

# MONTHLY BRIEF

TURKEY-U.S.  
ECONOMIC OUTLOOK



NOVEMBER  
2017



# Monthly Brief

TURKEY-U.S. ECONOMIC OUTLOOK

## ABOUT DEİK

Foreign Economic Relations Board of Turkey (DEİK) 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 businesses and coordinating similar business development activities.

## ABOUT TAİK

The Turkey-U.S. Business Council (TAİK), operating under the umbrella of the Foreign Economic Relations 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 a 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.



# UPDATE ON TURKISH ECONOMY

## 11.82%

**CPI inflation** in October is registered as **11.82%** in Turkey and has been above market expectations. Central Bank also revised its year-end inflation expectation upward.

## 13.4%

Year on year **increase of industrial production** is registered as **13.4%** in September, pushing the third quarter GDP growth expectations around 10%

## \$13.5 BILLION

**Turkey's exports** were recorded as **\$13.5 billion** with an **increase of 15.6%** in October. Year-end exports are expected to exceed \$156 billion.

## 10.6%

**Unemployment in Turkey** is registered as **10.6%** in August, down 0.7% from August 2016 and 0.1% from July 2017.

### Growth: Overheating?

Industrial production index for September was the final leading indicator of Turkey's economic growth in the third quarter. Seasonally adjusted manufacturing production registered an increase above 10% marking the best performance of the last 6.5 years. Such rapid expansion of industrial production led to a revision for the third quarter growth expectations to reach double-digits which also results in upward revisions in growth expectations for the whole year.

The last period with double digit growth performance for Turkey was the first half of 2011. Recalling the discussions during that period demonstrates that there was a consensus on the economy's inability to sustain such performance in the long-run, thus leading to the implementation of policies to enable the renowned "soft landing". However, Turkey's economy administration is not expected to resort to the same set of policies today, as Deputy Prime Minister Mehmet Şimşek rejected the current debate on overheating due to the normalization of the surge in credit growth experienced in the second quarter.

The main reason for DPM Şimşek's dismissal of discussions about overheating is the expectation that growth in third quarter will mark a peak level and relative slowdown is anticipated in the upcoming period. Such anticipation is directly related to three fundamental factors behind strong growth performance in the third quarter: (i) Central Bank's ability to sustain exchange rate stability (until last month) utilizing the favorable global cycle, (ii) government's actions to create an impulse in economic activity via direct spending as well as tax breaks/cuts (resulting in budget deficit increase), and (iii) strong credit growth with the help of the Credit Guarantee Fund (CGF). Despite leading to a growth performance exceeding the potential without extra incentives as such, anticipated normalization of government spending and credit growth in particular is expected to bring growth back to sustainable levels in the upcoming quarters.

## **Inflation: Here to Stay?**

Before turning to a discussion on the effects of these dynamics in 2018, particular attention shall be paid to a legacy they left in 2017, which is concerning in terms of its potential spillover in 2018: double digit inflation. Turkey has been a country of disinflation due to valuable steps taken towards taming inflation since the solidification of price stability efforts from 2001 onwards. Nevertheless, quantitative easing policies implemented by developed countries since the 2008 financial crisis resulted in unexpected side effects for many developing countries including Turkey.

Turkey's response to such shocks has been resorting to unorthodox monetary policies. Throughout this process, Central Bank's occasional precedence to financial stability instead of price stability has been observed. From time to time, we have also experienced a preference for growth performance overtaking price stability efforts. A result in such policy choice since mid-2010 has been an upward tendency of long-term inflation trends. Hence, the current picture of double-digit inflation is in fact an outcome of such gradual policy shift for the last 7 years. In other words, as the monetary policy authority resorted to a more flexible price stability target every year with an aim to converge with financial stability or growth performance goals, household expectations on inflation have increased correspondingly. Such policy shift fueled with abovementioned measures to increase economic growth in 2017 is expected to result in inflation enduring its double-digit level at the end of the year.

