthy for Turkey's exports that its largest international customers are in the European Union, which has been amongst the hardest hit by the COVID-19 pandemic. How quickly Turkey's largest trading partner recovers from this health crisis both socially and economically will impact the rebound of Turkey's export market and travel industry. Expanding trade with the United States during this period can offer Turkey alternatives, so long as tariffs and regulatory barriers do not impede this cooperation. Following the record-high trade year of 2019, the first quarter of 2020 continued this growth with bilateral trade seeing a 20 percent increase from the same period in 2019.¹³ Aircraft/spacecraft parts and liquefied natural gas (LNG) were the largest export categories driving this growth from the United States, while Turkey's largest exports were nuclear reactors/boilers parts and vehicles.

A persistent current account deficit has often led economists to describe the trade deficit as the Achilles heel of Turkey's economy. With the global economy under considerable strain, many of the key engines of Turkey's growth will be negatively impacted. Most notably, tepid demands for manufacturing exports, travel and tourism have contributed to a monthly current account deficit of approximately \$5 billion, as of May



United States Secretary of Commerce Wilbur Ross addresses business leaders during a working lunch in Ankara, September 11, 2019.

FATİH KURT / AA Photo



Turkish Treasury and Finance Minister Berat Albayrak gives a speech at the 10th Turkey Investment Conference, held by the Turkey-U.S. Business Council in New York on September 25, 2019.

ERÇİN TOP / AA Photo

2020.¹⁴ Historic lows in global energy prices help the equation but more of a financial buffer is needed. Turkey has moved to drastically reduce its import volumes during this period, raising tariffs temporarily through October 2020, with the option to extend these tariff increases. However, raising tariffs can harm Turkey's exports, since many products rely upon imported goods within their value chain. Likewise, U.S. tariffs on Turkish steel have hurt two-way trade and should be removed together with Turkey's rising tariffs on U.S. goods and a reconsideration of Turkey's participation in the Generalized System of Preferences (GSP) program, which extends duty free access to the U.S. market for certain Turkish goods.

While a U.S.-Turkey Free Trade Agreement is a stated long-term goal for both countries, the long-delayed modernization or upgrading of the Turkey-EU Customs Union will be an important stepping stone, including free trade and regulatory alignment on agriculture, services and public procurements. The Turkey-EU Customs Union firmly roots Turkey's commercial and economic anchor in the European continent. Foreign Minister of Turkey Mevlut Cavusoglu stated that the post-COVID-19 world will require more economic interaction between Turkey and Europe, including progress to be made on visa liberalization for Turkish citizens and entrepreneurs and the modernization of the EU-Turkey Customs Union.¹⁵

Turkey views visa liberalization with the European Union within the context of inclusion in the Schengen Area for Turkish citizens. Although uncertainty remains around the future of the Schengen Area reopening and timing, the European Commissioner stated in mid-May that they would like European countries to reopen their borders once the pandemic is under control. The European Commission will be issuing guidelines for member states to begin gradually reopening national borders. European Home Affairs Commissioner-designate Ylva Johansson has stated interest in seeing the Schengen Area expanded to include EU members Bulgaria, Romania, and Croatia.¹⁶ There are two important takeaways for Turkey building on these comments. First, the European Commission supports expanding the Schengen Area to include newer members of the EU. Second, this expansion envisions the Schengen Area reaching Turkey's border vis-à-vis Bulgaria. Enhanced access for Turkish businesspeople and truck drivers into the EU will further help the flow of goods, transit and collaboration with Turkey's largest market -an added benefit for U.S. companies repositioning their European presence for a post-Brexit and post-COVID-19 world.

Supply Chains and Logistics

U.S. companies have traditionally invested in Turkey as a manufacturing base for Europe and the Middle East. This trading model remains strong given the competitiveness of Turkey's

Turkey's laws governing data privacy are a hybrid of GDPR plus additional measures aimed at maintaining data of Turkish citizens within Turkey

industrial base, strategic location, Customs Union with the EU and free trade agreements between Turkey and countries in the region. However, new opportunities for U.S.-Turkey supply chain and logistics cooperation are emerging. U.S. Secretary of Commerce Wilbur Ross has been one of the leading proponents in identifying Turkey as an alternative to China to supply U.S. companies. Turkey can be thought of as a boutique sourcing market for U.S. companies. While manufacturing capacity is more limited than China, Turkey's industrial base produces higher-quality products and is relatively cost-competitive.

