MONTHLY BRIEF

TURKEY-U.S.
ECONOMIC OUTLOOK

FEBRUARY
2017

TÜRKİYE ABD İŞ KONSEYİ
TURKEY US BUSINESS COUNCIL
TAİK

DEİK
DIŞ EKONOMİK İLİŞKİLER KURULU
FOREIGN ECONOMIC RELATIONS BOARD

Monthly Brief

TURKEY-US ECONOMIC OUTLOOK

ABOUT DEİK

Foreign Economic Relations Board of Turkey (DEIK) is responsible for leading foreign economic relations of Turkish private sector in a myriad of sectors particularly foreign trade, international investment and services, international construction activities and logistics, exploring inward and outward investment opportunities as well as increasing the export volume of Turkish business and coordinating similar business development activities.

ABOUT TAİK

The Turkey-U.S. Buisiness Concil (TAİK), operating under the umbrella of the Foreign Economic Relotions Board of Turkey (DEİK) was formed in 1985 as the first council, with the aim to enhance trade and investment relations between the U.S. and Turkey.

TAİK operates with a mission to create platform to facilitate development of economic relations between the U.S. and Turkey through its wide spectrum of activities such as conferences, forums, business summits, lobbying visits, networking luncheons and dinners, educational site visits,etc. With its broad range of activities and worldwide network, TAİK represents a role model for other organizations in pursuit of similar goals .

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HIGHLIGHTS ON U.S. ECONOMY

$18.8 **TRILLION**

U.S. Real GDP increased at an annual rate of **1.9%** in the **fourth quarter of 2016**, according to "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 3.5%.

4.8%

U.S. unemployment rate increased for **0.1%** points to **4.8% in January 2017**. Employment gains occurred in retail trade, construction, and financial activities.

0.6%

U.S. Consumer Price Index for all urban consumers **increased 0.6%** in **January** on a seasonally adjusted basis. **Over the last 12 months**, the all items index **rose 2.5%** before seasonal adjustment. **Producer Price Index** for final demand also **increased 0.6%** in January.

$1.46 **TRILLION**

U.S. exports of goods in 2016 declined by 3.3% to **$1.46 trillion** compared to the previous year.

$9.38 **BILLION**

U.S. exports of goods to Turkey in December 2016 increased by 16.9% to **$735 million** compared to previous month. **Total U.S. exports to Turkey in 2016** has been realized as **$9.38 billion** declining 1.3% on an annual basis - from $9.5 billion in 2015.

$8.52 **BILLION**

U.S. imports of goods from Turkey in December 2016 decreased by 9.4% to **$676 million** compared to previous month. **Total U.S. imports from Turkey in 2016** has reached to **$8.52 billion** with an annual increase of 2.1% - from $8.35 billion in 2015.

29TH

Turkey is U.S.'s 29th largest export market in 2016. **Leading U.S. exporting industries to Turkey in 2016** are aircrafts ($3.1 billion), machinery ($890 million), iron and steel ($702 million), cotton ($499 million), and electrical machinery ($433 million) which in total **comprise 60% of overall exports to Turkey**.

33RD

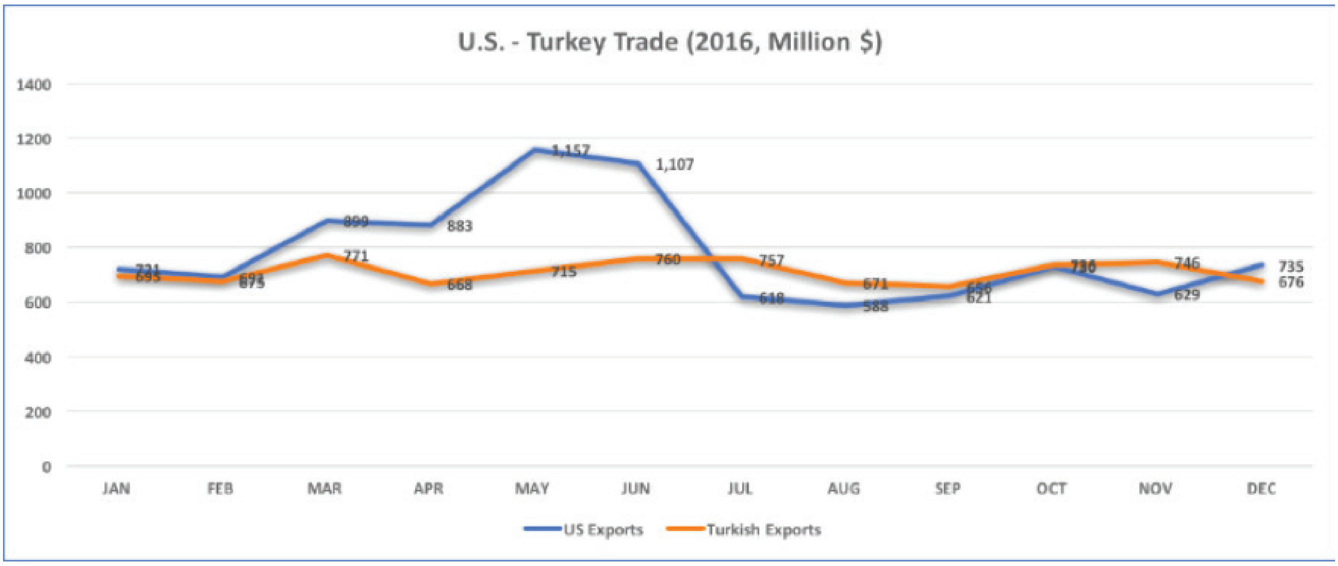
Turkey is U.S.'s 33rd largest sourcing marketin 2016. **Leading Turkish exporting industries to U.S. in 2016** are iron and steel ($942 million), machinery ($899 million), automotive ($773 million), natural stones ($398 million), and carpets ($377 million) which in total **comprise 40% of overall imports from Turkey.**

55%

Washington, Texas, California, New York and **Georgia** are the **leading states in exports to Turkey** in 2016 which **in total comprise 55%** of American exports to Turkey.

42.7%

New Jersey, New York, Texas, California and **Michigan** are the **leading states in imports** from Turkey in 2016 which in **total comprise 42.7%** of American imports from Turkey.



Source: InnoNative Advisors

INVESTORS EYE $6.45 BILLION IN PROJECTS IN TURKEY'S EAST

• Turkish government has received applications worth 23 billion Turkish Liras (6.45 billion dollars) for regional projects in the eastern provinces of the country, Minister of Development Lütfi Elvan said on February 24th. In remarks to the media during a visit to the eastern province of Erzincan, Elvan added, "This is above our expectations."

> "*He said the development program for the eastern parts of the country is the government's highest priority, adding that investors were showing great interest. "The country's eastern region will not be called 'underdeveloped' anymore. I strongly believe that the program will be successful," he said.*"

• On June 17, 2016, the government announced it would introduce problem-free investment zones for companies in eastern Turkey, where some of the country's most underdeveloped regions are located. Under the program, the government stated it will take care of the infrastructure and government paperwork for investors who take ownership of their investments when the project gets completed.

• "By supporting manufacturing, we are opening up eastern Turkey to investment," Prime Minister Binali Yıldırım said last month. "We will give special incentives, like a 30 percent break on electricity bills, to investors who want to shift part of their investment to eastern and southeastern Turkey." The government also wants the development program to empower young women as entrepreneurs in 23 regions. According to Turkish officials, the program will also help stem migration from eastern Turkey to bigger, more developed provinces, such as Istanbul and Ankara.

TURKEY SEES OVER $12 BLN FDI INFLOW IN 2016: YASED

• "Turkey saw a $12.1 billion FDI inflow in 2016. This was a higher-than-expected figure considering the latest developments, both in Turkey and the surrounding region," said the head of the International Investors Association (YASED), Ahmet Erdem, in a speech at the association's 36th Ordinary General Assembly.

