MAPPING THE AMERICAN - TURKISH BUSINESS PARTNERSHIP: FROM PIRI REIS TO 2023

Since the 1990's, American as well as other global firms have seen Turkey as an excellent platform from which to launch into regional markets, including Russia, Central Asia, the Middle East and Africa. U.S. firms have an opportunity to utilize their global brand power and match them with Turkey's buoyant market and its vast growth-market oriented management and executive skills to tap both pan-regional Eurasian and global growth opportunities. In this equation, the opportunity for Turkish firms is to partner with powerful global brand-houses of U.S. firms to expand their penetration in various markets.

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TURKISH POLICY
QUARTERLY

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When Admiral Piri Reis (1470-1553), the Ottoman scientist, traveler and cartographer, drew his map of the Atlantic and the Americas in 1513, some 20 years after Christopher Columbus put his flag on the American continent, he probably did not predict that Turkey and the U.S. would need a map like this to bring their economic and business partnership to new heights in the 21st century. Nearing the 100th anniversary of the birth of the modern Turkish Republic founded by Atatürk in 1923, the world is going through a major shift on both economic and political fronts. "The Economist" pointed out that throughout this process Turkey has become a "pivotal strategic country", whereas it seemed to be a "peripheral country" some two decades ago.[1] Similarly, in his book "The Grand Chessboard", Zbigniew Brzezinski considered Turkey a "regional playmaker" which is on its way to becoming a "global playmaker".

"U.S.-Turkish trade hit a record of 20 billion dollars in 2011."

A Turkish stamp printed in 1939 for the 150th Anniversary of the U.S. featuring pictures of the then-Turkish President İsmet İnönü and U.S. President Franklin D. Roosevelt is a simple memoir of the deeply-rooted 20th century Turkish-American relationship. As the world goes through economic and political shifts in the second decade of the 21st century, Turkey and the U.S. are in the process of exploring new horizons to further expand their economic and business relationships.

Ongoing turmoil in the region, including the upheavals of the Arab Spring, pushed the U.S.-Turkish alliance to limits it has not seen since the end of the Cold War. Ankara and Washington increasingly see eye to eye on a range of topics, perhaps best exemplified by the multiple telephone conversations between President Obama and Prime Minister Erdoğan in 2011-12. Underpinning this alliance is a multi-decade political and military partnership that generally evolved with the policy needs of both nations. However, it was only in December 2009 that both the United States and Turkey agreed to focus on a largely overlooked element of their overall bilateral relationship: trade and investment.

Indeed, both sides recognize the significant upsides –political and economic– in a deeper and broader U.S.-Turkish trade and investment relationship. Business has already seen and acted on the opportunity, and is moving quickly. U.S.-Turkish

1 *The Economist,* 23 October 2010.

trade hit a record of 20 billion dollars in 2011, with double digit export increases on both sides. While still a small figure relative to the size of their respective economies, both countries' governments and private sectors are increasingly looking at partnerships that can create jobs and wealth from Gaziantep to Galveston, from İzmir to Boston. As we approach the 100th anniversary of the Turkish Republic, American and Turkish government and business leaders should leverage the economic success of the "Anatolian Tigers" through strategic private sector partnerships, which will serve both U.S. and Turkish bilateral and regional interests through the creation of stable, sustainable, market-oriented democracies.

Setting the Framework

Over the years, the United States and Turkey have engaged in economic issues through various forays, including the Economic Partnership Commission, the Trade and Investment Framework Agreement, and Energy Working Group. These institutions have played an important role in advocating key policy and business development needs on each side, including contentious issues such as U.S. pharmaceutical and agricultural market access to the Turkish market and Turkey's desire for a free trade agreement and a liberalized visa regime for Turkish business travelers to the United States. What was lacking however was a mechanism to bring senior government decision makers together to discuss the long-term prospects of this economic relationship and build momentum through key initiatives. In late 2009, Obama and Erdoğan launched the "Framework for Strategic Economic and Commercial Cooperation" (FSECC).[2] In many ways, a modern Piri Reis map was drawn to expand the economic relationships between the two countries. Chaired by the U.S. Secretary of Commerce, the U.S. Trade Representative, the Turkish Minister of Economy and the Turkish Deputy Prime Minister, the FSECC was designed to think big and map a course for a long-term expansion of trade ties.

In recent meetings both sides identified renewable energy, financial services, infrastructure, and defense and aviation as key sectors for business development, particularly for small and medium size enterprises (SMEs). Part and parcel of this effort is the U.S.-Turkish Business Council, gathering nearly 20 leading businesses to provide advice to both governments on how to boost trade and investment. Importantly, one of the key Council recommendations was to expand third-country cooperation in infrastructure, building on private sector strengths in this area.

