

Strengthening The Turkish-American Economic Partnership
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Turkey's economic success is one of the most important of the many shared interests of Turkey and the US. A growing, prosperous Turkey will be a better commercial partner for America and a stronger ally as we work together to help the entire region move toward a future of greater freedom and wealth. A strong, vibrant Turkey will be a positive force for freedom and prosperity in the region and in the world. The U.S. interest in Turkey is closely related to our broader effort in the region and, of course, in the world. Even where we are not involved as direct partners, we believe a democratic, prosperous and diplomatically active Turkey can be a positive force for change and development in the entire region.

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Over more than 50 years as friends and allies, the United States and Turkey have shared many strategic interests. Today, one of the most important of these many shared interests is our interest in Turkey's economic success. A growing, prosperous Turkey will be a better commercial partner for America and a stronger ally as we work together to help the entire region move toward a future of greater freedom and wealth. Like the Turkish citizens themselves, Americans want to see a dynamic, prosperous, democratic Turkey.

Although our countries may not always agree, we are confident that a strong, vibrant Turkey will be a positive force for freedom and prosperity in the region and in the world. It will be a country with which we can work on a wide variety of opportunities, as well as challenges.

The U.S. cannot make Turkey successful. Only the people of this nation can do that. The U.S. government, however, will support Turkey's efforts to achieve the ambitious economic and political goals that the Turkish people have set. In doing so, we will be advancing America's interests, as well as Turkey's.

The U.S. interest in Turkey is closely related to our broader effort in the region and, of course, in the world. The United States of America is committed to promoting freedom and dignity throughout the world, to working with others to battle the scourge of terrorism and the proliferation of weapons of mass destruction, and to combating poverty and deadly diseases. Because we believe in peace, we are engaged in many places in the world to achieve solutions to regional conflicts. In this region, we are working hard for Middle East peace. We are working for greater progress in Afghanistan, for an agreement on Cyprus, and for a stable, democratic, and prosperous Iraq.

Around the world, we are pursuing an ambitious economic agenda designed to bring greater prosperity to the people of America and the world. We are convinced that a strong, growing, innovation-driven economy is the foundation of our own national security. And we are constantly working to make our own economy more productive, more efficient, and more competitive. By promoting free trade, by addressing global financial crises, and by fostering global economic growth, we help our own economy grow and prosper.

Moving in the Direction of Prosperity

We are using our economic engagement with other nations to emphasize the policies that have been proven to generate higher productivity and sustained growth, including:

- pro-growth legal and regulatory policies, along with skilled, independent regulatory agencies, that encourage business investment, innovation and entrepreneurship;
- tax policies that provide incentives for work and investment;
- the rule of law and intolerance for corruption so people are confident that they will be able to enjoy the fruits of their economic efforts;
- strong financial systems that allow capital to be put to its most efficient uses;

- investments in health and education that improve the well-being and skills of the labor force; and
- free trade that provides new avenues for growth and fosters the diffusion of technologies that increase productivity and opportunity.

The lessons of history are clear: market economies, not command-and-control economies with the heavy hand of government, are the best way to promote prosperity and reduce poverty. This is something I've observed first hand, serving in the Soviet Union. Policies that strengthen market incentives and market institutions are relevant for all economies, including that of the United States.

No government gets perfect marks on all of these issues, but the vast majority of governments around the world now recognize that, to avoid falling behind, they must embrace global economic integration while doing everything possible to enhance their own economies' productivity and competitiveness. Increasingly, we are jettisoning the old, inefficient practices of protectionism, subsidization, and cronyism, and replacing them with innovation, integration, and competition. This is a process of transition. It does not happen overnight; it is not without mistakes and problems. Nonetheless, we believe strongly that this process is moving the world in the direction of greater prosperity.

A Critical Juncture

These types of changes are at the core of Turkey's ambitious economic reform program. In the past two years, Turkey has taken significant steps toward strengthening its banking sector, established critically important independent regulatory agencies, implemented sound fiscal and monetary policies, given its Central Bank independence, and much, much more.

Now, after two years of sound fiscal and monetary policy and important structural reforms, the economy is at a critical juncture:

- Inflation, perhaps the number one enemy of sustainable growth, is declining.
- Exports and growth are rising.
- Productivity is increasing.
- Interest rates are falling.

These trends, along with several positive external developments, have created a great opportunity for Turkey to take a large step away from the edge of the financial precipice on which it has been perched for too long.