Akin to the boutique business model, personal and corporate relationships for Turkish companies are very important. U.S. companies that invest time in their business relationships with Turkish partners are known to have more success than companies following a more transactional model. COVID-19 puts stress on business relationships because of difficulties traveling that helps to bridge the cultural gaps between U.S. and Turkish companies. Engaging

through virtual platforms during this period with business associations will be critical during this period to stay connected and for companies to explore new business partners.

Governments must fight the urge to force localization of supply chains; as such protectionist measures would be an anathema to a solid economic recovery. Rather, leveraging economies of scale and alternative suppliers in countries like Turkey can help achieve necessary resilience with more efficient value chains that will ensure global security of supply. Optimizing shipping costs and trade routes between the United States and Turkey is needed to fully take advantage of these opportunities. Global and local logistics companies operate out of Turkey and with direct routes to U.S. cities via air and sea transport. Air transport is more costly, but increasingly being utilized during the COVID-19 pandemic via an air bridge for critical medical supplies and personal protection equipment (PPE).

Medical Supplies, Medical Devices, and Pharmaceuticals

While Turkey has emerged as a significant distributor of PPE during the COVID-19 pandemic, the country still falls short of the top ten exporters for medical products. As companies around the world reroute supply chains to create redundancies for uninterrupted trade flows, Turkey can stand to attract to new manufacturing orders, particularly in the medical products and PPE segments. During

the height of the COVID-19 pandemic, export restrictions on PPE left international suppliers scrambling to meet rising demands. Turkey had set export restrictions on such items such as face masks, ICU machines, disinfectants, and other critical care devices but within a month reversed the decision, which could offer sourcing opportunities for hard hit countries such as the United States.

No doubt that Turkey's shipments of PPE and medical supplies to the United States served as an important reminder of the growing role Turkey can play in helping to keep the world safe from COVID-19. U.S. federal government contractors and individual states are increasingly becoming aware of Turkey's capacity to supply these critical items, with a pipeline of more than \$50 million of orders placed for one item, non-surgical isolation gowns. Increased marketing and public relations efforts in this regard can further boost U.S.-Turkey trade in medical supplies. U.S. companies may choose to invest in additional manufacturing capacity of Turkish companies to further fuel exports of these high-demand goods around the world. U.S. and Turkish manufacturing companies have been collaborating on ventilator production, an area that can also see expansion to medical imaging devices and medical instruments. Sanitizers and chemicals are another area identified for growth in Turkey, even before COVID-19, with surface active agents and specialty medical chemicals for foundry binders leading the way in export potential.¹⁷

On the pharmaceutical side, Turkey has a strong track record of clinical trials and an excellent network of hospitals (private, public, and university) to contribute to cutting edge research in coronavirus treatments as well as treatments for comorbidity factors (such as diabetes, respiratory disease and hypertension). As of May 2020, Turkey has ranked amongst the highest COVID-19 caseload in the world but has one of the lowest death rates. A combination of early treatments of hydroxychloroquine and intubation is referenced as one of the successful formulas for severe cases. Turkey's youthful population, especially relative to EU countries, also contributes to a higher rate of recovery. The Health Institutes of Turkey (TUSEB) can partner with the U.S. National Institutes of Health (NIH) on COVID-19 treatments and more.