2 For a fact sheet and timeline of recent U.S.-Turkish commercial engagement, go to http://export.gov/turkey/build/groups/public/@eg_eur/documents/webcontent/eg_eur_051341.pdf

Recently, the United States and Turkish governments commissioned a study by a respected U.S. consulting firm to help them chart the way for an expanded, strategic economic relationship. Using a baseline indicator, the study identified significant headroom in the bilateral trade relationship. American exports to Turkey jumped to nearly 15 billion dollars in 2011, but still well below the 22-23 billion dollars benchmark identified in the study. Third country opportunities, such as U.S.-Turkish partnerships in energy and infrastructure, could further boost these numbers and integrate the private sectors.

While the above case is illuminating, in the past both governments have looked at trade statistics as box scores for who is selling more of what to whom. They must move beyond the numbers into a more long-term strategic view of their economic relationship in order to add this additional pillar to already vibrant political and defense relations.

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The recent FSECC meetings in Ankara have added to the strategic discussion. Putting simply, what should the U.S.-Turkish economic relationship look like in 2023? And, *via* public and private sector partnerships, how can this be achieved?

Building Capacity to Showcase and Seize the Opportunities

Both Turkish and American firms often complain that the other side does not know enough about their market. Oftentimes when a Turkish firm actually visits the United States and sees the business opportunity, that entrepreneur acts quickly to seize the moment. American firms face the same situation in Turkey, but with the added component of understanding how Turkey can bridge the firm into markets in the former Soviet Union or the Middle East.

Fortunately, both governments realize this *niche* and have prioritized each other's markets for resources and high-level attention. For example, the government of Turkey is beefing up its staff in the United States to implement its "six state strategy" (including California, Georgia, Illinois, New York, Texas and Washington) to help Turkish exporters gain a toehold in the hypercompetitive American market. This strategic effort includes an analysis of how "North American Free Trade Agreement" (NAFTA) can present a huge, three country opportunity for

Turkish firms, high-level trade delegations led by the Turkish Minister of Economy, and, indirectly, the opening of additional Turkish Airlines non-stop flights to Los Angeles in 2011 and Houston, later in 2012.

On the other side, the U.S. Department of Commerce has identified Turkey as one of seven priority markets worldwide – and the only one in Europe. The Acting Secretary of Commerce Rebecca Blank's June 2012 visit to Turkey was the first by a U.S. Commerce Secretary in 14 years. This priority designation has resulted in increased staff, more high-level visits and trade mission expansion, as well as an office of the U.S. commercial mission in Ankara in a co-location with the Ankara Chamber of Industry (ASO).

Both Turkish and U.S. Exim Banks are actively discussing several joint regional projects, building on a 1996 Memorandum of Understanding to jointly finance key deals.[3] The Overseas Private Investment Corporation has recently provided 400 million dollars in financing to women-owned SME's through the Turkish banking system. The U.S. Embassy's Commercial Service in Ankara developed partnership posts with U.S. Embassies in Azerbaijan, Georgia, Turkmenistan and Uzbekistan to move American companies active in Turkey into these relatively new frontier markets. This arrangement will place special emphasis on merging U.S. and Turkish firms to develop business in these markets. For example, a recent engagement with a medium-sized U.S. Midwest environmental firm not only found business in Turkey, but also concluded a distribution agreement for Azerbaijan through Turkey to clean up massive onshore oil spills near Baku.

Turkey and beyond: An Emerging Market and Partnership Opportunity for American Firms and Investors

In a recent conversation, one Turkish government official noted that "one of the world's fastest growing economies –Turkey– wants to partner with the world's largest economy – the United States." This very much summarizes the beginning of an enormous opportunity for American and Turkish firms looking into the global trade and investment opportunities over the next decade. Turkey sits in a growth-oriented region stretching from Russia to Africa, from Emerging Europe to the Middle East and eastwards to the Caspian region and Central Asia. In many ways, Turkey is the "Eurasian Gateway" to this broad growth region, which as a whole is considered as attractive an emerging market as China and Latin America. Turkey and its neighborhood's growth prospects are substantially driven by the vast natural resource base in the region and the growing energy demand associated with

3 Recognizing the need to raise financing limits for Turkish exporters, Turkish Exim has raised its project limits.

Europe. Mergers and acquisitions increased intra-regional business activity. On the other hand, increasing purchasing power with attractive demographics is rapidly expanding the consumer activity. Given the EU's cloudy long-term economic forecast, U.S. and Turkish firms can team to take advantage of key emerging markets and diversify their still heavily EU-focused trade portfolios.

