

US-TURKEY DISPUTE

IMPLICATION ON BILATERAL TRADE
AND DEFENCE COOPERATION

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The relation between US and Turkey have come under increasing strain in past few weeks over the American Pastor Andrew Brunson, who was arrested over links to Fethullah Gulen, alleged by President Erdogan to be the mastermind behind 2016-coup attempt. US President Donald Trump is reportedly “frustrated” over Turkey for not releasing Brunson and has threatened to impose additional sanctions. On the other side, Turkish President Recep Tayyip Erdogan vowed to not cave in before the threats of US sanctions. He issued a warning statement saying that if the US doesn’t change its attitude then Turkey would start looking for other alternatives. With both sides refusing to abate, mending strained relations between the two NATO allies is going to be a lot more complicated and difficult amid new economic penalties.

Impact on Bilateral Trade

In 2016, when Donald J Trump was announced as 45th President of the United States, many analysts anticipated that his relationship with his Turkish counterpart Erdogan would be better than his former President Barack Obama, given their common belief in populism and nationalism. Both Trump and Erdogan have immense power that they seek to enhance. In fact, President Trump in several occasions have hailed the “close friendship” he formed with his Turkish counterpart and welcomed its efforts and commitment to fight against terrorism in all forms. However, unpleasant issues like the future of Syria; extradition request for exiled cleric Fethullah

Gulen; American sanction on Iran and their support to Kurds have fractured US-Turkey relations severely. They were mended softly with loose stitches, locking both in a “frenemy cycle” – an apt term to describe the two countries relations in the 21st century. However, the controversial case of Pastor Brunson has jeopardized their bilateral ties to an irreparably extent.

The refusal of the Turkish court to release Brunson have triggered Trump to double the import tariffs on Turkish steel and aluminium. The Trump administration have also imposed sanctions against Turkish Minister of Justice Abdulhamit Gul and Minister of Interior Suleyman Soyly, both of whom played leading roles in the organizations responsible for the arrest and detention of Brunson. According to Joshua Landis (a professor of Middle East Studies at the University of

Oklahoma in Norman), for Trump, winning Brunson freedom against Turkey is significant to claim that his “strong-arm tactics” are effective in the realm of foreign policy. But, for Erdogan, US sanctions is stabbing Turkey on the back due to which he decided not to be a pawn in the game controlled by the Americans anymore. Erdogan, in an official decree, announced to boycott US electronic goods. As a retaliatory measure to Trump’s double metal tariff on Turkey, Erdogan slapped a hefty tax on imports of US passenger car to 120 percent, alcoholic drinks to 140 percent and leaf tobacco to 60 percent. Various media also reported that tariffs were increased on goods such as cosmetics, rice and coal.

The US is one of the major import and export partners of Turkey. The major export product includes clothes, electronics, automobile, agricultural products. Other products exported from Turkey include iron and steel, mineral fuels and oil, precious stones and tobacco. On another hand, the major import commodities for Turkey include electrical equipment, mechanical appliances, optical instruments and pharmaceutical products.

In 2016, the US goods and services trade with Turkey totalled an estimated \$22.4 billion. Export was \$12.5 billion; import was \$9.9 billion. In last six months, their bilateral trade reached an estimate \$5 billion, despite Turkey’s crumbling economy. Although the amount of products affected by the tariffs of both the countries are relatively small parts of the goods that they trade, further US sanctions will definitely deteriorate their bilateral trade and Turkish economy to an unpredictable level.

The Turkish Gross Domestic Product, which grew by nine percent at one point under Erdogan’s leadership, is witnessing serious economic instability and downfall. The Turkish currency, lira, has lost about 40-45 per cent of its value against the US dollar so far. The stock market has fallen 17 percent and there also have been a 40 percent decline in the foreign investment. Under such circumstances, the US plan to review Ankara’s duty-free access to their markets could affect an additional \$1.7 billion of Turkish exports.

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won't make any concession towards Ankara unless it agrees to release detained Brunson instantly, otherwise, the even recent influx of cash from Qatar will not save Ankara's economy. Moreover, the US officials have also said that further negotiations over the contentious issue of Turkish Halkbank, which allegedly helped Iran to evade US sanctions – will have to wait until Brunson is released. The US treasury department has subpoenaed the bank and received material from them. But at this point, the US officials seem to be unsatisfied with the material that Halkbank has provided and have warned Turkey that it could turn into a criminal proceeding. This could result in additional crippling sanctions on Turkish financial sectors and may further fuel the destabilization of lira, hurting the inflow of foreign capital, inflation could accelerate, and the country could face a potential current-account financing crisis.