Broader cooperation between Turkey and the United States to coordinate coronavirus research and development, treatments, vaccines, ventilator production (including parts, operation, and inputs) and PPE supply chains can help the global response. Post-pandemic, this cooperation can pave the way for broader health-care partnerships. In recent years, Turkey's Drug and Medical Devices Agency (TİTCK), of the Ministry of Health, has gained international recognition for its high-standards of regulatory reforms for evaluating the Good Manufacturing Practice (GMP) of medicinal products for human or animal health. The Pharmaceutical Inspection Cooperation

U.S. and NATO military are upgrading defense technologies, and innovation in Turkey can help the country to play a role

Scheme (PIC/S) admitted Turkey via TİTCK as a member in September 2017, effective January 2018.¹⁸ The PIC/S membership enables Turkey to collaborate with other regulatory agencies, such as the U.S. Federal Drug Administration (FDA) to harmonize GMP reviews of the safety and efficacy of pharmaceutical products, which can bring these life-savings medicines to patients more quickly.

U.S. and Turkish innovation in the private sector are already joining forces to contribute in meaningful ways to COVID-19 solutions. U.S. pharmaceutical company Pfizer and German-based BioNTech (founded by Turkish born CEO Uğur Şahin)¹⁹ have teamed up on the first COVID-19 vaccine for human trials working toward the global goal of immunization. Turkish companies have been experimenting with ultraviolet light scanners to kill the COVID-19 virus on surfaces and in the air, indicating initial success. In fact, a rich history exists in Turkey (then the Ottoman Empire) of global contributions to controlling the spread of smallpox in the 1700s through the technique of variolation that can give us all hope today.²⁰

Digital Economy

Digital services have continued to thrive during the COVID-19 pandemic, providing a lifeline to keep people connected, and governments, businesses, and schools operational while taking necessary social distancing measures. The pandemic has accelerated a large-scale digitization of Turkey's industries and institutions. Turkey's government broadly supports these efforts and, "is working to facilitate access to digital technologies and to expand the smart industry, supporting the companies with incentives and grants in their digital transformation," Minister of Industry and Technology Mustafa Varank recently stated.²¹ Turkey's information and communications technology (ICT) industry has grown on average 17 percent over the last five years, with estimates placing the size of the sector in 2019 at \$25 billion.²²

Opportunities abound for Turkey's increased global share of the digital economy – especially in e-commerce. The United Nations Conference on Trade and Development announced in April 2020 that global e-commerce has reached a sales volume of nearly \$25.6 trillion in 2018, up 8 percent from 2017, and sure to be rising further given the shifts to online commerce.²³ The United States, China, and the United Kingdom lead the pack in e-commerce sales. Turkey by comparison recorded approximately \$12 billion in e-commerce sales in 2018. Turkey's advantages in supply chain and manufacturing can help the country catapult in future e-com-

merce rankings. Large U.S. e-commerce platforms and retailers such as Amazon, Walmart, and Target can help unlock this potential. Another area of opportunity ripe for collaboration with U.S. tech companies is Turkey's software development industry, which continues to improve. Increased innovation and R&D can help develop new solutions with unique opportunities to test them at scale with prolonged opportunities for digital transformation during and following the coronavirus pandemic.

One barrier to such collaboration will be the digital services tax, which has emerged as a growing point of disagreement within the U.S.-Turkey commercial relationship. While announcements to defer, suspend, or lower some corporate taxes to provide relief for businesses in Turkey, the ICT sector was not among the sectors shown this type of relief, despite having to ramp up servicing to customers network investments. For companies meeting the taxation criteria of Turkey's 7.5 percent digital services tax, it has proceeded on schedule, effective since March 2020. Taxing the digital economy at a time of widespread digital transformation in Turkey and around the world may change the way some of the largest investors in this sector do business in the country. Most nations and companies accept that taxing digital services is necessary to avoid tax base erosion and corporate profit shifting. As such, the international community overwhelmingly supports the Organization for Economic Co-operation and Development's (OECD)

coordinated multilateral approach to digital taxation, which was aiming for a negotiated solution by the end of 2020. Due to the COVID-19 pandemic, the OECD has announced this timeline will likely extend into 2021, which increases the likelihood of increased proliferation of unilateral digital services taxes, such as seen in Turkey and in France.

