

On Sunday, US President Donald Trump took to Twitter to mark the start of “the long overdue pullout from Syria.” Turkey was also on the agenda of President Trump’s series of tweets, threatening to “devastate Turkey economically if they hit [the] Kurds”. The aggressive nature of the warning directed at Turkey, a relevant NATO ally, made the president’s call for the Kurds not to provoke Turkey go largely unnoticed. This blunt warning could be a hollow threat, but it has led to speculation about how much damage the US could do to Turkey’s economy in case the present administration ends up following through with it.

A day later came an attempt to calm the waters, with a phone call between the US President and President Erdogan of Turkey to discuss progress in the operations against ISIS and safe zones in Syria. President Trump even revealed in a tweet that economic ties between the two countries were also addressed during the call and boasted about the “great potential to substantially expand” on.

However, the underlying issue remains: Kurdish irredentism and growing autonomy is seen by Ankara as an existential threat, whereas for the US the Kurds are an effective and legitimate fighting force against ISIS and other radical groups, as well as an element of stability in war-ravaged Syria. US-Turkey tensions over the Kurdish issue are likely to become more pressing as Turkey finalises the preparations to move further into Syria against Kurdish positions. Plus, US allies in the region such as Saudi Arabia, the UAE and Egypt have reportedly been developing closer ties – economic, financial and potentially military – with the People’s Protection Units (YPG). Ankara sees the YPG as the Syrian branch of the Kurdistan Workers Party (PKK), classified by Turkey as a terrorist group.

From a purely commercial perspective, Turkey might not be a critical market for the US but its exports to Turkey are far from negligible. In 2017, Turkey was the US’ 32nd largest goods trading partner with \$19.2 billion of goods exchanged and, crucially in the perspective of President Trump, the US has maintained a trade surplus with Turkey. According to data from the US Department of Commerce, US exports to Turkey supported some 68,000 jobs in 2015 (latest available data). The key vulnerable sectors for bilateral trade have been air transport, iron, steel and machinery, all hit by US sanctions and tariffs last summer, when President Trump doubled tariffs on imports of Turkish steel and aluminium. This move caused the Turkish lira to suddenly lose 20% of its value and caused a foreign exchange crisis that eventually made it lose half of its value by end of August 2018 and a peak inflation of 25%.

Although the US only accounts for 5% of Turkey’s export market, Trump’s tariffs continue to put

Turkish markets on edge as the Turkish lira and bonds have continued to weaken following the most recent spat over the American pull-out from Syria. Last year, Turkey retaliated to American actions by liquidating more than half of its US bonds, bills and notes in addition to raising duties on US booze to 140%, cars to 120% and tobacco to 60%. This episode was framed by President Erdogan as an “economic war” against Turkey and followed by policies that had more rhetorical poignancy than actual effect: the President exhorted Turks to change their foreign currencies into lira and issued a decree stipulating that contracts for sales, rent and leasing in foreign currencies were banned, something that basically applies to high-end or commercial properties.

Apart from the economic sphere, the US can inflict damage to Turkey considering the latter’s high dependence on American military hardware. Most of the Turkish Air Force (TAF) is supplied by US manufacturers and the country is the third recipient of US defence equipment after Israel and the United Arab Emirates. A point of contention between the two countries in the military field is the sale of PAC-3 surface-to-air missiles worth \$3.5 billion and fifth-generation fighter jets (F-35 units worth around \$100 million) to Turkey that could be scrapped if the latter decides to continue ordering Russian-made S-400 Air Defence Systems. American legislators fear that the F-35 technology could end up being transferred to strategic rivals such as Russia. Therefore, it is likely that in the next months, Congress will accelerate its motions against the sale of such aircrafts to Turkey, as long as this country decides to import state of the art Russian-made military hardware like the S-400. TAF expects to procure itself 100 F-35 over the coming years.