**Source:** InnoNative Advisors



## UPDATE ON TURKEY-U.S. TRADE RELATIONS

### \$130.5 BILLION

**U.S. exports of goods** in September 2017 **increased by 1.4% to \$130.5 billion** compared to previous month.

### \$196 Billion

**U.S. imports of goods** in September 2017 **increased by 1.2% to \$196 billion** compared to previous month.

### \$772 Million

**U.S. exports of goods to Turkey** in September 2017 **increased by 3.2% to \$772 million** compared to previous month. **Total U.S. exports to Turkey in the first nine months of 2017 has reached to \$6.99 billion.**

### \$772 Million

**U.S. imports of goods from Turkey** in September 2017 **decreased by 6.1% to \$772 million** compared to previous month. **Total U.S. imports from Turkey in the first nine months of 2017 has reached to \$7.32 billion.**

### 29<sup>th</sup>

**Turkey is U.S.'s 29<sup>th</sup> largest export market** in the first nine months of 2017. **Leading U.S. exporting industries to Turkey** in September 2017 are **iron and steel products** (\$199 million), **machinery and spare parts** (\$58 million), **aircrafts and spare parts** (\$55 million), **mineral fuels** (\$48 million), and **electrical machinery and equipment** (\$47 million) which in total comprise 52.7% of overall exports to Turkey in September.

### 34<sup>th</sup>

**Turkey is U.S.'s 34<sup>th</sup> largest sourcing market** in the first nine months of 2017. **Leading Turkish exporting industries to U.S.** in September 2017 are **motor vehicles and spare parts** (\$121 million), **machinery and spare parts** (\$69 million), **iron and steel products** (\$65 million), **carpets** (\$42 million), and **natural stones** (\$39 million) which in total comprise 43.5% of overall exports to the U.S. in September.

### 45.7%

**Texas** (\$1.16 billion), **New York** (\$579 million), **California** (\$543 million), **Washington** (\$489 million), and **Louisiana** (\$425 million) are the **leading states in exports to Turkey** in the first nine months of 2017 which **in total comprise 45.7% of U.S. exports to Turkey.**

### 46.7%

**California** (\$998 million), **Texas** (\$740 million), **New York** (\$650 million), **New Jersey** (\$639 million) and **Florida** (\$399 million) are the **leading states in imports from Turkey** in the first nine months of 2017 which **in total comprise 46.7% of American imports from Turkey.**

## U.S. - Turkey Trade (2016-2017, Million \$)



Source: InnoNative Advisors





## ONLINE SHOPPING GIANT ALIBABA MAKES DEAL WITH ARAS CARGO IN TURKEY

*Chinese e-commerce giant Alibaba has reached a deal with Aras Cargo for its transportation activities.*



The world's largest e-commerce company, Alibaba has reached a deal with Aras Kargo from Turkey. Aras Kargo General Manager said that they would

deliver cargo from China within 5 days. Speaking at an event for presentation of Digital Transformation at Aras Cargo, the official for the company said that the cooperation with Alibaba would begin with 10 thousand shipments a day, next week. Aras Cargo is known to be as one of the most reputable companies in Turkish delivery sector. Alibaba broke the world record in e-commerce, selling online \$ 25 billion worth of goods on a single day, on November 11th. Turkey's annual e-commerce volume on the other hand stands at 17.5 billion TL (about 4.4 billion dollars).

## TURKEY RECEIVES FOREIGN INVESTMENT WORTH USD 140 BILLION BETWEEN 2010-2016

*Based on data provided by Turkey's Ministry of Economy, 140 billion dollars of direct capital has entered Turkey in the period between 2010 and February 2016.*

Turkey has been a country of attraction for foreign investments for quite a while now thanks to defining factors like its geographical location, trained manpower and advanced technology. Based on data provided by Turkey's Ministry of Economy, 140

billion dollars of direct capital has entered Turkey, of which 128.5 billion dollars from 20 countries, in the period between 2010 and February 2016. The share of said 20 countries in the total investment was recorded as 91.7 percent.

**The following countries are in the top ten (in US Dollars, between 2010 and 2016):**

1- **Netherlands:** 22 billion 15 million dollars - The share of investment from Dutch companies in total direct investment was 15.8 percent

2- **USA:** 11 billion 198 million dollars - The share of investment from US companies in total direct investment is 8.0 percent

3- **Austria:** 9 billion 759 million dollars- The share of investment from Austrian companies in total direct investment was 7.0 percent

4- **UK:** 9 billion 538 million dollars- The share of investment from British companies in total direct investment is 6.8 percent

5- **Luxembourg:** 8 billion 985 million dollars- The share of investment from Luxembourg companies in total direct investment is 6.4 percent

6- **Germany:** 8 billion 851 million dollars.- The share of investment from German companies in total direct investment is 6.4 percent

7- **Belgium:** 8 billion 209 million dollars- The share of investment from Belgian companies in total direct investment is 5.9 percent

8- **Spain:** 7 billion 636 million dollars- The share of investment from Spanish companies in total direct investment was 5.5 percent