In 2019 and 2020, the United States has taken aim at countries such as France that have deviated from the OECD approach with a digital services tax set at 3 percent of companies' digital services revenues. A tit-for-tat trade war has followed, with the U.S. Office of the Trade Representative opening a Section 301 Report on France²⁴ and announcing 100 percent tariffs on \$2.4 billion of uniquely French exports such as champagne, luxury designer goods, and French cheeses.²⁵ U.S. Trade Representative Robert Lighthizer has voiced concern about other European countries proceeding with digital services taxation outside of the OECD process. In this vein, Lighthizer has stated, "USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy, and Turkey."²⁶ Such a case would create frictions in the U.S.-Turkey trade relationship at a time when all efforts should be focused on cooperative approaches.

While seen in some cases as a way to generate government tax revenues during the economic challenges of COVID-19, experts contend that the current digital services tax de-

If COVID-19 prompts airlines to reconfigure the interiors of airplane cabins for added safety and social distancing, joint ventures between U.S. and Turkish companies producing new airline seats and aviation parts will be a competitive addition to the market

signs are unlikely to fill a significant revenue gap, with taxes like France's expected to generate approximately \$550 million in 2020.²⁷ Countries implementing unilateral digital services taxes should expect a tradeoff for more strategic direct investments that provide jobs, value-added goods and services, contributions to the technology ecosystem, and exports in some cases. For many companies, the taxation revenue would have been used to reinvest or expand business in the given country.

Data privacy and data localization remain areas of heightened regulatory uncertainty in Turkey. The General Data Protection Regulation (GDPR) went into effect in 2018 across the European Union. Turkey's data protection authority (KVKK, in Turkish) was also formed the same year, as sweeping changes to data privacy policies took place throughout the world. Turkey's laws governing data privacy are a hybrid of GDPR

Turkey's vast investments in solar and wind over the last decade provide more energy sustainability for supply, but new projects may become delayed due to market conditions

plus additional measures aimed at maintaining data of Turkish citizens within Turkey. The main component of this law came into force January 1, 2020, after which all companies processing personal data of Turkish citizens were required to register with KVKK's Data Controller Registry and upload all relevant data. Despite robust dialogue between the public and private sector on all aspects of this law, clear answers were not always available from authorities and fines were leveled against some U.S. companies. Access to data for law enforcement purposes -a chief Turkish concern- can be provided via government-to-government channels, and an agreement between U.S. and Turkish authorities should be reached here to allow the private sector to continue to investment and innovate.

In summary, the digital economy represents an all too important sector for U.S.-Turkey commercial collaboration. Policymakers and businesses alike would be wise to reach an agreement on differences stemming from taxation and data privacy before damaging investment flows and

the vibrant innovation ecosystem in Turkey.

Defense and Aerospace

U.S.-Turkey defense cooperation, both bilaterally and through the NATO alliance, has been a foundational aspect of the relationship. The bonds solidified through U.S. and Turkish soldiers serving side-by-side in NATO since 1952 working toward a common mission cannot be underestimated. This shared mission includes joint combat in the Korean War and Afghanistan War. Turkey is home to three main military assets used by both NATO and U.S. forces: İncirlik Air Base, İzmir Air Base and Kürecik Radar Station. Turkey's advanced military, the second largest in NATO, and strategic location, has long made the country a valued U.S. and NATO partner in global and regional combat and peace-building efforts. The U.S.-Turkey defense alliance paved the way for greater cooperation in industrial production of defense and aerospace inputs and exports. Decades of industrial partnership and joint production have included parts, design, maintenance and advanced engineering. Turkey's defense offset program has contributed to more U.S. investment in the country and been cited as a successful model for other countries, such as India.

In recent years, tensions around Turkey's defense procurements have escalated to arguably the most seminal issue in the U.S.-Turkey relationship. In response to Turkey's purchase and



Turkish Foreign Minister Mevlüt Çavuşoğlu meets with James Jones, Chairman of the American-Turkish Council, a business association aimed at enhancing U.S.-Turkish commercial, defence, technology and cultural relations, in Ankara on May 10, 2016.

