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TTIP IN LIGHT OF TURKISH TRADE POLICY AND
ECONOMIC RELATIONS WITH THE UNITED STATES

AN ADDRESS BY H.E. NIHAT ZEYBEKCI,
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P R O C E E D I N G S

MR. KIRIŞCI: Well, good afternoon to you all. I'd like to thank you for joining us this afternoon on an event that will be focusing on TTIP, the Transatlantic Trade and Investment Partnership. The way it related to Turkey. It impacts on Turkey. As well as U.S./Turkish relations.

I'm the TUSIAD Fellow and the Director of the Turkey Project at the Center for United States and Europe. Before I introduce to you our speakers, the Minister and the Former Assistant Secretary, I do want to say a few words about the disaster that has struck Turkey with a mine accident, and would like to share with you that our thoughts are with the members of the families of the victims. We do hope that this does not happen again in a country that aspires to a major role in the world economy.

Thank you very much, Mr. Minister, that you're with us today. Nihat Zeybekci is the Minister for Economy in Turkey. He was appointed as minister in December 2013, and had been a member of the Turkish Parliament for the governing party, Justice and Development, since their 2011 national elections. Previously he served as the Mayor of Denizli. Denizli is a town in Western Anatolia, and is considered as one of the first and leading Anatolian Tigers.

The term Anatolian Tigers is used for a seize of cities in Anatolia that began to development an industry export oriented industry from the mid, late 80s into the 90s, and then 2000s. By the time it came to the 2000s most of these cities had become major players in Turkey's foreign trade.

Our Minister has also served as the head of the local textile producers and exporters union. He, himself, has a long career in business and foreign trade. He will be addressing us in Turkish for about half an hour and you will be able to access to the simultaneous translation of his remarks from channel 2.

MR. ZEYBEKCI: In English.

MR. KIRIŞCI: You will speak in English. Well done, Minister. That's --

MR. ZEYBEKCI: I will try my best.

MR. KIRIŞCI: You're very welcome. You're very welcome. Then former Assistant Secretary, Jose Fernandez, will offer his comments to us for about 15, 20 minutes. Former Assistant Secretary to State on economic, business, and energy affairs.

Jos Fernandez is also an old hand on these issues. He's currently serving with a law firm in New York, continuing with his files on foreign investment, American companies abroad. But he also has a long experience with Turkey. What has brought our Minister to Washington D.C. is the FSEC meeting. I always have a hard time with acronym, but FSEC, I hope I get it right, if the Framework for Strategic, Economic, and Commercial Cooperation between Turkey and the United States.

What makes FSEC special and unique is that it's a cabinet level institution that was put into place. The Minister has come to meet his counterpart yesterday, the United States trade representative, Michael Froman.

This body has a number of committees operating under them. One of them is the -- I need help.

MR. FERNANDEZ: Economic Partnership Commission.

MR. KIRIŞCI: Economic Partnership Commission, and Jose Fernandez knows what the acronym stands for because he has been the U.S. side of this commission and has attended a number of meetings of this commission in the past. He has also been in Turkey on numerous occasions.

So it's a great honor for us to have the Minister as well as Jose Fernandez. I should also mention that Jose Fernandez has his PhD from Columbia University in Law, and first degree from Dartmouth. Just about when I, too, received my

first degree from the other side of the Atlantic at Boghazchi University.

Before we get started, if you will allow me, I'd like to say just a few very quick words about TTIP itself. Here at Brookings we do hold numerous meetings on TTIP, but I thought that some of the audience may not be very familiar with the topic.

TTIP is an attempt on the part of the United States and the European Union to integrate these two large economies. On the one hand, the United States with a population of plus 300 million, and on the other side, the European Union composed of 28 members and close to 500 million. So put together that brings you up to just 200 million short of 1 billion people.

When you put these two economies together they constitute about 40 percent of the world GDP, and the foreign trade that they generate comes to a little less than a third of the world trade itself.

Next week, actually, if I'm not mistaken, the fifth round of negotiations are going to start between the two parties. What makes TTIP different from your classic, traditional free-trade agreement is that TTIP is not going to be just about market access and lowering or zeroing trade tariffs. But it's also an ambitious attempt to harmonize regulations that govern, not just manufactured goods, but also the agricultural sector and more importantly investment too.

You may also have picked up very recently since the crisis in Ukraine and the annexation of Crimea that both sides have now an interest to see if energy can also be included in the TTIP negotiations.

I will not delve into the details of TTIP and where negotiations are going, but underline there is a deep interest in TTIP on the Turkish side. The Turkish Prime Minister as well as the Minister of Foreign Affairs have repeatedly expressed their interest in TTIP, and believe that Turkey can play a constructive role, contribute to the efforts of

TTIP to create wealth and employment as well.