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Engaging with Turkish companies provides U.S. companies a unique exposure to the macroeconomic upside in the vast Eurasian axis which has a geographically diversified profile, providing mitigation to political risk within the more volatile areas as an ongoing aftermath of swings such as the Arab Spring. Iraq has gone from one billion dollar trade relationship with Turkey in 2003 to 11 billion dollars in 2011, becoming Turkey's largest export market after Germany.

Slower growth and structural economic issues in the European Union has already forced Turkey to diversify its trade relationships and increase trade flows with its geographical neighbors. Since the collapse of the Berlin Wall, Turkish companies have proven to be very successful in managing penetration and businesses in growth markets. American firms can take advantage of Turkish firms' 20 plus years of experience and ability to do business in the region while offering technology, trade and project finance, further expanding the bilateral trade and investment relationship.[4]

The U.S. firms have an unbeatable edge in producing the most valuable and successful global brands. According to the 2012 Brandfinance Global 500 list, more than 35 percent of the most valuable global brands were owned by American firms. Most of these brands are either trading or operating their multi-regional businesses out of Turkey.

Various role models already exist among successful U.S.-Turkish joint ventures and investments:

- In 2012, SAB Miller chose to merge its vast Russian business into Efes Beverage Group, a successful Turkish pan-regional brand-power, ceding management of its Russian operations to the Turkish group in exchange for a minority stake in Efes, listed on the Istanbul Stock Exchange.

4 For clarity, the "region" discussed here includes the former Soviet Union, Africa, and the Middle East.

- As the only NYSE-listed Turkish company, Turkcell's success in developing mobile telecom operators in Eurasia is a great case. Turkcell and its Turkish management created the first modern telecom infrastructure and mobile communications in emerging economies in the Caspian Region and Central Asia such as Azerbaijan and Kazakhstan.
- Turkish Șișecam, a subsidiary of one of Turkey's largest conglomerates – İșbank– and a leading global glass company, brought the first modern glass bottles to the region through its investments in Turkey, Russia and Georgia. The Turkmens, Kazakhs and Azerbaijanis drank their first Coca-Colas with Șișecam bottles *via* Efes investment and management.
- General Electric and Tülomsaș created a strategic rail transport joint venture with export potential to the EU and the former Soviet Union.
- The AIG-backed private equity investment platform, PineBridge Eurasia Financial Investments, has invested in Ulusal Faktoring, a growing Turkish financial services company.
- Turkish construction companies have partnered with American firms on U.S. Government contracts throughout the region, from building new U.S. Embassies in the Caucasus and Central Asia to a 477 million dollar Asian and Development Bank financed road project in Afghanistan executed by Metag (Turkey) and ECC (California).
- The leading American education company, Laureate, has partnered with one of the most dynamic Turkish universities, İstanbul Bilgi University, and is offering a state-of-the-art education platform to both Turkish and international students out of its modern campus in Istanbul.
- Every year, the American-Turkish Society, a New York-based organization which promotes the development of Turkish-American relationships, honors the most successful U.S.-Turkish joint ventures and highlights the importance of bilateral investment partnerships to enhance the business interaction between corporate America and Turkey. Among these honored partnerships is the Ford-Koç partnership, which has more than 50 years of history. Ford-branded vehicles manufactured in Turkey by the joint venture are exported to global markets, including the U.S.

The Benefits of a Strategic U.S.-Turkish Economic Partnership

As former U.S. President Calvin Coolidge once said, "the business of America is business." But in the case of an expanded, more strategic U.S.-Turkey commercial relationship, there are important political upsides as well. First, a strong economic relationship will naturally develop important business constituencies on both sides of the Atlantic, where both American and Turkish firms can lobby their elected leaders for policies in line with goals to expand trade and investment. During the contentious debate on the proposed recognition of the Armenian Genocide Resolution in the U.S. Congress in 2009, U.S. industry made clear its concerns on the potential damaging effects of such Congressional actions, including potential Turkish government retaliation against American firms bidding on work with Ankara.

To put it bluntly, bad political relations is bad for business, which affects both countries' competitiveness and ability to create and sustain jobs. Fortunately, the strong relations that Turkey and the United States now enjoy create the space for deeper partnerships in all areas, including economic. Second, a vibrant economic relationship with integrated supply chains, Turkish stocks traded on the New York Stock Exchange, and bilateral foreign direct investment will provide a useful cushion to the inevitable, occasional shocks to an enduring bilateral relationship. A commitment to stronger business ties can provide more ballast to the bilateral relationship. Finally, with work in third countries *via* U.S.-Turkish joint ventures in the region, both countries will literally be vested in success in countries of mutual strategic interest. A good example is U.S.-Turkish government support toward the creation of a commercially-viable consortium to build the Caspian Pipeline from Baku to Ceyhan in the late 90's and early 2000's. The extensive work of Turkish contractors across the region, particularly in cross-border energy projects, is another good example.