• Erdem said the FDI inflow accelerated at the end of the year, which was another positive development. "We need to work together to make this trend permanent and raise efficiency. We, as YASED members, are aware of Turkey's potential, and we believe that the share of Turkey in global FDI could increase to 3 percent," added Erdem.

• Turkey was the 20th most popular destination for FDI inflow in 2015, rising two spots from its 22nd ranking the previous year, an international report showed on June 21, 2016. Turkey saw an FDI inflow worth $16.5 billion in 2015, a 36 percent increase from the previous year, rising by four points to eighth among emerging markets, according to the latest World Investment Report 2016 by the United Nations Conference on Trade and Development (UNCTAD). Turkey took a 1 percent share of the entire FDI flow in 2015.

• Erdem said the FDI inflow into Turkey was around $1 billion to 2 billion in 2002, and increased to today's levels thanks to the realization of a number of key required reforms and the EU membership process. "Turkey lured $175 billion FDI since 2005 in total, equaling an average of $14.5 billion on annual basis," he said, adding that the global FDI inflow was expected to decrease 13 percent in 2016, according to preliminary data from the UNCTAD report.

Turkey reached the highest FDI inflow in 2007 with a $22 billion inflow. Minister of Economy Nihat Zeybekci said the government aimed at growing the country's GDP by attracting more FDI. "Turkey needs foreign investment. This is a must for Turkey to grow. Turkey needs to grow an average of 6 percent annually in a sustainable manner. We must lure more FDI to achieve these growth levels," he said.

• Zeybekci said Turkey had enacted many legal regulations to attract more FDI. "I am hereby calling for you, the representatives of international companies, to voice that you need to pour more money into Turkey. We are ready to offer all support," he added. According to the association's 2016 activity report, Turkey lured $4.1 billion in FDI to the services sector, $3.8 billion to the real estate sector, $2.5 billion to the industrial sector, 26 million to the agricultural sector and $2.1 billion to other sectors, Reuters has reported.

TURKEY 'COULD BENEFIT FROM TRUMP'S ECONOMIC AND STRATEGIC POLICIES'

• U.S. President Donald Trump's economic and political strategies are likely to have a "mixed effect on Turkey" and it will be up to the Turkish administration to turn them into advantages, economist Fatih Keresteci told the Hürriyet Daily News.

• Washington's likely protectionist policies regarding China could have adverse consequences for the Turkish economy, but Ankara could benefit from Trump's objection to a major trade deal with the European Union, which could recover Turkey's importance, said Keresteci.

• "A secular Turkey could play an important role in the region within the framework of U.S.–Russian cooperation in the fight against radicalism," he also added.

What are your projections in terms of the Trump administration's economic policies?

Trump's economic policies are based on tax cuts, a spending boom, protectionism and deregulation of the financial system. This set up could bring growth to the United States, and with it inflation. Together with deregulation, one might expect a lending boom in the banking sector. The initial reaction of the markets to Trump's election was to push interest rates higher. A hike in interest rates in the U.S. means a hike in the funding cost of emerging economies like ours. Some believe that Trump may turn to mainstream policies once in government. My expectation is that in his initial days we will see him start doing what he promised. In his initial months we will see him become a different kind of leader, which could lead to a shock in the markets.

What will be the potential consequences of Trump's policies for Turkey?

We will see three main differences compared to past administrations: Two economic and one political. Trump will endorse a policy against China in order to combat the Chinese threat to the U.S. For instance, Chinese iron and steel enters the U.S. market via Vietnam and Cambodia.

He will impose trade barriers on these countries, which could have an impact on countries like Turkey. Facing trade barriers in the U.S., those products will be looking for other markets like Turkey. Turkish companies who are aware of this possibility have already applied over anti–dumping to the Ministry of Economy, which has initiated an investigation.

Meanwhile, as the world heads toward a more protectionist trend, Turkey might also endorse a protectionist policy in order to defend its local industry.

What is the second difference?

The U.S is following a protectionist policy toward Germany, which is the leader of the European Union. It wants to weaken Germany's economic revival, and that will continue with Trump. What's more, the Trans-Atlantic Trade and Investment Partnership [TTİP] agreement is expected to fall off the agenda.

The EU, under the leadership of Germany, was seeking a trade union with the U.S. in order not to lose markets in the emerging economies. The TTIP was a part of that strategy. If the TTIP is not realized then the EU will have to start thinking about alternative markets. That might mean an increase in the economic importance of Turkey. So while U.S. policies toward China might have a negative effect, Trump's stance toward Europe might have a positive effect.

But the critical point here is this: Turkey needs to turn its face toward Europe and make the EU recall its importance as an economic value. Actually the EU is already well aware of Turkey's economic and political importance, otherwise it would have approved the European Parliament's decision to freeze membership talks as Turkey's current direction is not in line with European norms.

Knowing that it needs Turkey economically and politically, Europe is making efforts to keep relations with Turkey on track. But one-sided efforts are not enough: Turkey needs to prioritize relations with the EU as a state policy. I see signs in that respect.

What are these signs?

While the rhetoric about joining the Shanghai Cooperation Organization as an alternative to the EU is strong, efforts are on the way to updating the Customs Union agreement [with the EU]. If on the one hand you keep saying "We'll go our own way without the EU," but on the other you work to update the Customs Union, this indicates that you know where you have to stand.

Let's talk about the third difference you expect to take place with the Trump administration

Trump likes [Russian President Vladimir] Putin. But actually there is a paradoxical situation in any possible Russian–American rapprochement. Putin benefited from a passive American administration and increased its sphere of influence. There is now one point of common interest: The fight against radical Islamists. It seems that both Putin and Trump have the instinct to act together against radical Islamists.

In addition, Trump has often said that all the money spent in the Middle East could instead have been invested in the U.S. He has said there are certain strong leaders in the region, who should themselves design the region. Who are these leaders? Putin and Bashar al–Assad - though admittedly it is not clear how long al-Assad will remain in power.

So while U.S.-Russian rapprochement redesigns the region, there will be a need for regional leaders. Who could this be? Let me give a definition rather than a name: "The leader of a secular Muslim country." If the argument voiced by Turkish President Recep Tayyip Erdoğan during his 2011 visit to Egypt, when he said "don't be scared of secularism," can make a comeback, then Turkey could play a positive role in the region. But if on the contrary Turkey does not return to that position, it could face difficulties in the framework of Russian–American cooperation in the fight against radicalism.

So Turkey is at an important crossroads. If we stand on the right side, there will be positive economic and political consequences. Some of the recent changes in foreign policy are, I believe, taking Turkey in that direction.

Let's come back to the economy. How will Turkish–American economic relations be affected?

The U.S. is not an important trade partner for Turkey. What matters more is the effect of Trump's policies on the U.S. Federal Reserve, which will hold a key meeting in March. By then we will start seeing how Trump is implementing what he has been talking about. That could increase inflation, and by March we might start talking about a hike in interest rates. That will have a negative impact on Turkey, especially over the first four months of the year. We could see a lot of sell-off pressure. But by May, with higher interest rates we will see that the rise in the cost of financing will put pressure on growth in the U.S. That could lead the Fed to lower interest rates.

So what is your general projection?

Trump will realize after a while that he cannot change certain things. He will endorse protectionist policies but he cannot go to extremes, because when U.S. protectionist policies slow down global trade that will start hurting the U.S. itself. For instance, a slowdown in global trade will harm U.S. companies throughout the world, which means a decrease in the profits they send to the States, and that in turn will hurt the U.S. economy.

TURKEY'S SABANCI HOLDING TO INVEST $1.3 BLN IN 2017

- Turkish conglomerate Sabancı Holding has plans to make 4.5 billion Turkish Liras worth ($1.25 billion) of investments in 2017, the group's CEO said on February 24th. The holding has plans to invest 4.5 billion liras in Turkey throughout 2017, up 0.4 billion liras ($110 million) or 10 percent from last year, Zafer Kurtul said at a Sabancı Group annual briefing meeting where last year's financials were announced.