9- **Greece:** 6 billion 867 million dollars- The share of investment from Greek companies in total direct investment is 4.9 percent

10- **France:** 6 billion 850 million dollars - The share of investment from French companies in total direct investment is 4.9 percent

## **TURKEY EXPANDING GAS CAPACITY WITH 2 MORE LNG STORAGE UNITS**

*In order to expand storage capacity in the face of increasing demand, Turkey is poised to operationalize two more liquefied natural gas (LNG) floating storage and regasification units (FSRU), with one to start operating by the end of the year.*

Elaborating on the course to follow for supply security, Energy Minister Berat Albayrak underscored the goal to diversify energy resources and routes, expand drilling and seismic survey operations, strengthen energy infrastructure and prioritize energy efficiency. Speaking at the 2018 budget negotiations of the Energy and Natural Resources Ministry at the Turkish Grand National Assembly (TGNA), Minister Berat Albayrak announced that two more FSRU facilities in Hatay Dörtyol and the Gulf of Saros will be operationalized, recalling that an FSRU was deployed in İzmir's Aliğa district last year. The FSRU in Hatay Dörtyol will have a daily regasification capacity of 20 million cubic meters and be operational by the end of the year. With the ongoing works on increasing storage capacity, the natural gas storage capacity will exceed 10 billion cubic meters. The cumulative storage capacity will be equal to 20 percent of the annual gas consumption, the minister informed.

Elaborating on the multilateral natural gas project of which Turkey is a party, the minister noted that Trans-Anatolian Natural Gas Pipeline Project has been 94 percent completed by the end of September and the construction under the Dardanelles Strait continues. The minister said the TANAP project will start delivering gas to Turkey in 2018 and to Europe

in 2020. With regards to the TurkStream project in which Turkey cooperates with Russia, Minister Albayrak informed that the pipe-laying operations steadily continue and by Nov. 9, 248 kilometers of pipes were laid. "Considering the lack of a healthy natural gas market in Southeastern Europe and the size of our market, TANAP and TurkStream projects will support our goal to achieve a natural gas trading hub in Turkey," Albayrak said. Providing information on the developments of the storage facilities, Minister Albayrak said Lake Tuz Underground Natural Gas Storage Facility received first gas in January 2017 and the first phase of the project was prepared for gas deliveries in 2017 winter last year. Referring to currency capacity-growing operations, the minister said, "Once the works are completed at the Lake Tuz Underground Natural Gas Storage Facility, it will have a 5.4 billion cubic meters of gas storage capacity and the reproduction capacity will reach 80 million cubic meters on a daily basis." The Northern Marmara Natural Gas Storage Phase II Project was completed in 2016 and the facility has a 2.8 billion cubic meters of storage capacity while daily reproduction is 25 million cubic meters. Minister Albayrak informed that the expansion work at the facility will be completed by 2020 and its total, storage capacity will reach 4.6 billion cubic meters





Energy and Natural Resources Minister Berat Albayrak stressed that renewable energy comes to the fore among the energy strategies developed by Turkey and that renewable energy is of great importance in terms of contribution to transition to low carbon economy as well as providing supply security and resource diversity thanks to innovative approaches and new technologies developed. Minister Albayrak highlighted that projects on increasing electricity generation from renewable sources globally have gained momentum and informed that 66 percent of the globally needed electricity is generated from fossil fuels, while only about 24 percent of electricity is produced from renewable sources. “From this point of view, our country is above the world and European average with the 33.2 percent electricity generation rate from renewable sources,” Energy and Natural Resources Minister Berat Albayrak said, recalling that in 2002 electricity production from renewable sources alone was 34 billion kWh, while in 2016 it increased by 168 percent to 91 billion kWh. Noting that Turkey’s renewable energy-based installed power tripled in the third quarter of 2017, rising from 12,277 megawatts to 36,002 megawatts, Albayrak said the total installed capacity of renewable energy investments in 2016 and at the end of the third quarter of 2017 reached approximately 4,793 megawatts, adding that 53 percent of the installed power of the electricity generation facility investments realized in the last 10-year period was obtained from renewable energy sources. “This is one of the best indicators of the positive results of our renewable energy applications,” he said.

Albayrak underlined that steps have been taken to increase the use of wind, solar and geothermal resources, which were almost never used 15 years ago in electricity generation, noting that the installed

power development rate of these resources have been much higher than the world average thanks to these steps. Energy and Natural Resources Minister Albayrak noted that within 10 years, 10,000 megawatts of additional installed power will be commissioned for wind and solar power each.