Food for Thought: A Menu for More American-Turkish Business Activity

The continuing Arab Spring and the heated Euro summer are becoming global problems on many levels. Risks stemming from the prolonged uncertainties of the Syrian civil unrest, the ongoing Iran-Israel tensions, the Greek debt problems of Europe and the "Euro Question" will certainly impact the pace of developments-sometime positively, sometimes negatively. But U.S.-Turkish investment and trade partnerships can provide a stable platform for other actors in the neighborhood and alleviate the impact of the global economic strains of the second decade of the 21st century. Turkey's dynamism during this period when the majority of traditional markets and global markets at large are down, could be an opportunity for U.S. firms to stabilize growth projections and diversify risk.

The U.S. has immense technological, marketing and capital resources to bring to bear in an expanded U.S.-Turkish economic relationship. Together with the Turkish business model driven by entrepreneurial spirit and management skills capable of operating in volatile and high growth environments with difficult economic cycles, U.S. firms could create a new momentum for their global businesses. The Turkish firms could benefit from U.S. firms' technological, marketing and financing capabilities to create joint success stories. While Istanbul has been one of the global commercial centers for centuries, Turkey is trying to further expand the city as an organized international financial center. U.S. firms and investors could look at this Turkish ambition as an opportunity.

Turkey has a strong initiative to attract not only strategic, but also financial investors to the country – particularly from the U.S. The American Business Forum in Turkey, one of two accredited American Chambers of Commerce in Turkey, is working hand-in-hand with the Investment Support and Promotion Agency of Turkey to promote more bilateral financial investment partnerships. In September 2011, Turkish Prime Minister Erdoğan attended a high-level investment roadshow of Turkey in New York with U.S. private equity investors. AIG Investments (now called PineBridge) made the first pitch more than a decade ago to penetrate the buoyant Turkish private equity investment opportunities, quickly followed by other U.S. private equity groups such as Soros and Carlyle. In 2011, U.S. private equity group Cerberus announced a plan to create an investment joint venture with Turkey's Garanti Bank. This is only the tip of the iceberg. The largest investment community in the world (U.S. pension funds, large U.S. private equity groups, U.S. family offices, U.S. foundations and endowments and other U.S. investment firms) should take the initiative and enter the nascent private equity investment market in Turkey, and join forces with Turkish companies in surrounding regional growth markets. In fact, supporting the "Anatolian Tigers" global growth ambitions and overseas acquisitions could be a serious investment strategy for U.S. financial investors.

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Additionally, U.S. and Turkish capital markets offer attractive investment opportunities for Turkish and U.S. firms. One of the world's largest stock exchanges, the New York Stock Exchange, today hosts only one Turkish firm listed on the exchange. Turkey has large and dynamic globally recognized firms that could easily tap this market and connect with U.S. investors. Similarly, U.S. firms listed on the Istanbul Stock Exchange are also few (Ford Otosan, Alarko Carrier and Coca Cola). More U.S. firms should tap into Istanbul's capital markets, list their firms on the vibrant Istanbul Stock Exchange and provide exposure to their firms, investors in Turkey, and to investors in surrounding markets. In fact, U.S. investors could support and benefit from Istanbul Stock Exchange's regional integration platform called the Federation of Eurasian Stock Exchanges (FEAS). The Turkish government's focus on the U.S. market and the recent announcement of SelectUSA, a U.S. Commerce Department initiative to attract Turkish investment to the United States, are noteworthy.

Last but not least, the United States offers significant investment opportunities for Turkish companies and investors with its vast market, extensive brand and marketing power base, technological advancement and deep capital markets. Expanding and acquisitive large Turkish firms will be joined by small and medium sized ones, turning their acquisition, green-field investment and export focus to the U.S., while the U.S. markets open up their borders for more Turkish investors and goods.

In conclusion, the need for a new "Piri Reis" map to bring American-Turkish economic relations to a new level is obvious, well-deserved and well-justified. Turkish and American firms should follow the pathline that the leaders of their countries have framed. An old Turkic saying refers to "the need to hunt a lion" in order to show the signs of success. Corporate America and corporate Turkey should focus on identifying and shooting those lions.