Iran is another issue around which US-Turkey disagreements are likely to emerge. In late December 2018, President Rouhani made a surprise visit to Ankara with an important Iranian business delegation. Dealing with a full-fledged economic crisis at home, the Iranian President sought to secure Turkish support against US sanctions and set a target of \$30 billion of bilateral trade in the coming years with President Erdogan, up from \$11 billion in 2017. Referring to current US sanctions as “unfair”, Erdogan pledged support to Iran. As a result, projects such as the joint Turkish-Iranian bank, made to circumvent US sanctions, are likely to see the light of the day and primarily facilitate oil trade from Iran to Turkey. With US waivers, the country is currently allowed to import a meagre 70,000 bpd from Iran, which is roughly 1/4 of what it previously used to import and which has been dearly criticised by Fatih Donmez, Turkey’s Energy Minister.

While multilateral sanctions on Iran were still in place before the JCPOA’s implementation in 2016, Turkey is thought to have helped launder almost \$40 billion of Iranian money through its state-owned

Halkbank. Surprisingly, this important bank has not yet been fined by the American Justice, in spite of all the evidence implicating personalities like Mehmet Hakan Atilla, the bank's international banking former manager, former Economy Minister Zafer Caglayan and the bank's former general manager, Suleyman Aslan, who have had charges listed against them in the US. It could therefore be possible that, if the US-Turkey dispute worsens, America might open a case against Halkbank, a litigation that could end up costing billions of dollars to the bank.

Moreover, the evidence compiled and incriminating high-level Turkish ministers linked to Erdogan's party, AKP, is coming from Reza Zarrab, the Turkish-Iranian businessman at the centre of the oil for gold deal linking Iran and Turkey during preceding sanctions. Due to the sensitive information he holds and the death penalty sentence handed to his associate Babak Zanjani, Zarrab is thought to have intently travelled to the US in March 2016, where he faced criminal charges, to escape a more somber fate in Iran. The businessman is reported to have disclosed having donated millions of dollars to officials, including Erdogan's wife and her charity. His early release in late 2017 shows that he might have cut a deal with the American Justice, which might now have some sensitive dossiers on Erdogan's family. Such dossiers could potentially strengthen the case against the President and his entourage's corruption. Back in 2013, claims that Bilal Erdogan, the President's son, was involved in a corruption scandal, helped inflame the Gezi Park protests against Recep Tayyip Erdogan.

Turkey's current economic predicaments are mainly self-made and American policies only help worsen the crisis in that Turkey greatly relies on external finance and is therefore vulnerable to exchange rate movements. As such, the country roughly needs \$200 billion a year to cover current account deficits, roll-over short-term debt and cover external debt amortisation, that is to say nearly 30% GDP. In 2017, with \$481 million of foreign direct investments, the US accounted for 2.3% of total FDI inflows into the country, a negligible amount but an amount rising by 54% from the previous year. Nonetheless, the 22% drop in total FDI flows into Turkey in 2018 means that part of this increase has already been lost. On another level, Turkey is also highly susceptible to a rate hike by the Federal Reserve in terms of its currency, but President Trump's opposition to such monetary tightening plays to Turkey's advantage.

Today, Turkey's central bank's monetary policy committee decided not to lower the interest rate, which is around 24% following a hike late last year. With municipal elections for end of March 2019, political concerns are likely to further destabilise the economy as President Erdogan is likely to pressure the central bank to loosen its policy. Preparing to run for the mayorships of Ankara and

Istanbul, the AKP has announced a plan to provide relief from credit card debt which is worth \$18.3 billion nationally. By getting the state-owned Ziraat Bank to reschedule such debts and promising to pay the first 80 liras of electricity bills for the 2.5 million Turks receiving social assistance, President Erdogan hopes to galvanise his base support, one which is already stoked by the rise in economic nationalism following the US-Turkey dispute. Such policies are likely to negatively affect the economy without actually improving the fate of 30 million Turks in need of social assistance.

Altogether, the US has a lot to pressure Turkey with. Yet, the country straddling Europe and Asia is a far too great strategic and political ally of the US to see policies specifically made to economically devastate it. At most, the US will continue to apply surgical sanctions against individuals and key institutions surrounding the President. But when it comes to Iraq's domestic stability, Iran's regional ambitions and Syria's post-war future, Turkey's cooperation with the US is far too important to be discarded. Indeed, there are growing rumours that the American and Turkish Presidents might already have some sort of understanding over Northern Syria, where the YPG operates. The Americans seem keen to guarantee a security zone that would both tame Ankara's fear that the region be turned into a terror launchpad against Turkey, while protecting the Kurds from the Turkish army's wrath.

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