ADEM ALTAN / AFP via Getty Images

delivery of the Russian S-400 air defense system, which is not interoperable with NATO and could collect intelligence on high-technology platforms such as the F-35, the U.S. Administration under President Trump has suspended Turkey from the F-35 program and has been reviewing this purchase within the context of the Countering America's Adversaries Through Sanctions Act (CAATSA). Application of CAATSA sanctions is President Trump's decision, a decision that has been deferred despite mounting pressure from the U.S. Congress. The coronavirus has delayed activation of the S-400 systems in Turkey, which was originally scheduled for April 2020. A long-term solution would be for the United States and Turkey to reach an agreement on terms to a Patriot air and missile defense system, which has been the subject of bilateral talks since 2009.

Technology transfer, joint/co-production and price have been the sticking points of the negotiations, though there is no guarantee that Russia's \$2.5 billion S-400 will include the two latter demands.

The F-35 program was designed to be the pinnacle of U.S.-Turkey defense cooperation, leading both nations and NATO allies into the future. Turkey has played a key role in the development and production of the Joint Strike Fighter F-35 stealth jet program. Since 1999, Turkey has been part of an elite group of nine countries partnering to produce and develop the F-35. Turkey has contributed \$1.4 billion toward the program and has participated as both an industrial production partner and a future end-user. Turkey's military has put an order in for 100 Fifth Generation F-35 jets to modernize Turkey's

current fleet of F-16s. Ten Turkish companies have been building more than 1,000 parts of the F-35, many of these parts being sole-sourced. Turkey's low-cost, high-quality manufacturing industry positioned the country well for significant F-35 workshare. Turkey was also selected for the highly competitive engine maintenance depot until its suspension from the program in 2019. The U.S. Government Accountability Office (GAO) released a report on the F-35 program in May 2020 stating that currently 15 'key parts' are not yet being produced as required by F-35 project deadlines. The report notes that while the majority of F-35 parts produced by Turkish suppliers have been successfully sourced with alternative manufacturers, there are approximately 10 percent of manufacturers that "will not be producing at the rate required until next year."²⁸ The GAO report went on to conclude that allowing Turkish manufacturers to continue to produce parts through 2020 will help the F-35 project meet demands in the interim.

Extricating Turkey from the F-35 supply chain has proven to be extremely expensive for both nations, estimated to cost the U.S. Department of Defense between \$500-600 million and Turkey approximately \$9 billion.²⁹ The intangible costs of a prolonged rift in U.S.-Turkey relations and much needed upgrades to Turkey's air force will be even greater. Turkey's indigenous fifth-generation fighter jet is several years away from production, of which developing a suitable engine is key. Thus, both

countries seem to have overplayed their hand with the underlying interdependence of U.S.-Turkey defense capabilities and capacities emerging as the most compelling force in pushing both sides toward a mutual accommodation in the near future.

Meanwhile, the reliability of U.S. defense products and platforms as long-term suppliers is being challenged not by companies, but by restrictive export policies of the U.S. government. The U.S. International Traffic in Arms Regulations (ITAR) restrict certain trade and technology transfers, while other countries offering alternatives do not have stringent laws in place limiting their defense exports. In the longer term, if Turkey is unable to access desired technology and defense platforms from the United States, the country's producers will turn to other nations. Similarly export licensing challenges persist for defense articles valued at more than \$200 million because of Congressional notification requirements. These sales include third country defense exports, often cited as a goal of U.S. - Turkey commercial collaboration by both governments. Until relations between Turkey and the U.S. Congress improve, which will require adequate resolutions on the defense procurements for both sides, these tensions will persist, hamstringing the full potential of U.S.-Turkey defense industry cooperation.

Regardless, U.S. and NATO military are upgrading defense technologies, and innovation in Turkey can help the country to play a role. There re-

mains significant investor appetite and government collaboration on cutting edge defense technologies such as robotics, artificial intelligence and hypersonics. If Turkey's defense industry develops new technologies in these high-demand fields, Turkey's share of defense exports to the United States can increase and new partnership opportunities will emerge. Other related areas ripe for exploration fall within the aerospace fields, with the establishment of Turkey's new space agency and civil aviation. While the future of civil aviation remains uncertain in the near and medium term as a result of COVID-19, the sector has been frequently identified as one laden with mutual opportunities for U.S. and Turkish businesses. For example, if COVID-19 prompts airlines to reconfigure the interiors of airplane cabins for added safety and social distancing, joint ventures between U.S. and Turkish companies producing new airline seats and aviation parts will be a competitive addition to the market.