Most economists and investors believe that, were Turkey to choose now to accelerate the reform process—completing the reviews under its IMF-backed economic program on schedule and with enthusiasm, implementing the government's privatization plan, sticking to tight fiscal and monetary policy, strengthening independent regulators, and moving ahead with important structural reforms and efforts to battle corruption—it would

have a very good story to tell when 2004 begins, and an even better story to tell when it ends. Prosperity is not going to be built overnight, but I truly believe Turkey has a chance now to make an important step forward.

The U.S. Government strongly supports Turkey's efforts to build a stronger, more competitive economy that can produce sustained growth. To support sound economic policies, we have recently signed an agreement to provide \$8.5 billion in long-term, low interest loans.

Expanding Trade

One obvious goal of our economic partnership is to expand trade. Turkey's customs union with the European Union limits what we can do in the way of bilateral trade initiatives. But the United States remains open to creative ideas that are based—in the spirit of a true economic partnership—on prospects for mutual benefit. In the area of textiles, for example, the rules are changing. By the end of next year, the U.S. will have eliminated quotas, and the real question for Turkish exporters will be how to compete with China and other major producers. Will Turkey decide to make Istanbul a textile entrepot and management center, like Hong Kong?

The most important path forward to expand our trade relationship is to work together for a successful conclusion of the WTO negotiations. Despite the lack of progress and, indeed, last September's setback at Cancun, we remain committed to a successful round of trade liberalization. We are prepared to work with Turkey and other partners, on the basis of reciprocity, to open new opportunities for Turkish exporters of agricultural products, manufactured goods, and services. We also have a shared interest in ensuring that Turkey's neighbors become WTO members and that Middle East countries move rapidly toward freer trade. In the coming months, I look forward to hearing from Turkish leadership its ideas on how to get the most out of the Doha Round.

To build a truly strong economic partnership, we need to increase investment dramatically—both Turkish investment in the United States, which we welcome because it creates jobs and wealth, and U.S. investment in Turkey. I am a firm believer in the power of foreign direct investment because I see the impact it has had in the United States. In 2000, for example, the inflow of foreign direct investment into the U.S. was \$314 billion—equal to more than 3 percent of our GDP. This investment created thousands of jobs, added to the U.S. tax base, brought new technology to our country, and contributed to growth in international trade.

Increasing U.S. Investment

When I am asked about the prospects for bringing more U.S. investment to Turkey, I frequently think of my former boss, Vice President Dick Cheney. Visiting foreign leaders often asked him what they could do to attract more U.S. investment. The Vice President's response always reflected his extensive private sector experience as CEO of Halliburton. He would point out that, when an American CEO proposes a major foreign

investment to his board, the first question the board asks is, "How are current U.S. investors faring?"

Unfortunately, the answer to that question regarding Turkey has not been especially positive in recent times. American executives often tell me of their concerns over the numerous problems that current American investors have faced. Some of those problems relate to broad economic conditions—high inflation, high taxes, a weak financial system, and tremendous volatility. Those are issues that Turkey is now addressing successfully through its economic reform program.

Other problems, however, involve treatment of individual companies or industries, including:

- discriminatory tax treatment;
- the lack of intellectual property protection;
- quotas that limit production;
- zoning problems;
- corruption; and
- inconsistent application of laws and rules.

These problems, along with a few well-known problems involving improper or illegal action by local partners, continue to have a huge impact on the perceptions of the U.S. business community in general. I am not sure what the government plans to do to resolve these questions; based on discussions with American executives, I believe the only way to change perceptions is to turn some of the problem cases into success stories. When that begins to happen, it will be much easier for me to make the case to U.S. investors that they should take a good look at opportunities in Turkey. And when it does happen, I have every intention of sharing those success stories to encourage U.S. investment.

Reform, Investment, and Trade

The links between economic reform, investment, and trade are clear. While it's often easy to treat these as separate issues, they are, in fact, they are closely related. Economic reform means not only sound fiscal and monetary policy. It also means putting in place the rules and the institutions to ensure a well-regulated market environment where competition is not only welcomed, but encouraged, and where competitiveness and efficiency are the keys to success.

Turkey has already taken important steps along these lines, including creating independent boards to regulate key sectors. In my opinion, these reforms are the key to growth and prosperity. These types of reforms will attract investment, both Turkish and foreign, to create jobs and to produce growth. Moreover, with growth and greater investment, Turkey will see significant increases in its foreign trade. This is a virtuous circle: Success in reform stimulates investment, which leads to increased trade.