> *Kurtul said nearly 80 percent of this amount would be channeled into expanding production capacity while the remainder would be set aside for technology investments. He said they expect calmer market conditions in Turkey and a recovery in other macro-economic figures. "Thanks to measures introduced in the last quarter of 2016, our GDP growth forecast was 2.6 percent for the last year," Kurtul said.*

- "We expect 2017 to be a better year than 2016 in exchange rate volatility, economic growth and recovery in unemployment," he said. Kurtul said the better part of the announced investment amount would be used to expand capacity in cement, tire and textile factories. One-and-a-half billion liras ($410 million) would be allocated to energy sector investments. Apart from expanding production capacity in existing factories, 1 billion liras ($280 million) is to be used for technological enhancements.

SUCCESS OF TURKEY'S HOME-GROWN BAYRAKTAR COMPELS BOEING TO SEEK TURKISH SUPPLIERS

- The success of Turkey's domestically-produced unmanned aerial vehicle (UAV) Bayraktar has attracted the American multinational aircraft manufacturing giant Boeing to work with Turkish companies.

- Hasan Büyükdede, Istanbul Chairman of the Defense, Aerospace and Space Cluster Association (SAHA) and Deputy Chairman of the Istanbul Chamber of Commerce, announced that between four and five Turkish suppliers are currently under review to work with Boeing, according to a report by Star daily.

- After SAHA Istanbul held a Summit on October 15th, last year, Boeing - one of the world's largest commercial aircraft companies - began negotiations with five Turkish suppliers to select its suppliers among Turkish companies.

- Büyükdede said that the success of Turkey's domestic and national defense systems have sparked the interest of foreign companies in the Turkish industry. Indicating that the success of Turkey's UAV Bayraktar, a machine that was manufactured for special missions across Turkey, Syria and Iraq by Baykar Makina, has enabled Turkey's aerospace industry to gain worldwide attention, Büyükdede said: "Bayraktar's success has compelled Boeing to seek Turkish suppliers in addition to the Turkish companies already working with Boeing. Currently, between four and five companies are being reviewed by Boeing. It is possible to earn hundreds of millions of dollars a year by the fact that between 2,000 to 3,000 from among 80,000 Turkish companies enter the system of supplying aircraft. This is a very big market and the fact that our country has come to this point is a significant development that will provide added value to every level of the industry."

- Moreover, Büyükdede also said that it is very important that Turkish companies are suppliers to aviation giants Boeing and Airbus, adding that composite parts and air-conditioning work for Boeing is currently on their agenda. Additionally, he said that they became an applicant for seats, kitchen and backseat displays. Büyükdede indicated that Turkish Airlines (THY) is one of the world's best companies providing technical service, saying, "It is very important to sign deals with Boeing to show how far the Turkish industry has come. We want to tell the world that our industry is soaring."

- Previously, Turkish-engineered "Bayraktar" drones were reported to have guided Turkish warplanes to destroy five Daesh terrorist targets in northern Syria in Operation Euphrates Shield. Moreover, having operated in Turkey since 1945, Boeing has developed partnerships with various, prominent industrial companies of Turkey, collaborating with almost 20 suppliers in Turkey. Turkish Aerospace Industries (TUSAŞ) has been a long-time partner of Boeing along with THY, Havelsan Ayesaş, Aselsan, Kale, Selex among many others

LAKE TUZ NATURAL GAS STORAGE FACILITY OPENS

- Turkey launched another energy project that will contribute to the stability of the country's energy supply. Lake Tuz Underground Gas Storage Facility, located in south central Anatolia, was opened at a grand ceremony with the participation of President Recep Tayyip Erdoğan, Prime Minister Binali Yıldırım and Minister of Energy and Natural Resources Berat Albayrak. The portion of gas required to remain in the cavern to maintain its integrity, at the Lake Tuz Underground Natural Gas Storage Facility was also compressed. The underground natural gas facility is the country's latest liquefied natural gas (LNG) investment, which Turkey considers an important channel for its energy supply security.

- The underground facility consists of 12 artificial caverns located 1,400 meters (4,593 feet) below the lake. Each cavern operates with a capacity of 630,000 to 750,000 cubic meters of gas. The facility will provide Turkey with 44 million cubic meters of gas on a daily basis. The cost of project has been reported to be $700 million.After the signing ceremony of a $400-million loan issued by the World Bank for the Trans-Anatolian Natural Gas Pipeline (TANAP) to Turkey's state-owned Petroleum Pipeline Corporation (BOTAŞ), Cyril Muller, Vice President of World Bank's Europe and Central Asia region, announced that the bank will continue to provide support for Turkey's energy supply security projects.

- "In this context, we expect to be one of the financiers in increasing the capacity of the Natural Gas Storage Facility at Lake Tuz in south central Anatolia which is estimated to supply 1 billion cubic meters of natural gas every year. We plan to approve an important financing for the said project within the year," said Muller, highlighting the World Bank's determination to contribute to the energy supply security both in Turkey and the region.

- Speaking to Anadolu Agency (AA) following the signing ceremony of an agreement for a $400-million loan issued by the World Bank to BOTAŞ for TANAP, Muller said that in addition to ensuring energy security and resource diversity for the World Bank, TANAP has also contributed to the improvement of social life and employment in the regions it passes through, adding that extensive studies are underway on the social effects of the project.

- Muller added that "By meeting the government and project sponsors, we will ensure that other financiers are attracted, because the terms are easier once World Bank's standards are applied." He also noted that this year they will support energy efficiency applications in Turkish public buildings, adding that a series of studies are being conducted and that pilot projects will be launched at various public institutions, such as schools and administrative buildings. World Bank had financed $325 million with an agreement signed in 2006 and another $400 million with another agreement signed in 2014.

COMMENTARY: WHAT HAVE WE LEARNED ABOUT AMERICAN ECONOMY DURING OBAMA'S TERM?

- U.S. experienced a historic eight-year run of jobs growth during the Barack Obama administration; this period confirmed some of our beliefs about the economy but also exposed the limitations of our understanding of a structurally changing employment situation. Here are three main takeaways from this period, along with the implications for the short and longer term.

- The U.S. economy can lose lots of jobs very quickly. Fortunately, it also can re-establish itself as one of the very best global engines of job creation. As the financial crisis raged in early 2009, the first months of the Obama administration saw a dramatic loss in jobs, reaching a cumulative 8 million while the unemployment rate surged to more than 10 percent.

- The immediate cause was malfunctioning financial markets that undermined even the most basic business transactions, such as trade financing and suppliers' credits. And, with economic activity collapsing in the rest of the world, it served as a vivid reminder that today's sophisticated and hyper-connected economies are particularly vulnerable to "sudden stops" in global finance.

- After aggressive policy interventions helped normalize financial markets both domestically and internationally, the precipitous job losses gave way to a historic period of strong employment creation. Overall, the Bureau of Labor Statistics reports, more than 14 million jobs were added in this period when the U.S. restored its position as a global engine of growth, even though the challenges were greater than in earlier periods. The unemployment rate fell to under 5 percent, a level widely regarded as signaling "full employment." Not all aspects of the labor market are behaving "normally," and those that are not remain head-scratchers.

- Although lots of jobs were created in the impressive recovery from the dark days of the global financial crisis, other elements of the labor market did not respond as would be expected based on historical experience. Wage growth has remained rather anemic, even in the context of indicators of labor shortages.

- In addition, the labor participation rate, at 62.7 percent in November 2016, has failed to bounce back from multi-decade lows, while the employment-to-population rate seems stuck at a rather low level of 59.7 percent. Cyclical factors, including an unbalanced macroeconomic policy stance that has relied excessively and for too long on unconventional monetary measures and made insufficient use of fiscal policy, have played a role.

- Fortunately, this can be fixed if a better-functioning Congress enables a more comprehensive policy response that favors Main Street as much, if not more than, Wall Street. But their restraining influences might pale in comparison to more structural and secular influences, such as demographics, globalization and technology. These more complex issues also contribute to two other economic puzzles, those of unusually sluggish productivity and bizarrely hesitant business investors.