Energy

As a large energy importer, Turkey stands to benefit from the collapse in oil and gas prices to help balance its current account. Yet, Turkey's advantageous location as a major transit hub for the global energy trade via critical chokepoints in the Bosphorus and Dardanelle Straits brings the country direct and indirect revenues -including investments in energy infrastructure and petrochemicals. Turkey has received one of its larg-

The quality of Turkey's female labor force is high, with many women serving as CEOs of leading U.S. companies in Turkey

est foreign direct investments of \$6.3 billion from the State Oil Company of Azerbaijan (SOCAR) in the Star Refinery in İzmir province. Behind this investment and the Southern Gas Corridor is the work of several U.S. companies and strategic interests of governments, including the United States and Turkey. Meanwhile, other refineries in Turkey are cutting output due to the global demand shock. Tüpraş's İzmir refinery with a capacity of 220,000 barrels per day announced it was halting output from May 5 until July 1. Tüpraş also announced it would be cutting refinery runs in İzmit and Kırıkkale by 20 percent and 50 percent, respectively.³⁰

Prior to COVID-19 and the fall of energy markets, U.S. natural gas exports to Turkey were identified as one of the fastest growing opportunities to contribute to the \$100 billion bilateral trade goal. Turkey's Deputy Minister of Energy Alparslan Bayraktar recently stated that Turkey expects to source 1/3 of its gas needs from LNG, with U.S. LNG accounting for 40 percent in the first four months of 2020.³¹ Prior to the pandemic, the U.S. LNG industry was advised to switch to contract trading, to grow its exports to Turkey, versus spot trades,

U.S. and Turkish private sectors see their futures converging on new opportunities to fuel a post-COVID-19 economic recovery that will unite both nations more closely for years to come

as two of Turkey's largest LNG contracts are due to expire in the next 1-4 years.³² However, given the historic lows in spot trades, Turkey can take advantage of low prices and its growing LNG storage capacity.

On the renewables side, Turkey's vast investments in solar and wind over the last decade provide more energy sustainability for supply, but new projects may become delayed due to market conditions. The share of renewable energy resources in Turkey's total electricity demand is expected to increase, particularly, solar and wind, when the planned investments are realized.³³ In fact, electricity generation from renewable sources met 44 percent of Turkey's total electricity demand by the end of 2019.³⁴ U.S. companies have contributed to the development of these electricity networks, especially in wind sources and overall power generation. Continued collaboration of U.S.-Turkish partners in power generation and energy sustainability will benefit both countries mutually. Especially, with the European Green Deal positioned as a post-COVID-19 priority for the continent.

Another impact of the coronavirus that plays favorably into Turkey's energy strategy relates to hydrocarbon explorations in the Eastern Mediterranean. While multinational partners ENI, ExxonMobil, and Total announced they are suspending operations in the region, Turkey will be intensifying its offshore gas explorations within the context of a 2019 agreement signed with Libya.³⁵ As the Eastern Mediterranean energy dynamics are fraught with political conflicts, a negotiated solution should be sought during or after this period where Turkey plays a role in multilateral energy exploration and transit efforts. The more time that passes without an agreement, the more volatile the situation will become.

Travel and Tourism

Turkey is the sixth largest international tourist destination by arrivals and has set a goal of at least 50 million tourists in 2020. Tourism contributes \$35.5 billion to Turkey's annual GDP following a rebound in recent years. American tourists in Turkey are especially notable because they spend the most per person during their visits.³⁶ In 2019, the U.S. Department of State upgraded Turkey's travel rating to better reflect the safety and security of major Turkish cities for U.S. travelers. U.S. and Turkish officials reported that U.S. arrivals and bookings in Turkey continued to increase following the improved travel safety rating. Ministry of Tourism and Culture statistics indicate a near 30 percent increase in U.S. travelers to Tur-

key from 2018 to 2019 with approximately 600,000 U.S. visitors.