He also stressed that nuclear energy is an important alternative to meet the rising electricity demand and to reduce the risks resulting from dependency on imported fuels. Recalling that significant steps have been taken in the Akkuyu and Sinop power plants, and that the location studies for the third power plant are ongoing, Albayrak informed that the first two projects will have four reactors each and a total installed power of 9,280 megawatts. “With the nuclear power plants to be established, our country’s electric energy portfolio will be expanded, and resource diversity will be increased,” he continued. “In addition, the contribution of zero-emission nuclear energy to achieving climate change targets is important.” He pointed out that the first unit of the Akkuyu Nuclear Power Plant is aimed to be operational in 2023, adding that the ground survey and feasibility studies are underway for the project in Sinop

## CHOBANI FOUNDER 'HUGs' YOUNG TURKISH ENTREPRENEURS IN US

*The Turkish businessman Hamdi Ulukaya that founded Chobani yogurts, one of the leading yogurt brands of the U.S., announced the launch of his new initiative Nov. 17 evening in New York University's Tisch Hall.*

Hamdi Ulukaya Girişimi (HUG) aims to support young Turkish entrepreneurs that already have a start-up or have an idea for a start-up. "We [Turkish people] find solutions, we don't give up, we have optimism, and we are survivors. If you implement these in a field of business or entrepreneurship, you have a lot of advantage," Ulukaya said about the idea behind his initiative. "What is missing is self-confidence," he added. That is why, Ulukaya said, he told the young businesspeople-to-be arriving for HUG's New York boot-camp that he was not going to teach anything but that they were going to share.



"The main goal is reminding you who you are. You are no more or less than anyone else. You are good enough to do this, stop thinking you cannot. If you don't believe it, look at me," he said with a smile that made the audience laugh. "Come as who you are," he said, "If you come pretending to be something else, then you will create someone else's world." Ulukaya came to the U.S. in 1994, and in 2005 started Chobani yogurt, which has estimated annual sales of \$211.43 million as of 2017. He has made his way to the Forbes billionaires list. Yet he has always been proud of his humble roots. One day "about two or three years" after he started Chobani, he told his factory workers, according to his own account, to slap him if he started acting very differently, as someone he was not.

"Because I was afraid, I did not know what I was going to do. They were telling you they were going to give you billions. What are you going to do?" he said.

Ulukaya was born and raised in Turkey's eastern provinces of Tunceli and Erzincan. In New York, he went on to found a cheese factory, named Euphrates, upon his father's suggestion. He describes the experience as one where everything went wrong, which ended up making him the man he is today because he "would do everything in his life not to go through that experience again."

HUG's board has Turkish professors and entrepreneurs who live and work in the U.S. The initiative, which Ulukaya described as a "good start-up" that he, himself would invest in, elected 24 of the 3,000 applicants last year, according to New York University (NYU) Professor of Applied Psychology Selçuk Şirin, a board member of HUG. He said they used the data from Turkish Census Bureau to divide the country into 12 parts, so as to give an equal chance to young people from smaller provinces as they do to young people from big cities such as Istanbul. They were also careful in giving equal chances to female entrepreneurs, and the program attained a 50 percent female to male ratio. The participants were taken through a week-long boot-camp first in Turkey. They then traveled to the U.S. to attend a second boot-camp, where, for three weeks, they attended three-hour seminars at NYU each day. They also got to meet professionals working in multi-national companies and were each assigned a mentor, a Turkish professional living and working in New York. The program involved visits to museums and cultural centers to introduce participants to the American culture. They traveled to MIT's Media Lab, Cambridge Innovation Center, and Google's New York office. Speaking during the launch, Clinical Associate Professor of Medicine at NYU School of Medicine Gül Bahtiyar said that participants were very passionate, courageous and humble.

Ulukaya is no new-comer to the philanthropy game. He had founded The Tent Foundation, which aims to improve the lives of people around the world who have been forced to abandon their homes in search for safety. It currently has 78 partners, among

which are Soros Fund Management and Facebook, as well as 12 non-governmental organizations that include the United Nations High Commissioner for Refugees.