- The above speaks to a larger and even more complex reality that is gradually imposing itself on the labor market: the changing nature of work. We are starting only slowly to comprehend the extent to which the change is occurring, particularly as innovations enable new ways of doing things while outmoding others, sometimes quite abruptly. A particularly potent influence in this regard comes from the ever-changing influence of technological progress, artificial intelligence, big data and mobility.

- With only a partial analytical understanding of the dynamics of a changing labor market, and with political polarization limiting a timely policy evolution, the policy-making apparatus has struggled to keep up with realities on the ground. With that comes the risk of now succumbing to policy temptations (such as protectionism and suffocating regulation to shield the outmoded) that, while comfortably familiar, may end up denying reality rather than adapting to it and shaping it to deliver better social outcomes.

- With these three factors comes quite a varied set of predictions for what lies ahead, starting with the jobs report for December. In the short term, the U.S. is likely to continue to create jobs, have somewhat stronger wage gains and perhaps even experience a small uptick in the participation rate. This will all be part of the multi-month soft landing of the labor market in which monthly job creation averages around 150,000, annual wage growth is close to 3 percent and the employment-to-population rate edges up but very slowly.

- It is an environment that will validate the Federal Reserve's signal of three rate hikes in 2017 and, depending on the extent of policy rebalancing here and in Europe, place greater appreciation pressure on the dollar. Over the longer term, the labor market will continue to evolve in a manner that favors skills at the high end, upends activities at the lower ends via an expansion of the sharing economy, and places even greater pressure on traditional mid- and low-skill activities. The extent to which this translates into further socio-economic dislocations and amplifies the politics of anger is far from predestined. Much will depend on the policy reaction.

MARKETS LOOK FOR LOTS OF ACTION IN PRESIDENT TRUMP'S FIRST DAYS

- Readers had hoped Trump would play up the pro-growth agenda during his inaugural address. Instead, he focused on the theme of putting America first in a speech that had a strong protectionist ring.

- "I expect volatility to be a little bit higher in the first 100 days than it was in the last part of 2016, when there was a sigh of relief and focus was more on the macro and the hopes for the macro," said Kate Moore, BlackRock chief equity strategist. "We're going to have a lot more volatility, as some of this policy gets ironed out and we get more clarity."

> *She said it could take a while to see what tax reform will look like. "I think we will get a little more clarity and then it's very likely we will have a slightly better road map when it comes to taxes over the next two months. I think that's going to be hugely important. We will have more comments and certainly more sense of the road map when it comes to trade," she said.*

> *Moore said one of Trump's most important comments in the past weeks was that the dollar is too strong. A strong dollar hurts corporate profits and hurts emerging markets. "The main takeaway I had from Trump and his comments on the dollar ... was an acknowledgment that we don't want the dollar to be too strong, going into trade negotiations," said Moore.*

- She said long dollar is a very crowded trade and she does not believe it will appreciate as much as many expect. That's simply because the global markets are improving and differences in monetary policy and growth between the U.S. and other regions won't be as great.

- Moore said she's neutral on U.S. stocks and would become more bullish if earnings continue to improve and there's more clarity around policy from Washington. She said there is a lot of reason for more dispersion on stock performance. "It's going to be from growth, inflation, policy and [Trump's] tweets and very likely how effective companies have been in containing their costs and managing to maintain their margins at this point," she said. "It seems to me there are a lot of reasons for differentiation at this point."

- Moore likes small caps and also emerging markets. "I think the fears of a trade war are overblown. It's one of the reasons we continued to be maintaining a constructive outlook for emerging markets," she said.

- She said Trump's inaugural comments were "downbeat" and it was disappointing that he pointed to problems in the economy when there is near full employment and earnings growth is picking up. The fact Trump's comments sounded protectionist unsettled some in the markets who were hoping he would sound more traditional and not as if he could start a trade war. Economists put trade concerns at the top of the list of what could change the growth outlook.

- “By far the number one issue on the global economy in the next year is how far down the path of trade tensions do we go here, and mixed into those is also geopolitical tensions as well. So do we have a gradual process, where there’s some concession on all sides and things will move smoothly, or do things get very heated and people start to worry about serious back-and-forth tariffs?” said Ethan Harris, head of global economics at Bank of America Merrill Lynch.

- Trump is expected to open talks with Mexico and Canada on the North American Free Trade Agreement, which has been in place since the 1990s. He has called for tariffs on Mexican produced goods though he is not expected to take any action yet. Harris said it will be important to see how Trump deals with China. Trump in the past week said he would not label the country a currency manipulator right away, as he threatened, and that he would speak to Chinese officials first. Harris said China has been trying to prevent its currency from falling, not pushing it lower.

- “Certainly Trump is going to want to do something that gets China’s attention … something that kind of jolts the negotiating process,” he said. “I don’t know whether that will be what he does out of the gate. It could be after he waits for some of the other stuff like the Affordable Care Act to go through. I think it’s a first 100 days story.”

- “Basically if you look at the broad data story right now, the economy is showing a little sign of picking up. Confidence is picking up. Some of this is optimism is about fiscal policy and deregulation, and some of this was already happening in the data before the election,” said Harris. He said Trump has so far been a positive for the economy and now risks being negative if he is too aggressive on trade.

- “He’s taking over at a pretty good time. The economy is at full employment, wages are beginning to accelerate. You’re not in a world where the Fed has to tighten too quickly. It is a positive way to start,” Harris said. “Right or wrong, a president gets credit for the economy. He is inheriting a good economy. Obama inherited a disaster.”

“*Moore also said the economy was already kicking in to a better gear before the election. “We actually think growth and reflation and momentum started before the U.S. election. The market acknowledged the momentum, and that turning point was super charged by the U.S. election,” she said.*”

- Moore also said the economy was already kicking in to a better gear before the election. “We actually think growth and reflation and momentum started before the U.S. election. The market acknowledged the momentum, and that turning point was super charged by the U.S. election,” she said.

- She’s looking to hear more from Trump on his plans. “It was not perhaps the most optimistic presidential speech I’ve heard. I think the real key is how Trump and his cabinet pivot to be truly looking forward instead of just criticizing what has and hasn’t’ happened and perceived weakness in the U.S. economy,” she said

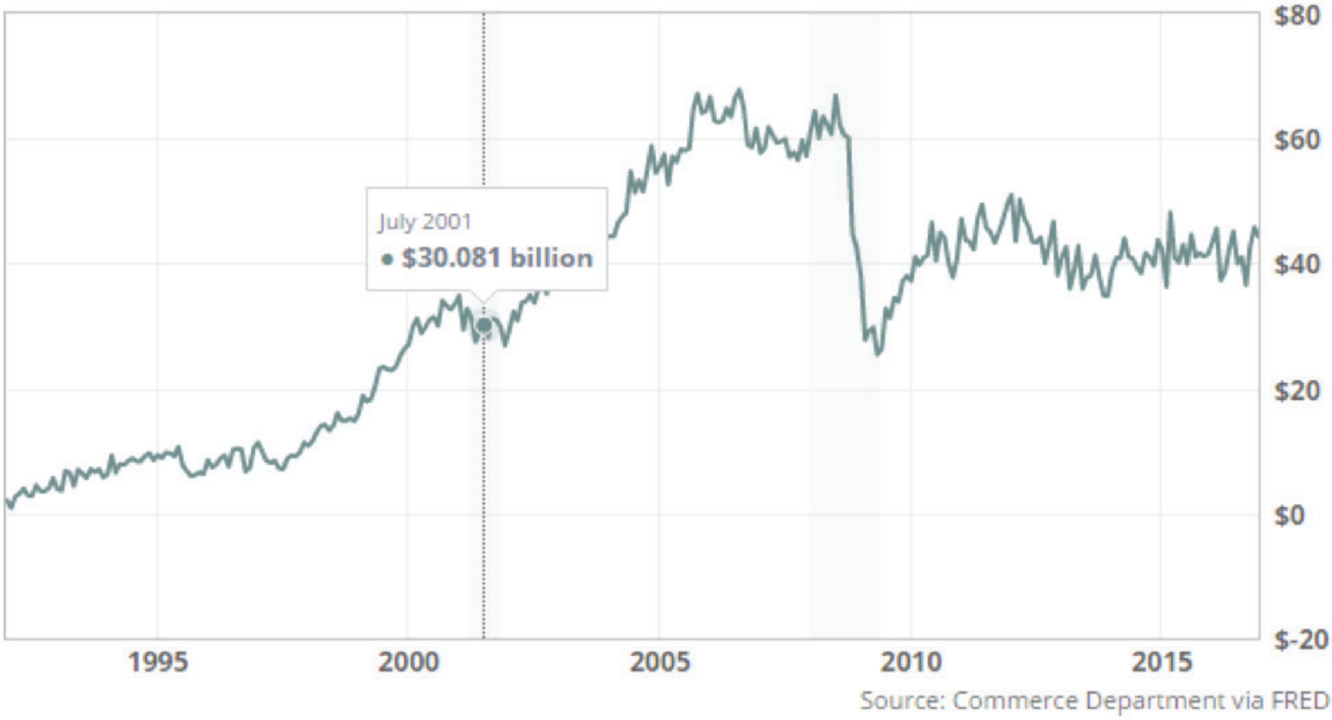
TRUMP AND TRADE: U.S. DEFICITS BACK IN LIMELIGHT