However, the first quarter of 2020 has seen a near 50 percent drop in foreign arrivals and a 25 percent decrease in Turkey's tourism expenditures, according to Ministry of Tourism and Culture statistics. Turkey's association of leading retail brands recently projected a 40 percent decrease in overall sales during the summer of 2020 due to the expected drop in tourism.³⁷ As precautionary measures to stop the spread of COVID-19, Turkey gradually scaled back international and domestic flights from the end of March until mid-June Turkey's two largest airlines, Turkish Airlines and Pegasus Airlines, cancelled all scheduled commercial flights through late May. However, chartered flights for evacuations and repatriations of Turkish, American, and other nationals did continue throughout this period.

Traveling in the post-COVID world will be dramatically different. Travelers will be more reluctant to travel and more discerning about safety and health. To prepare for these new travel changes, Turkey has begun preparations. Turkish officials launched a campaign for 'COVID-free airports' in Turkey, prioritizing the securing of summer travelers from leading inbound destinations such as Germany, the United Kingdom, and Russia. Foreign Minister Çavuşoğlu has reportedly been holding talks with his counterparts in these countries to facilitate travel from their citizens into Turkey over the 2020 summer travel season. Turkey's Ministry of Culture

and Tourism has announced a health certification program that facilities can apply for, to be granted by "international certification institutions," that will denote "a high level of health and hygiene requirements," requiring them to meet 132 criteria.³⁸ The plan is to create safe conditions within airports, hotels, restaurants, and tourist attractions to reassure tourists for the summer season. Turkey's Ministry of Culture and Tourism is working with Ogilvy, a New York-based public relations firm to market this safe tourism campaign with Western tourists.

Turkey is also a travel hub for connecting to European destinations, and the safety of travel not only in Turkey but in cities such as London, Paris, and Rome will also impact the inflow of travel through Turkey's airlines and airports. The new Istanbul Airport is large enough to make the most of its space for safe social distancing. If Turkey can distinguish itself as a safe travel destination and Far East Asian countries continue to be among the first to recover from the pandemic, Turkey could recapture or gain new routes heading west. When the cruise industry returns, Turkey will unveil its brand new \$1.7 billion Galataport cruise terminal in Istanbul with capacity to bring 1.5 million tourists to Turkey.

Women in Business

Turkey's labor force is a global talent pool of human resources for multinationals and Turkish firms alike. Despite comprising only 34 percent of

Turkey's overall workforce, the quality of Turkey's female labor force is high, with many women serving as CEOs of leading U.S. companies in Turkey. Unemployment is expected to reach more than 20 percent in Turkey in the summer of 2020, with women and youth to be disproportionately impacted. Much like how World War II changed the way women participated in the economies of Western nations, the COVID-19 pandemic has accelerated the adoption of remote work options that can help meet some women where they are. This change coupled with the growing acceptance of telework could help reintegrate women into Turkey's workforce. Increasing female participation in Turkey's labor force can become one of the most effective levers for GDP growth—estimated to boost GDP by as much as 20 percent if Turkey achieves the average OECD level of female labor force participation rate of 63 percent.³⁹ U.S. companies can help facilitate these transitions and serve as mentors for Turkey's young women, especially in science, technology, engineering, and math (STEM) fields.

Conclusion

In conclusion, the U.S.-Turkey commercial partnership remains multifaceted, crucial for a pivot to meet market demands and support a successful economic recovery in both countries. Sectors of the relationship often outshined by defense, such as healthcare, the digital economy, manufacturing, and energy, are poised to take on a more prominent role in

U.S.-Turkey trade and investment. Robust U.S.-Turkey government engagement focused on regulatory convergence, reduction or elimination of tariffs and non-tariff barriers is needed to fully unlock U.S.-Turkey commercial cooperation. The \$100 billion trade goal set by President Trump and President Erdoğan requires both countries to quadruple the current bilateral trade volume of \$25 billion. Under current conditions, even a doubling of this trade volume to \$50 billion would be a significant achievement. U.S. and Turkish private sectors see their futures converging on new opportunities to fuel a post-COVID-19 economic recovery that will unite both nations more closely for years to come. ■

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