The telecommunications sector provides a good example. Turkey has committed

internationally to opening this sector to further competition at the end of the year, and to privatizing the state monopoly, Turk Telekom. Telecommunications experts agree that, as Turkey implements these commitments, it will see substantial new investment in this sector, resulting in growth, job creation, and significant technological strides forward. A stronger telecommunications and information technology sector will, in turn, make Turkey a lower-cost, more attractive environment in which to do business, spurring further trade, further investment, and further growth.

Partners in the Region

I see many opportunities for America and Turkey to work together as economic partners in the region. We already have established an excellent partnership in energy, where we are working together to build a corridor that will bring oil and gas from the Caspian region to Turkey, and to world markets beyond. The Baku-Tbilisi-Ceyhan pipeline, which many people questioned a few years ago, is being built; it is a reality. We expect the Shah Deniz natural gas pipeline to follow in its footsteps, and we already are working together on marketing Caspian gas through Turkey into Greece and Central Europe.

Afghanistan is another example of cooperation in the region. We worked together in peacekeeping. Turkish troops played an outstanding role in taking command of the International Security Assistance Force. We continue to work together in reconstruction, where Turkish firms are making extraordinary achievements. Turkish construction companies, often working together with U.S. companies, have won an impressive \$300 million worth of contracts in Afghanistan, including helping to construct the U.S. Embassy in Kabul and a major role in building the Kabul-to-Kandahar highway.

Turkey and the United States share a fundamental interest in helping Iraq become a stable, democratic, and peaceful nation. Our governments are working closely on the economic aspect of this effort. The U.S. Government, both directly and through American companies, has bought huge amounts of food, supplies, gasoline, and cooking fuel from Turkey to meet Iraq's humanitarian needs. This has pumped at least \$150 million into the Turkish economy. This is in addition to the nearly \$100 million that the United Nations has spent in Turkey to buy and transport humanitarian supplies.

According to Turkish government officials, Turkish companies also have already won about \$100 million in reconstruction sub-contracts. Our government officials also are talking with officials in Iraq about many other areas of potential cooperation, including the supply of electricity. Karadeniz Electricity recently signed an agreement with officials in Baghdad to sell an initial 50 MW of power to Iraq, with the potential to sell much more. Initial deals like this, valuable in themselves, are especially important because they serve as a catalyst for re-starting Turkish-Iraqi cross-border trade and investment. Trade Minister Tuzmen recently estimated the renewed volume of trade at more than \$4 billion. My government would love to see large amounts of bilateral commerce, which will help Iraq attain stability and prosperity, while also contributing to Turkey's economic growth.

Even where we are not involved as direct partners, we believe a democratic, prosperous and diplomatically active Turkey can be a positive force for change and development in the entire region. For example, we hope Turkey will be a force for opening markets in the Caucuses and Central Asia. Opening of the Turkey-Armenia border would be a significant step that would benefit eastern Turkey.

Turkey, which has been a long-time proponent of peace in the Middle East, can be an important partner in supporting the forces of peace and change in the region. We would welcome Turkey's efforts to promote increased economic cooperation and trade. For example, Turkey and Israel could both benefit by finalizing the agreement for Turkey to sell Israel 150 million cubic meters of water annually.

Personal Ties: Our Greatest Asset

We tend to talk about our partnership in terms of commerce, security, or diplomatic initiatives. Those are very important. But people are the basis of any relationship. The close ties between Americans and Turks, on a person-to-person level, enrich each of us as human beings and strengthen our opportunities for partnership.

Every new export contract, services agreement, or joint venture between a Turkish and American company brings together our people, enabling us to understand each other better. When we increase tourism, we inspire friendships. When we work together to protect the environment and to safeguard Turkey's extraordinary cultural and historic sites, we realize friendships. When we promote artistic, musical, and cultural exchanges, we create understanding and friendship. When we encourage our children to study in, or teach at, each other's universities, we encourage them to friendships that will last a lifetime.

I believe these friendships are our greatest asset, the key to our success in the future. During my time in Turkey, I intend to do everything I can to build these kinds of personal ties between our two peoples. Ambassadors may come and go, but these friendships remain. They form the true core, the beating heart, of our strong and enduring partnership.