- Monthly figures on the U.S. trade deficit hardly drew scrutiny in Washington in the Obama era. Donald Trump is about to change that.

- The new president has repeatedly pointed to high trade deficits as proof the U.S. has been suckered by Mexico, China and other countries in existing trade agreements. He's promised to revamp trade deals to help the U.S. economy and reduce the nation's trade deficit. Easier said than done. The U.S. has run trade deficits in every year since 1976 under Democrats and Republicans alike, including all eight years of Ronald Reagan's presidency. Last month the government reported that the trade balance was negative for the 41 years in a row.

Trade deficit

In billions, seasonally adjusted



• So far Trump has put Mexico and China in his crosshairs. China alone accounts for about three-fifths of the annual U.S. trade deficit. The second largest deficit is with Mexico, though it's much smaller at around $60 billion a year.

• Right behind Mexico is Japan, whose prime minister met with Trump these past weeks. The Japanese leader, Shinzo Abe, reportedly offered proposals to improve economic cooperation between the two countries and forestall any tension over trade. Economists are watching carefully. The effort to reduce the trade deficit, if not handled adroitly, could wipe out any gains from Trump's plans to boost the economy through fiscal stimulus. By pushing too hard or adopting protectionist measures, he could ignite a trade war that makes goods more expensive for American consumers, slows U.S. growth and damages the global economy.

• "More than any other issue, it's the balance between prospective trade protectionism and fiscal stimulus that will determine the economy's course," said Sal Guateri, senior economist at BMO Capital Markets. Ironically, one reason the trade deficit is so high is because the U.S. is much better off economically than most of the rest of the world. Put another way, Americans can afford to buy more foreign goods than the other way around.

• Why not just buy American made? Well, many of the goods Americans want such as cell phones, computers and televisions are generally not manufactured at home. That's not going to change anytime soon even if Trump is successful at luring more companies to the U.S.

• One bit of good news is that soaring U.S. energy production has reduced the influence of foreign oil on the economy and contributed to a lower trade deficit. Ten years ago, the nation's trade gap skyrocketed to an all-time high of $761 billion largely because of a huge spike in the cost of oil.

- If the policies pursued by Trump help further boost domestic oil production, that's likely to be the quickest way to cut the deficit. A stronger world economy would also help but the U.S. has little control over that. A long-run solution is unlikely anytime soon, however. The stated goal of the new president — to rebuild American industry — would take years even under the most wildly optimistic scenario.

REPUBLICANS PLAN TO GROW AMERICAN ECONOMY USING PROTECTIONISM

- At their post-Civil War apogee, 19th-century Republicans were the party of activist government, using protectionism to pick commercial winners and promising wondrous benefits from government's deft interventions in economic life. Today, a Republican administration promises that wisely wielded Washington power can rearrange commercial activities in ways superior to those produced by private-sector calculations in free market transactions.

- According to the Financial Times, which interviewed him, Peter Navarro, head of the president's National Trade Council, says an administration priority is "unwinding and repatriating the international supply chains on which many U.S. multinational companies rely." This will make life interesting for, among many others, America's third and 24th largest corporations, Apple and Boeing.

- The tiny print on the back of iPhones accurately says it is "assembled," not manufactured, in China. The American Enterprise Institute's James Pethokoukis notes that parts come from South Korea, Japan, Italy, Taiwan, Germany and the United States. Components of Boeing airliners' wings come from Japan, South Korea and Australia; horizontal stabilizers and center fuselages from Italy; cargo access doors from Sweden; passenger entry doors from France; landing gear doors from Canada; engines and landing gear from Britain.

- Navarro's "unwinding and repatriating" is, to say no more, part of an improbable project: making American greater by making Apple, Boeing and many other corporations much less efficient and less competitive. This will further slow economic growth, making even more unattainable the 4 percent (more than double the economy's average growth this century) or higher growth that the administration says will enable it to spend $1 trillion on infrastructure (including a $15 billion or so wall on the Mexican border, begun after nearly a decade of net negative immigration from Mexico), while substantially increasing military spending, leaving entitlements unreformed and delivering enormous tax cuts.

- Cuts that, according to the Committee for a Responsible Federal Budget (co-chaired by Republican Mitch Daniels and Democrat Leon Panetta, both former directors of the Office of Management and Budget), will reduce revenues by $5.8 trillion over 10 years. This, as the Congressional Budget Office projects that even without any of the administration's proposed spending spree and tax cuts, under current law the national debt would increase by $9.4 trillion.

- Speaking of supply chains: In her book "The Travels of a T-Shirt in the Global Economy," Georgetown University's Pietra Rivoli recounts a conversation with a man from Shanghai who said that if she would come to China he would help her see various places involved in producing the inexpensive T-shirts exported to America. She would see where the yarn is spun, the fabric is knit and the shirts are sewn. Asked if she could see where the cotton is grown, the man from China said he could not show her that because the cotton probably is grown in "Teksa." Rivoli spun a globe around to China and asked him to point to Teksa. "He took the globe and spun it back around the other way. 'Here, I think it is grown here.' I followed his finger. Patrick was pointing at Texas."

- Today's Republican administration promises protection against the destruction of American jobs by the Chinese, Mexicans and other foreigners. The really prolific destroyers are: Americans. As Reason's John Tamny says, Americans streaming movies from Netflix (based in Los Gatos, Calif.) erase American jobs in movie theaters and DVD rental stores. Americans buying books from Seattle-based Amazon have caused many American bookstores to do what Borders' (400 stores, 11,000 employees) did: disappear. Americans using San Francisco-based Uber are destroying many taxi drivers' jobs. Evidently our protectors in the administration must believe this: The destruction of American jobs because Americans buy goods or services of some American companies rather than those of other American companies is benign. But the destruction of American jobs because Americans buy goods or services of foreign companies is intolerable.

• As today's Republicans celebrate a protectionist administration that is confident that Washington's superior wisdom can improve upon the market's allocation of economic resources, Democrats must resent Republican plagiarism. Who will protect Americans from their protectors?

HOW TRUMP'S STOCK MARKET RANKS IN HIS FIRST 30 DAYS IN OFFICE

• Much has been made of the stock market's record-setting performance since President Donald Trump won the race for the White House back in November. But Dow Jones's data team offers more insight into how Trump stacks up compared with other presidents in their first 30 days in office, a milepost Trump hits on February 19. The Dow Jones Industrial Average DJIA, +0.02% has returned 4.02% as of Friday's close, which would make the Dow's performance in the Trump era's first month the sixth best in percentage terms behind Franklin D. Roosevelt in 1945, after his fourth victorious campaign for the presidency, when blue chips climbed by 4.1%.