## **TURKEY-MADE INVISIBLE FABRIC TO SELL TO NATO COUNTRIES**

*A Turkey-made invisible fabric that cannot be spotted by radars and thermal cameras will soon be sold to NATO countries.*

The fabric, developed at the Sun Textile and Research Development Center, succeeded tests by the Turkish Armed Forces, and is now awaiting approval from Turkey's Defense Ministry for export. Sabri Ünlütürk, chairman of the executive board of Sun Holding, told state-run Anadolu Agency on Nov. 16 that the fabric was invented by two scientists at Teknokent of Hacettepe University in Ankara. He added that they began producing the fabric in their factory in the western province of İzmir, and came third after the U.S. and Israel in this particular

technology. "We are proud that the Turkish army is using this fabric. The previous products were only for visual camouflage," Ünlütürk added. He said the fabric spreads body heat in a way that makes the person wearing it impossible to be spotted by thermal cameras. The tests for the camouflage uniforms are currently underway. "These uniforms are designed for our soldiers to hide themselves from night vision scopes. Military units are testing them," Ünlütürk said.

## **TURKEY'S ERDOGAN, TESLA'S MUSK DISCUSS COOPERATION WITH TURKISH FIRMS**

*Elon Musk met Erdogan and Turkey's transportation and industry ministers at the presidential palace in Ankara.*



Presidential spokesman İbrahim Kalın said Musk and Erdoğan discussed potential joint operations between Tesla Inc, Musk's SpaceX company and Turkish firms, as well as the launch of Turkey's Turksat 5A and 5B satellites. "We also exchanged views on what sort of joint operations Turkish

firms could have with the SpaceX and Tesla companies," Kalın was quoted.

Turkey aims to launch the Turksat 5A satellite in 2020 and the 5B in 2021. In October, Airbus submitted the best bid in a tender to build the Turkish satellites. Kalın said an agreement would be signed with Airbus (signed on Nov. 9).

Musk's SpaceX plans its first trip to Mars in 2022, carrying only cargo, to be followed by a manned mission in 2024. Kalın also said Erdoğan and Musk had discussed electric cars, days after Turkey unveiled plans to launch a car made entirely in Turkey by 2021, which the president cast as a long-harbored dream of the Turkish people.



## TURKISH COMPANIES TAKE PART IN CONSORTIUM FOR DOMESTICALLY-MADE CAR PRODUCTION

*President Recep Tayyip Erdoğan announced on Nov. 2 the names of five companies - Anadolu Group, BMC, Kiraça Holding, Turkcell and Zorlu Holding - that will take part in the consortium to make Turkey's first domestically produced car.*

In the speech given during the meeting, Erdoğan said officials expect the prototype of the car to be ready in 2019, adding that they expect sales to begin in 2021. Expressing his gratitude to the participating firms, Erdoğan pledged his full support for the venture, adding that he will closely follow relevant developments.



Union of Chambers and Commodity Exchanges (TOBB) Chairman Rifat Hisarcıklıoğlu and signatories of the project, Kiraç Holding Chairman İnan Kiraç, Zorlu Holding Chairman Ahmet Nazif Zorlu, Anadolu Group Chairman Tuncay Özilhan, Turkcell Chairman Ahmet Akça, BMC Chairman Ethem Sancak and many other guests attended the meeting. The initiative came after repeated calls from Erdoğan for a joint venture car project by TOBB and the Ministry of Science, Industry and Technology.

“No one should hesitate. We will produce Turkey’s [first] car using the best design and technology, both for our country and the world. The president said that it is a shame for Turkey to have fallen behind in manufacturing a domestically produced car, noting that over 750,000 automobiles were sold in the country last year. “On the condition that I pay for it, I would like to say that I will buy the first car launched on the market,” Erdoğan said. Following

the entrance into the market of hybrid electric cars and driverless vehicles in recent years, Erdoğan said that the automobile sector has entered a new era. “We do not doubt that the car to be produced will be suitable not just to meet modern-day needs, but also in meeting the needs of the future generations, as well. The pioneering abilities and carrier power of this car will surely be a joint venture group.” Erdoğan said.

He added that only through such initiatives and breakthroughs can Turkey become one of the world’s top-10 economies. Erdoğan said that the initiative group of Turkey’s automobile will decide on the class, design, engine technology, model, production method and market targets for the car. He also said that they could also lean toward producing hybrid and electric cars, indicating that regardless of the decision, they will provide all kinds of support so long as the Turkish nation is adequately equipped to realize its dream.

Yıldırım said the project “will add a new success to Turkey’s list of ongoing achievements.” “According to export figures released in October, exports were highest in the automotive sector, at over \$2.6 billion,” he said. “It is out of the question for Turkey to not produce domestic cars, as it has become so competent in the automotive sector.” According to the Automotive Distributors Association, 423,198 cars were sold in the first eight months of this year, with 294,037 imported and 129,161 produced domestically. Meanwhile, the total number of imported automobiles in the same period shrunk 25 percent and local manufacturing went up 20 percent, compared with the first eight months of last year.