On the other side, Ankara claims that the bank did not do anything wrong and is reluctant to let go of Brunson as they consider him to be the bargaining chip to convince the US to extradite Fethullah Gulen and Turkish banker, Mehmet Hakan

smooth transactions. And also this measure has the potential to completely shatter the hope and attempt to improve bilateral trade between US-Turkey. However, it is noteworthy that the “anti-dollar league” like Iran, China, Russia and now Turkey, are figuring their way out of US sanctions and the idea of shifting the dollar is out there, perhaps given a bit of boost by Trump's habit of alienating US allies. Russia, in particular, is thrilled by this idea, understandably since US sanctions have hurt the ruble as well.

Defence Cooperation

Though US-Turkey diplomatic and economic ties have been gravely harmed over Brunson case, their military cooperation remains intact so far. The US-Turkey troops are still adhering to the roadmap signed to coordinate and conduct joint but separate patrols in Manbij. In fact, it was the US that tipped Ankara off about the whereabouts of PKK leader Zaki Shingali who was killed during a Turkish airstrike on 15 August in Shingal province. Additionally, when asked about the US position on the membership of Turkey in NATO, the US

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Atilla. With both the sides testing each other's bottom line in a hope to pressurize the other side to compromise, Erdogan spoke about “dumping” the dollar as intermediary currency in Turkey's commercial relations with China, Russia and Ukraine. In other words, Turkey would instead conduct its trade in national currencies, a move that is likely to inflame Washington-Ankara tension. While this seems to be a punitive measure directed at the US more than a way to salvage the lira, it also reflects Erdogan's belief of lira sliding is caused due to the US engineering and not because of economic factors.

Here, the problem is that Turkey alone does not have the economic muscle to force the globe to move away from the dollar. And we are only talking about a portion of Turkey's commerce. One must also note that Turkey's bulk of international commerce with Europe continues to run through the dollar. While the European countries have expressed their support to Turkey against the American bullying, it is still unclear that trading directly in national currencies can work as a stable mechanism for EU-Turkey relations. Some kind of common trading currency is significant for consistently

National Security Adviser, John Bolton told the reporters that it is “not an issue” at the moment. He further added that the US currently is only focusing on Brunson and the other Americans which the Turkish government is holding illegitimately.

However, there is growing consensus both in the House and Senate to impose restrictions on the sale of US weapon to Turkey, including the F-35, fifth-generation jets manufactured by Lockheed Martin Corp. While this is an ongoing debate that resulted in post-Turkey-Russia military cooperation, especially the purchase of S-400, the disagreement over Brunson is pushing US officials to reconsider the selling of its asphyxiation device to Ankara. At present, the US's National Defense Authorization Act (NDAA) is planning to include a measure that would stop or slow down the sale. If the measure survives a conference committee with NDAA house, it could become a law that could deteriorate US-Turkey defence pact. But, it will also impact US production of warplanes as most of the components of Lockheed Corp is supplied by Turkish firm. For Turkey, it will be simple to look at other alternative countries like Russia for its stealth aircraft. But for the US,

it might be challenging to figure out ways and methods to replace Turkish suppliers and contractors.

Moreover, Trump also needs Erdogan's military support to enact his campaign promises to create safe zones in the war-ravaged country of Syria, and the desire to bring US troops back home. Most importantly, Russia's growing assertiveness in the Middle East is making both US and Turkey nervous despite their recent reconciliations/ summits and hence enhancement of NATO will be a precautionary step. With Russia on the ash heap of history, they face no immediate threats and even if they did, they could rest easy in the knowledge that they are securely within NATO's protective grasp. Therefore, US-Turkey military cooperation is not likely to be affected over Brunson spat. It will be restricted to economic sanctions and retaliatory measures.

Given the condition of the Turkish economy and other challenges for Erdogan, avoiding confrontation with the US would be a pragmatist approach. Defusing the tension over Brunson's arrest can be the first step toward that. One has to keenly wait and observe the proceedings of the court trial that is set to resume in October 2018. If necessary, the international community can help to bring US-Turkey together to negotiate the issue. Erdogan's focus must be to find ways to come out of inflation and other problems related to economic instability that would transform the quality of life of his billions and more citizens.

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In a dispute that begun under Obama administration, the US has till date maintained that Ankara has failed to provide sufficient evidence against Gulen for a judge to extradite him.

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