Election Winner	30th day in office	DJIA	% Chg
Theodore Roosevelt (R)	4/3/1905	81.13	6.55%
William McKinley (R)	4/3/1901	71.35	5.58%
William Taft (R)	4/3/1909	85.94	5.07%
Franklin D. Roosevelt (D)	2/19/1945	159.01	4.13%
Donald J. Trump (R)	2/19/2017	20624.05	4.02%
George H. W. Bush (R)	2/19/1989	2324.82	4.00%
Franklin D. Roosevelt (D)	4/3/1933	55.69	3.44%
George W. Bush (R)	2/19/2005	10785.22	3.00%
John F. Kennedy (D)	2/19/1961	651.67	2.73%
William Clinton (D)	2/19/1997	7020.13	2.58%
William Clinton (D)	2/19/1993	3322.18	2.47%
Barack Obama (D)	2/20/2013	13927.54	2.04%
George W. Bush (R)	2/19/2001	10799.82	2.00%
Franklin D. Roosevelt (D)	2/19/1937	189.37	1.83%
Woodrow Wilson (D)	4/3/1913	82.16	1.80%
Ronald Reagan (R)	2/20/1985	1283.13	1.73%
Woodrow Wilson (D)	4/4/1917	95.83	0.83%
Warren G. Harding (R)	4/3/1921	75.27	0.21%
Richard Nixon (R)	2/19/1969	925.10	-0.66%
Lyndon B. Johnson (D)	2/19/1965	885.61	-1.08%
Dwight D. Eisenhower (R)	2/20/1957	469.00	-1.45%
Ronald Reagan (R)	2/19/1981	933.36	-1.82%
Jimmy Carter (D)	2/19/1977	940.24	-1.96%
Dwight D. Eisenhower (R)	2/19/1953	281.55	-2.24%
William McKinley (R)	4/3/1897	39.89	-3.51%
Harry S. Truman (D)	2/19/1949	174.53	-3.80%
Herbert Hoover (R)	4/3/1929	300.35	-4.30%
Richard Nixon (R)	2/19/1973	979.23	-4.58%
Calvin Coolidge (R)	4/3/1925	117.40	-4.75%
Barack Obama (D)	2/19/2009	7465.95	-6.08%
Franklin D. Roosevelt (D)	2/19/1941	117.94	-8.74%

Election Winner	30 days in office	Close	% Chg
Franklin D. Roosevelt (D)	2/19/1945	14.16	5.36%
William Clinton (D)	2/19/1997	812.49	4.61%
John F. Kennedy (D)	2/19/1961	62.1	3.57%
George H. W. Bush (R)	2/19/1989	296.76	3.53%
Donald J. Trump (R)	2/19/2017	2351.16	3.52%
Ronald Reagan (R)	2/20/1985	181.18	3.40%
Franklin D. Roosevelt (D)	2/19/1937	18.37	2.97%
George W. Bush (R)	2/19/2005	1201.59	2.23%
Barack Obama (D)	2/20/2013	1511.95	1.75%
Franklin D. Roosevelt (D)	4/3/1933	5.87	0.51%
William Clinton (D)	2/19/1993	434.22	0.20%
Lyndon B. Johnson (D)	2/19/1965	86.21	-0.45%
Richard Nixon (R)	2/19/1969	100.65	-1.02%
Dwight D. Eisenhower (R)	2/20/1957	43.63	-1.73%
Dwight D. Eisenhower (R)	2/19/1953	25.57	-2.18%
Jimmy Carter (D)	2/19/1977	100.48	-2.42%
Herbert Hoover (R)	4/3/1929	24.86	-2.47%
George W. Bush (R)	2/19/2001	1301.53	-3.05%
Richard Nixon (R)	2/19/1973	114.98	-3.20%
Barack Obama (D)	2/19/2009	778.94	-3.26%
Ronald Reagan (R)	2/19/1981	126.61	-3.83%
Harry S. Truman (D)	2/19/1949	14.76	-4.77%
Franklin D. Roosevelt (D)	2/19/1941	9.55	-8.79%

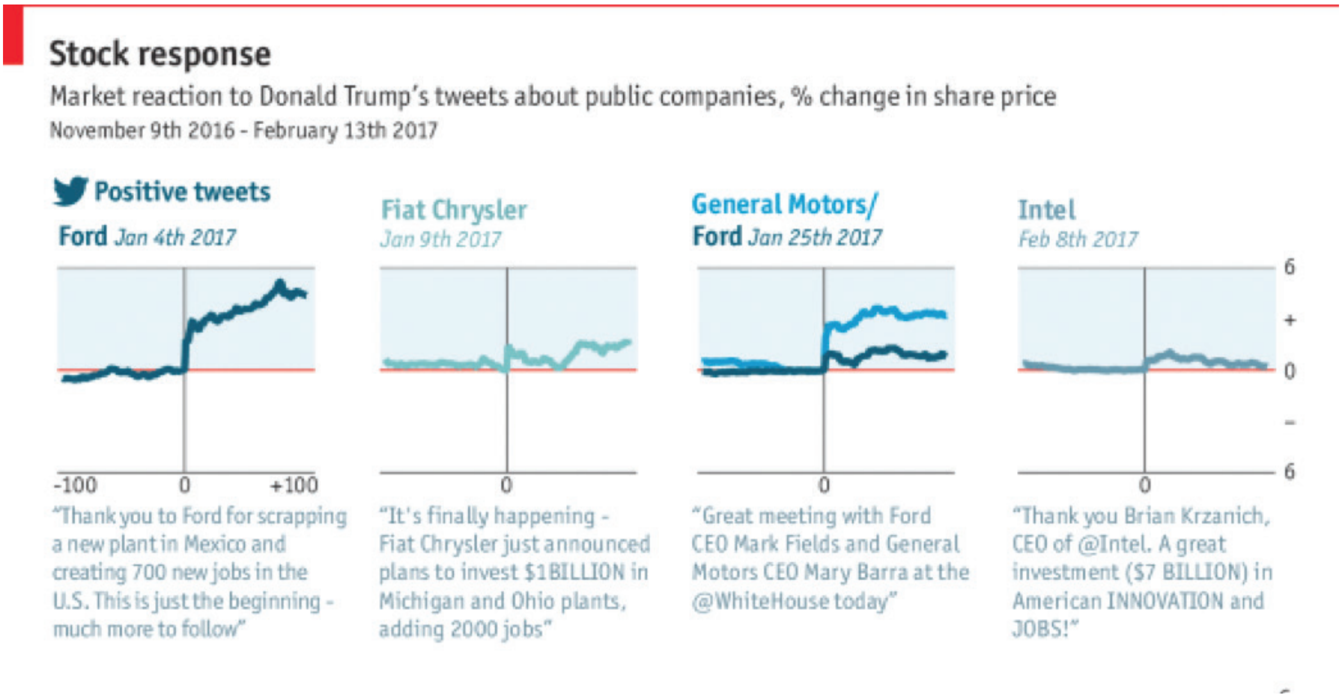
Trump's Dow performance marks the fifth best gain in history in percentage terms (in the first 30 days), according to Dow Jones data, and the third best such performance for a first-term president. As for the S&P 500 SPX, +0.17% that benchmark index has advanced 3.5% in the month since Trump took the oath of office. That represents the best 30-day stretch since the days following the second inauguration of Bill Clinton in 1997, when the broad-market gauge ran up 4.6%