This, I believe, an effort to include Turkey into TTIP is also driven by the fact that Turkey has a Custom's Union with the European Union. Minister, I'm not going to violate too much of your speech. I won't go into the details. I'm sure the Minister will expand on it, but because Turkey has this Custom's Union, and because Turkey is already part of the internal market of the European Union as far as manufactured goods this has a number of consequences.

One consequence is that Turkey is accustomed in cooperating with EU regulations. Secondly, because it's part of a Custom's Union if TTIP is, indeed, signed and ratified, and put into implementation this will mean that American companies will be able to access the Turkish economy, but Turkish companies will not be able to access the American market. This is going to create, we can tell, a considerable tension there.

Thirdly, with the rise of the Anatolian Tigers, so roughly a moment when the Anatolian Tigers begin to rise. Into the 2000s Turkey became an important economy in its own neighborhood. Turkey's foreign trade with the neighborhood increased, but also Turkish company's investment in the neighborhood increased.

So what this means in terms of TTIP is if Turkey were to be included into TTIP and Turkey's interest were to be taken into consideration this relationship with the neighborhood would be benefiting TTIP as well.

Last point I should make is that, again, part and parcel of this process that help the emergence of Anatolian Tigers has also led Turkish companies to invest abroad. So Turkey's not only a country that tries to attract foreign direct investment, but also invests abroad including the United States, even if the amounts are, of course, small compared to the size of the U.S. economy.

My very final remark is that though Turkish-American relations go a long

way back, and during the Cold War it was deeply effected at the strategic level, the economic relationship has not reflected this deep, geo-strategic relationship. The level of trade remains, really a pittance.

The United States yearly trade is 6.2 trillion, but Turkish-American trade is a mere 20 billion. ON the back of a note pad I made some calculations. If one was to be able to project the trade that occurs between Turkey and Israel to what Turkish-U.S. trade should be, given that as a reference point, it would come to 152 billion.

If one takes Turkish U trade relations as a reference point and make an extrapolation from that into U.S.-Turkish trade it would have to be around 90, 95 billion. So it's very limited. From our point of view, Mr. Minister, the United States is a major exporter of foreign trade investment abroad.

While, for example, the Netherlands attracts, in 2012 has \$645 billion worth American investments in the Netherlands. The level for Turkey was just \$6 billion. So including TTIP would also fire up the Anatolian Tigers and other industries in Turkey, clearly.

Mr. Minister, I'd like to turn the floor to you, and hope that I haven't gone too much into the details of your speech there.

MR. ZEYBEKCI: Well, thank you. Thanks a lot. Good afternoon ladies and gentleman. Thanks a lot for participating in our meeting.

Starting from the point you left, until the year 2002 Turkey got the foreign direct investment in, let's say, in 100 years only \$13 billion in 100 years. Starting from the year 2003 until now, in 10 years, Turkey received more than 140 billion in foreign direct investment. From this only around \$5 billion was American investment, and from all totally more than 70 percent of the foreign direct investment was from the European Union.

Western World, when they are close to Turkey and they know, they realize about Turkey and how Turkey's having the potential for the future. That's why they invest in Turkey. But if you are in the States I think Turkey looks different than you look from Europe. That's why the American alliance are not encouraged enough to invest in Turkey.

Let me give you some figures about the Turkey and the United States relations. I'm 53 years old. Since I remember we are proud of being the friend of the United States. In Turkey every time we say we are friend, we are alliance, we are the partners, deep partners, very important partners of the United States.

I remember very well the Mr. Ozal. He used to call the father Bush with his first name, George. Father Bush used to call Mr. Ozal as Turgut, with his first name. It's very good things at that time and we were proud of being the friend and being the partner of the United States. That time, in the year 1981, the trade volume of Turkey was \$4.5 billion only. Import and export together was \$4.5 or maximum 5 billion.

You know what happened 34 years later? Turkey's trade volume became \$450 billion. Turkey's national income GDP in the last decade, 10 years ago it was \$230 billion. Now Turkey's GDP became \$820 billion.

Income per capita, per person 10 years ago it was approximately \$3,400. Now it's \$11,000. If you compare this with the purchasing power it's \$19,000. Turkey became the 16th biggest economy in the world, 6th biggest economy in Europe.

The day before Monday we flew out from Turkey to Boston. It was Turkish Airlines first flight to Boston. Now Turkish Airlines is the number one airline in the world flying to the most countries in the world, 105 countries Turkish Airlines is flying to. 249, if I'm not wrong, flying points in the world that Turkish Airlines is flying.

Turkey, last year, succeeded to export all the countries in the world

which is, as a point to the export, it was the 260 point, or something, Turkey's exporting points. On the other hand, let me give you some other figures just to matter to Turkey's.