## MINISTRY EYES PUBLIC-PRIVATE SECTOR COOPERATION MODEL IN TOURISM

*Although the Ministry of Culture and Tourism received the lowest share of the government budget, at a rate of five per thousand, it has put together a public-private sector cooperation model to realize more projects.*

Culture and Tourism Minister Numan Kurtulmuş said they will prioritize honorable projects in the coming period during a meeting organized by the Turkish Business Women's Association (TİKAD) as part of the UNESCO International Day for Tolerance events. "It's impossible to run all the projects alone. That's why we will commission the private sector. The public-private sector cooperation model is on our agenda, and we are working on it," he added. Referring to tourism figures, Kurtulmuş said nearly 3 million German tourists came to Turkey in the first nine months of 2017. "Almost every day during the German elections 'Do not go to Turkey' campaigns were run. After these negative campaigns, very few German tourists should have come, but politics and tourism are two different languages," the minister said.

He also noted that another important example was bringing back the Sarcophagus of Heracles to Turkey. At a time when smear campaigns were being run against Turkey, Turkey received the votes of 154 out of 184 in the UNESCO executive board elec-

tions, Kurtulmuş stated. He highlighted that Turkey is a very powerful country even in the most difficult of times.

Since the early 1980s, Turkey has been implementing numerous projects with public-private partnerships (PPP) to build highways, airports, railways, hospitals, energy facilities and ports, but PPP projects for tourism facilities were minimal. According to data compiled by the Ministry of Development, nine tourism facilities were constructed using a PPP model in 2015 and five more were under construction. Since 1986, 17 marina and tourism facilities were built through the PPP program at a cost of \$1 billion. Kurtulmuş was accompanied by Istanbul Governor Vasip Şahin, Beyoğlu Mayor Ahmet Misbah Demircan, TİKAD President Nilüfer Bulut, TİKAD board members, numerous businesswomen and academicians. In the meeting, Bulut emphasized that the association is ready to support the tourism sector just like any other field, saying, "We will work harder to shatter the perception operation run against our country abroad."

## WORLD DEFENSE MARKET EYES TURKISH WEAPONS

*The localization move by the Turkish defense industry has begun to flourish.*

While Pakistan's purchase of \$1.5 billion worth of 30 T-129 ATAK helicopters is about to be completed, Saudi Arabia and Turkey are reportedly in talks for the domestic ANKA unmanned aerial vehicle (UAV), which was on display at the International Dubai Airshow Aviation Exhibition. Saudi Arabia wants to buy six unmanned aerial vehicles (ANKA) and two ground service stations from TAIK board member Turkish Aerospace Industries Inc. (TAI). According to the well-known defense publication Defense News, projects for ANKA's procurement have been ongoing for a while. "The Saudis had some conditions regarding reconnaissance, and we are still negotiating this part of the deal," Gökrem Bilgi, manager of the corporate marketing and communications department at TAI, said.

The possibility of technology transfer between Turkey and Saudi Arabia is also on the table. According to Euronews, the Saudis asked for a discount for the sales of ANKA due to the recent decline in oil prices. Currently, the Turkish Armed Forces (TSK) has four ANKAs. Ten Armed ANKA-Ss, which can be controlled from thousands of kilometers away by satellite communication, will be delivered to the TSK, six in 2017 and four in 2018. Meanwhile, there was another development in bomb exports. According to a statement by the Ministry of Defense of the United Arab Emirates (UAE), an agreement was signed with the Mechanical and Chemical Industry Corporation (MKEK) in Turkey at the Dubai Airshow for the purchase of MK-82 and MK-84 bombs.



In a press release on the issue, Maj. Gen. Ishaq Saleh Al Baloushi, head of the Executive Administration of Industries and Development of Defense Capabilities at the UAE Defense Ministry, announced the financial value of the deal as \$20.2 million. KARAYEL UAV, which was leased from Vestel through service procurement by the TSK, was armed and deployed in operations last year and also cooperated with a Saudi Arabian company in Dubai. VESTEL Defense signed a memorandum of understanding with the Saudi Arabian Advanced Electronics Company (AEC) at the Dubai Airshow, where the company displayed the Armed Unmanned Aerial Vehicle KARAYEL-SU system, the new member of the UAV family. Under the agreement, production and repair of the electronic components of the KARAYEL UAV can be carried out in the AEC located in Saudi Arabia. Thus, the Turkish defense industry will have expanded its domain. With ammunition carrying capacity of 120 kilograms, the KARAYEL-SU UAV is flying with MAM-L and MAM-C missiles developed by ROKETSAN under the wing.