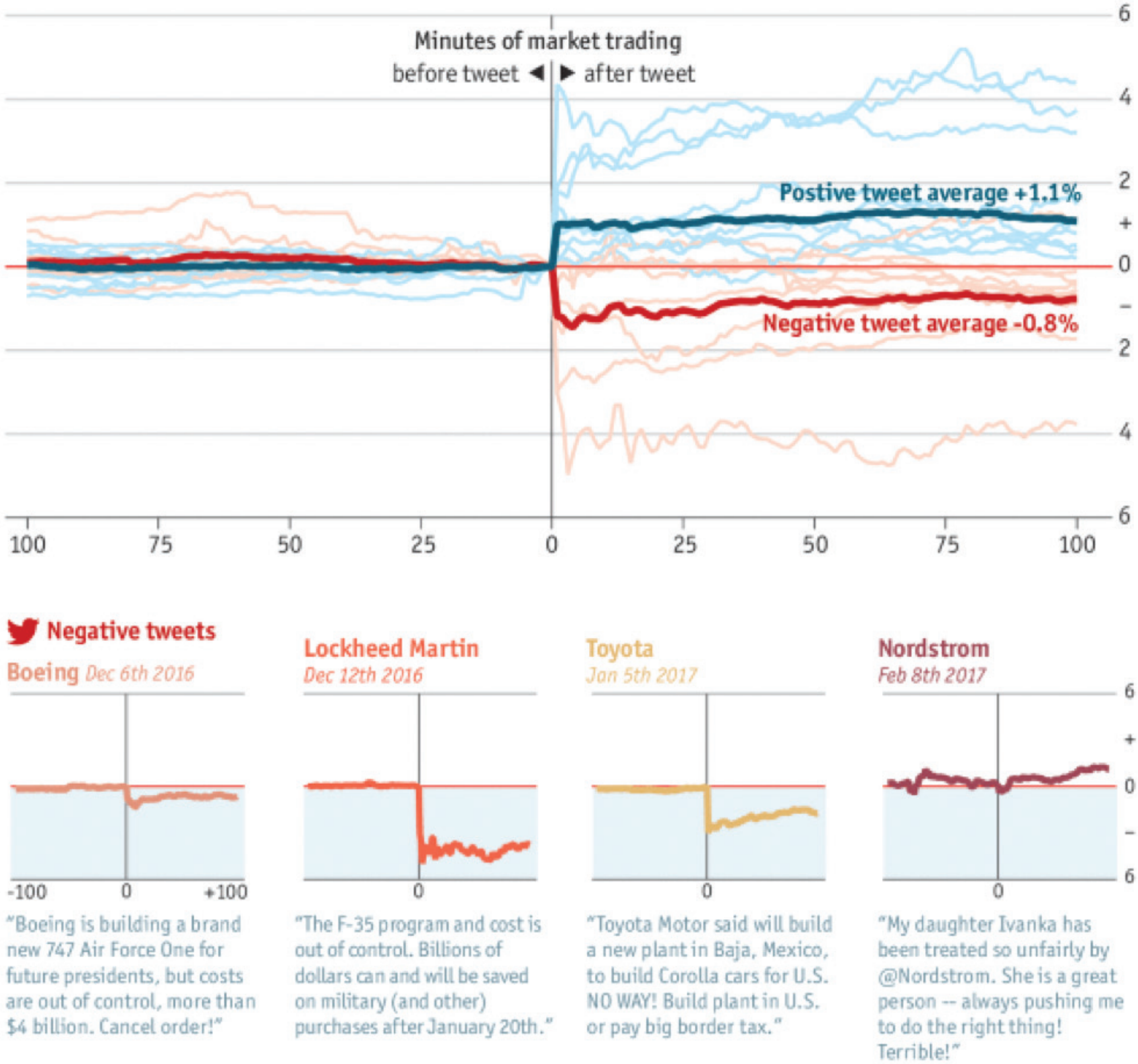
- Lately, Trump has been grousing that critics are too focused on Mike Flynn, his national-security adviser who stepped down amid a scandal about his conversations with Russian officials, and Andy Puzder, the president's pick to head up the Labor Department who withdrew his name from consideration, and not sufficiently cheering what some refer to as the Trump rally:

- Stock market hits new high with longest winning streak in decades. Great level of confidence and optimism - even before tax plan rollout!

- President Trump likes to tout the fact that the Dow and Nasdaq Composite Index COMP, +0.41% have risen 12.1%, and the S&P 500 is up nearly 10% since the Nov. 8 election. Stocks resumed their record-setting ways, with all three equity-market benchmarks finishing at all-time highs, capping a boffo week for U.S. equities.

- Still, there is some sense that the Trump rally, inspired by campaign promises of increased spending on infrastructure, reduced taxes and loosened regulations may be more apt to run out of steam than go higher—at least until he delivers hard-and-fast details of business-related policies.





Sources: Bloomberg; Twitter; *The Economist*

Economist.com

AMERICANS BRIMMING WITH OPTIMISM ON THE ECONOMY

- A strong majority of Americans say the U.S. economy is running strong, and most believe the upward trend will continue under President Trump, according to a Harvard-Harris poll provided exclusively to The Hill.

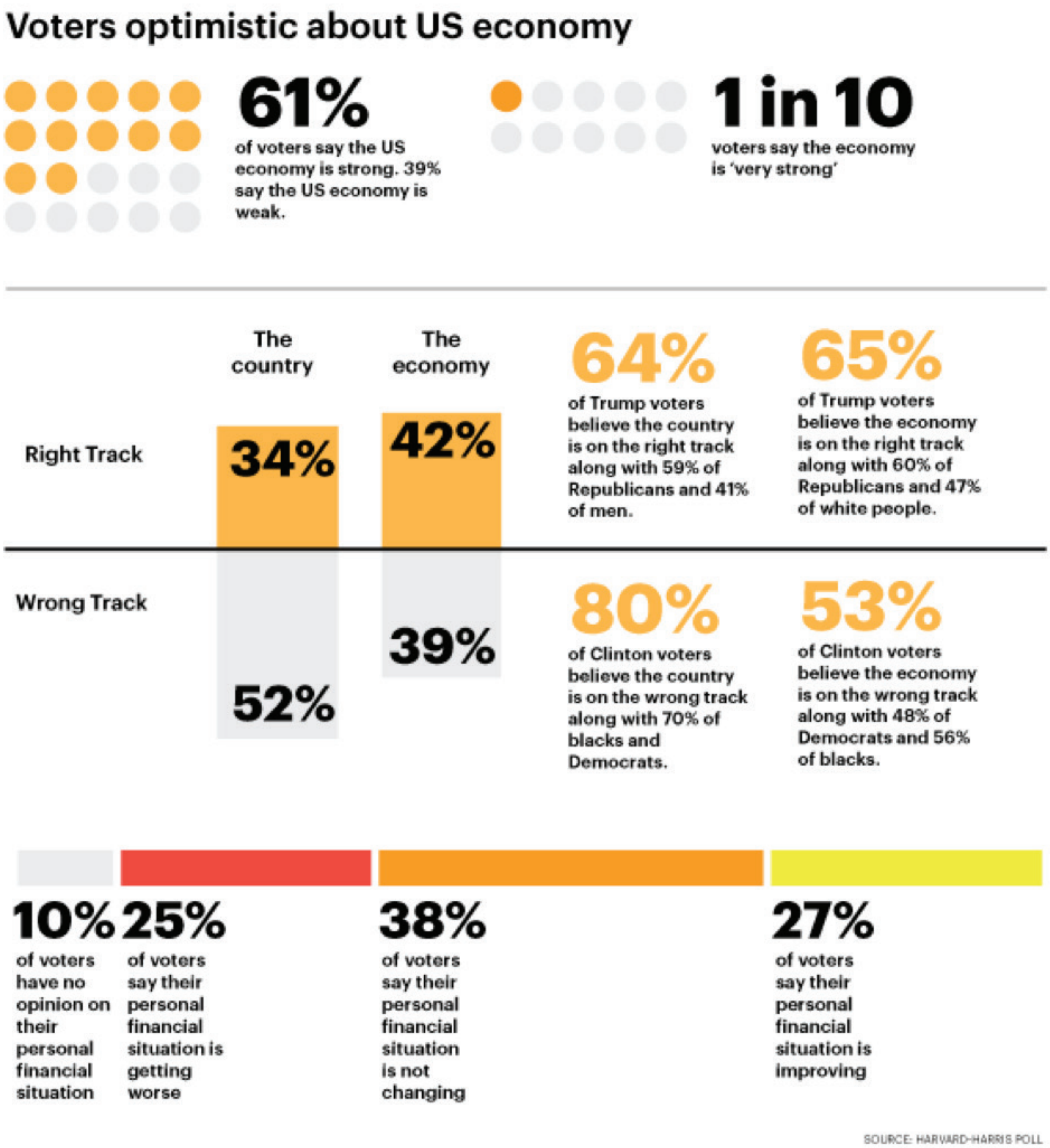
- The survey found that 61 percent view the economy as strong, against 39 percent who say it is weak. A plurality, 42 percent, said they believe the economy is on the right track, versus 39 percent who said it is on the wrong track.