Turkish defense and aviation firms have made \$1.07 billion exports worldwide in the first eight months of 2017, a slight increase from last year's \$1.06 billion. The largest export, \$443.9 million, was made with the U.S. Germany came second with exports valued at \$140.2 million. India came in third at



\$66.2 million. In 2016, the U.S. was the largest defense export market for Turkey followed by Germany, Malaysia, Azerbaijan, the U.K., the United Arab Emirates, Qatar and Saudi Arabia. Top export items in 2015 were aircraft and helicopter parts, engines, tanks and other armored land vehicle parts, ammunition, turbojets for civilian aircraft, hunting rifles and receiver/transmitter equipment for military use.

According to the Turkish Defense Industry Association, Turkey currently exports one-third of its defense industry production, worth about \$5 billion. Meanwhile, according to the Undersecretariat of Defense Industries (SSM), the current domestic participation rate in defense projects is 50-60 percent, and the defense industry has an aggressive goal to reach \$25 billion and be self-sufficient by 2023. SSM data of Turkey's 2016 defense exports reached \$1.9 billion, which was \$487 million in 2006.

## BOEING ESTABLISHES TECHNOLOGY DEVELOPMENT CENTER IN ISTANBUL

*Operating in Turkey for 70 years with full confidence in the country's economy and aviation sector, the U.S. civil and military aircraft manufacturer Boeing is poised to launch an extensive national aviation program as part of the Undersecretariat of Defense Industries' (SSM) Aviation Industry Development Program.*

Boeing, the Investment Support and Promotion Agency of Turkey (ISPAT) and the SSM disclosed the details of the company's National Aviation Plan, which was announced during President Recep Tayyip Erdoğan's visit to the U.S. in September.

Turkey through its strategic partnership with Boeing looks to expand its aviation industry while the latter aims to double its economic impact in the country over the next decade. As part of the National Aviation Plan, Boeing plans to accomplish

the Aviation Industry Development Program, Engineering and Technology Development Center, Regional Flight Training Center, Regional Cooperation in Service and Maintenance to strengthen its operational presence in the sector. Considered a pillar of this program, the Aviation Industry Development Program was launched on Nov. 28 in Istanbul. Boeing envisions a framework based on a win-win principal that will benefit Boeing as well as Turkey, Turkish Airlines (THY), as well as other aviation service providers and industrial suppliers.

The Undersecretary of Defense Industries İsmail Demir highlighted that a developed and global aviation industry is a priority area and is essential to Turkey's 2023 vision.



"The Boeing National Aviation Plan takes an innovative route in order to combine our resources, competence, and specialties with Boeing and improve our domestic aviation industry. We gladly welcome such plans that will facilitate cooperation between Turkey and Boeing in accordance with a common goal," Demir said. ISPAT President Arda Ermut also explained the agency's expectations of Boeing to ensure significant contributions to Turkey's aviation sector in line with the country's 2023 vision.

"The Boeing National Aviation Plan and projected investments signify direct investments made in Turkey's future. The strategic partnership with Boeing, in that regard, aims to render Turkey one of the prominent aviation countries in the world," he said.

ISPAT develops strategies that will cater to the 2023 vision. "The impact of this plan and the added-value it will create would exceed that of a conventional factory investment. We attach particular importance to technology transfer and export-oriented manufacturing. Therefore, the technology, engineering and research and development investments will ensure the transfer of technology," Ermut said. The training and engineering centers will also contribute to the country's employment, Ermut said, adding that the aviation industry development program will expand the share of domestic manufacturing in the global supply chain and boost exports.

Elaborating on the Boeing National Aviation Plan, Boeing Turkey General Manager and Country Rep-

resentative Ayşem Sargin drew attention to Turkey's strategically important geographic position for the aviation sector. "Turkey's geographical position, the opening of Istanbul's new airport and the visionary growth strategy of the Turkish Airlines ensures the country's potential to grow in aviation," Sargin said, adding that Turkey significantly contributes to Boeing's productivity and the company's global success with its manufacturing industry and high standards, competent engineers and capable human resources. Citing the plan, she said, "Boeing contributes to the sustainable growth of the aviation industry and boosts its competitiveness by transforming the longstanding partnership with Turkey into a strategic win-win partnership." The multidimensional program aims to double Boeing's economic impact on the Turkish economy over the next 10 years. "Boeing's National Aviation Plan is also the embodiment of the company's trust in Turkey's long-term development and growth as it is an important market and global industrial partner of the company," the Boeing country manager said.

Operating for 70 years in Turkey, Boeing makes \$160 million of purchases from the country's manufacturing industry every year. Moreover, since the launch of the Peace Eagle Project with Turkey more than 15 years ago, Boeing's total investments in the country reached \$1.6 billion. Boeing works with a broad network of suppliers on several programs in Turkey. Turkish Aerospace Industries (TAI) is one of its 20 long-time suppliers network spread across Ankara, Istanbul, İzmir, Bursa, Kayseri, and Eskişehir. Furthermore, Boeing and Kale Aero have participated in all Boeing commercial plan programs since 1997.

Meanwhile, PFW supplies parts for the 787 program and THY Technic provides technical and maintenance service for several Boeing commercial aircraft models. As part of the Peace Eagle Project, Boeing also cooperates with ASELSAN, SELEX, THY, and HAVELSAN, Turkey's defense software and systems company. Boeing also provides new facility installations in the PFW (ESBAŞ), Fokker Elmo (ESBAŞ) and Kale (DESBAŞ) free trade zones. Boeing's key international suppliers, including PFW, Fokker Elmo, Alenia, and SpiritAerosystems, also invest and provide jobs in Turkey.

## GOLDMAN SACHS SAYS IF YOU THOUGHT 2017 WAS SUPRISINGLY GOOD, JUST WAIT FOR 2018

*This has been a good year for the global economy, and 2018 will follow that trend, analysts at Goldman Sachs said.*

Economic growth around the world has picked up steam this year. Germany — Europe's largest economy — grew an unexpectedly strong 0.8 percent in the third quarter. In Japan, the economy has grown for seven straight quarters. Meanwhile, in the U.S., the economy grew 3 percent in the third quarter.

"2017 is shaping up to be the first year of the expansion in which growth surprises to the upside," Goldman analyst Charles Himmelberg said in a note to clients. "We expect 2018 to deliver more of the same." Himmelberg and his team expect the global economy to grow 4 percent next year for several reasons, including strong growth momentum, easing financial conditions, global monetary policy remaining "highly accommodative by historical standards" and the likelihood of fiscal stimulus in the U.S.

Stocks around the world have benefited from this year's global economic growth. In the U.S., the S&P 500 has risen more than 14 percent in 2017. In Europe, the German Dax is up more than 13 percent year to date. In Japan, the Nikkei 225 has risen 17.2 percent this year. U.S. policy risk is another theme Himmelberg highlights in his note titled "Top Ten Market Themes for 2018: Late-Cycle Optimism."

"Heading into 2018, one of the top policy risks in focus for investors is the passage of US tax reform. A second policy risk which has fallen off of radar screens, but which is still active, in our opinion, is

US trade policy," Himmelberg said, noting the two risks are "potentially linked." Goldman currently sees an 80 percent chance that tax reform gets done in early 2018, Himmelberg said. However, "if tax legislation fails to pass, it would be the second major legislative failure during President Trump's first year in office."

In that scenario, he said, presidential approval ratings would likely fall and the Trump administration would be under renewed pressure to achieve something before the mid-term elections. That something could be "a more assertive stance on trade and foreign policy," Himmelberg said.

President Donald Trump has been striking a protectionist tone ever since he began his presidential campaign. More recently, Trump said during his first trip to Asia as president that he would readress the balance of trade agreements between Asian countries and the U.S. as part of his "America First" policy. These comments have also raised concern about Trump's opposition to trade deals such as the North American Free Trade Agreement, a 1993 deal he has pushed to renegotiate or withdraw the U.S. from. During his campaign, Trump called NAFTA the worst trade deal in history. Himmelberg also said, however, that if tax reform does go through, it puts the Trump administration in a better position to successfully renegotiate NAFTA. "As goes tax reform, so may go NAFTA."



# UPCOMING EVENTS

## **37<sup>TH</sup> ATC-TAİK ANNUAL CONFERENCE ON U.S.-TURKEY RELATIONS, 29 April-1 May 2018**

The Turkey – U.S. Business Council (TAİK) & American Turkish Council's (ATC) flagship event is the Annual Conference on U.S.-Turkey Relations. Held every year in Washington DC, the Conference convenes hundreds of U.S.-Turkey stakeholders and thought leaders to address key commercial and diplomatic topics between the two countries.

37<sup>th</sup> ATC-TAİK Annual Conference on U.S.-Turkey Relations will be held between 29 April – 1 May 2018 at the Trump International Hotel, Washington D.C.



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