- Trump and congressional Republicans have claimed credit for the turnaround, noting numerous polls in 2016 that showed that many Americans wanted change in the nation's capital. Democrats counter that former President Obama handed a healthy economy to Trump and point out that the unemployment rate has dropped under 5 percent. At a press conference, Trump said he inherited "a mess."

• Among Republicans surveyed in the Harvard-Harris poll, 60 percent are satisfied with the economic trajectory, versus 23 percent who are dissatisfied. Only 33 percent of Democrats said the economy is on the right track, while 48 percent said it is headed in the wrong direction.

• At 65 percent, Trump voters are the likeliest to say the economy is headed in the right direction. “It’s really a surprising turnaround given how negative voters have been about the economy since 2009,” said Mark Penn, co-director of the Harvard-Harris poll. “But jobs remain the number one issue and a lot of the change in sentiment anticipates tax cuts and infrastructure programs.”

• The stock market is soaring and January marked the 76th consecutive month of job growth. The economy added 227,000 new jobs in January, far greater than the 175,000 economists had expected. The White House has taken credit for that report, saying that companies are increasing hiring amid optimism that Trump would foster a more friendly business environment than the previous administration.

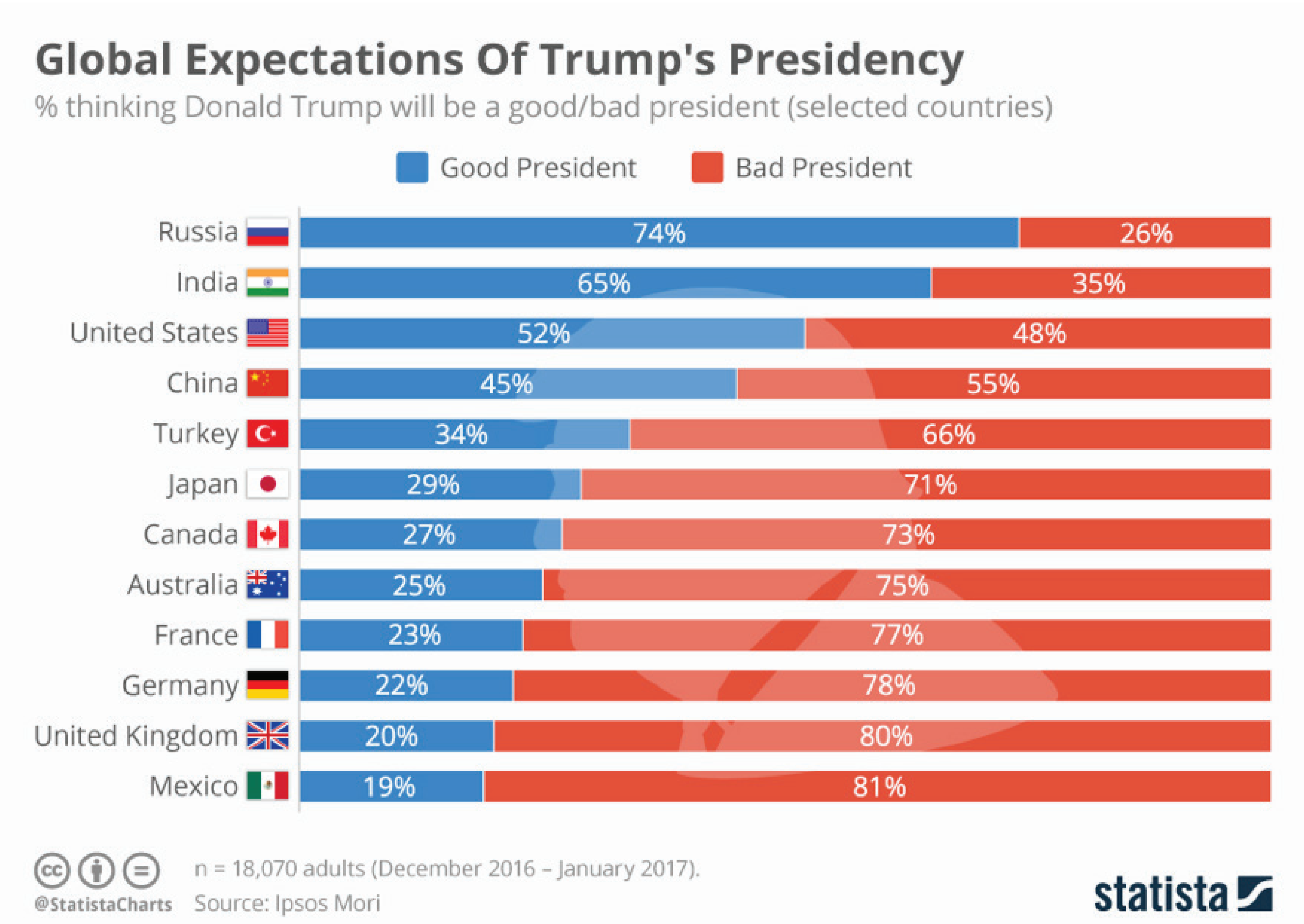


- In an interview with The Hill last month, Senate Majority Leader Mitch McConnell (R-Ky.) criticized Obama's record, saying under his watch the country "didn't have a single year of 3 percent growth, and the statute of limitations on blaming [former President George W. Bush] ran out a long time ago." He also said the stock market is rising because of the "expectation of regulatory relief and tax reform."

- Trump, whose success as a real estate developer was central to his campaign pitch, has made job growth a priority. He meets frequently with business leaders and has signed executive orders aimed at dismantling Obama-era regulations and scaling back Wall Street reforms implemented in the wake of the 2008 economic crisis.

- Still, only 27 percent of Americans said their personal financial situation is improving. Twenty-five percent said things are getting worse for them, and 38 percent said they're doing just as well as before. The economy aside, Americans have a far more pessimistic view of the nation's trajectory as a whole, with only 34 percent saying the country is on the right track, against 52 percent who say things are headed in the wrong direction.

- The online survey of 2,148 registered voters was conducted between February 11 and 13. The partisan breakdown is 39 percent Democrat, 30 percent Republican, 27 percent independent and five percent other. The Harvard-Harris Poll is a collaboration of the Harvard Center for American Political Studies and The Harris Poll.



Dear Readers,

TAIK and ATC are proud to bring you the Post Conference Report for the 35th Annual Conference on U.S.-Turkey Relations. As the nation prepares itself for the inauguration of our 45th President, we know how critical these next four years will be for the U.S.-Turkey relationship. We are dedicated to working together to ensure the strong linkages that tie us together remain intact and continue to grow.

The election of Donald Trump as the President of the United States means new dynamism and opportunities for America's allies and for Washington alike. The first 100 days of the new Administration will be critical and the release of this publication has been timed to underscore the importance of and continued dialogue that is necessary to preserve and advancing the strong business, diplomatic, and cultural relationship between our countries.

The **Post Conference Report** documents the proceedings of our 35th Annual Conference, providing summaries of major ideas, recommendations for action, long range vision frameworks, and exemplary stories and analysis. We hope you enjoy it, and walk away with a stronger understanding of the dynamic U.S.-Turkey relationship.

Please click here for the videos from the conference.

We look forward to building on this at this year's conference, the **36th Annual Conference on U.S.-Turkey Relations,** May 21-23, 2017 at the **Trump International Hotel, Washington D.C.**

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