Turkish contractors, Turkish companies now in all of the world, they are trying to -- the business or the contract volume they are running in the world now the value is 284 billion that Turkish contractors are running in the world. Which means Turkish contractors are second in the world after China.

We have the advantages. We have the richness of the cultural richness of Indian environment. That's why we are willing to be number one in the world which we can do soon.

With this information, on the other hand, Turkey as a country is very strong in international relations. Turkey is the founder of the European Council of Europe. Turkey is the founder of OECD also. On the other hand, unfortunately, Turkey applied to the European Union to be a full member when I was born, and still we are very keen to be a full member of the European Union. Starting from 1996 Turkey became the Custom Union, signed the agreement with the European Union. A very strange agreement called Custom Union.

Custom Union was a very important agreement for Turkey. Custom Union took Turkey one step up. But a conflict in the Custom Union, all decisions the European Union takes about the Custom Union automatically we have to apply. Whoever the European Union makes the agreement, like FTA with the Turd countries.

For example, the European Union signed the free trade agreement with Mexico. Mexico and the European Union they had the, really a kind of free trade relation between, and Mexico they got the right whatever they got they received from the European Union is exactly the same to Turkey. But strange point starts there. From the Turkish point to Mexico it doesn't work automatically. Mexico, they got the rights to enter

the Turkish market, automatically it works, but on the other hand we don't have this right.

Mexico, if they like, if they prefer, if they agree, if they would like to have it, they start negotiations with Turkey to do the same agreement. Until now we couldn't succeed. We are still pushing them to start the negotiations with Mexico. Difference, ladies and gentleman.

In the beginning, I would like to mention that we keep a close eye on various rising activities carried out by the Brookings Institute behold U.S. and international public opinion involving the involvement of Turkey in the TTIP process. Your initiatives before the White House and U.S. Congress, academic studies, and the conference carried out by the Institute regarding the potential gains of the possible Turkey/U.S. economic integration both for the Trans-Atlantic allies and the countries in the region strengthens our position.

Taking this opportunity I would like to express my sincere thanks to your Institute for your positive, and constructive approach right from the beginning of this process. The global economy in Turkey, if you look, starting from the 1980s Turkey attached great importance to following liberal foreign trade policy as a foundation of her economic growth. Accordingly, integration with the global economy is on top of Turkey's foreign trade policy agenda.

With this context, Turkey is one of the founding members of the World Trade Organization. As a strong supporter of the multilateral trade (inaudible) for liberalization and globalization of trade relations. Furthermore, Turkey actively participates in multilateral negotiations in a wide spectrum, including trade and goods services trade facilitation.

On the other hand, Turkey's perspective of becoming a full member of the UN, the Custom Union which was established in 1996 as a transitional phase in

course to the full membership, are the main access and supporter of all liberal foreign trade policy. Beyond a doubt, Custom Union is a transformative power which enabled the Turkish economy to gain a competitive structure.

In fact, the Turkish economy has integrated with the European economy, and not only trade on goods, but also in diverse areas such as rules of origin, intellectual and industrial property rights, competition policy, technical barriers for trade and product safety. Thanks to the Custom Union Turkey has become an ultimately dynamic market for global investors with her steadily growing economy.

Bringing momentum to Turkey's last decade successful economic performance and the goal of entering into the top 10 world economies are together deeply attached to the global economic developments. We closely observed that today the debt look in the multilateral trade talks promises the two countries to make a deep and comprehensive new generation FTAs.

In this respect Turkey is close to following such a new generation economic integration model merging across the world. Hereby, I should emphasize that we attach high importance to be the part of such economic integration which is also a Custom Union obligation.

Custom Union requires Turkey to follow EU's FTAs so as to align with common trade policy. The FTAs of which are concluded in parallel with the EU provide advantages, market access conditions for our exporters in the Turd countries. Leveling the playing field ground is vis-à-vis European firms and promotes mutual investments.

As a result of our active foreign policy and Custom Union obligations Turkey has concluded 31 FTAs with various countries from all over the world including Korea, Malaysia, AFTA. Currently Turkey is on the eve of launching deep and comprehensive FTAs with Japan, Singapore, Canada, and Mexico. All initiatives reveals

our capacity and we'll too conclude deep and comprehensive FTAs going far beyond trade and goods, and measure and comprehensive economics.

Within this context, Trans-Atlantic trade and investment partnership which will reshape world trade and its rules is of great important for Turkey. TTIP partners represents one-third of global trade and half of the world GDP together, and aim to conclude a deep, and comprehensive free trade deal which will have a transformative result on world trade.

Hence, Turkey meticulously follows developments in TTIP negotiations likewise the rest of the world. In fact, Turkey's Custom Union with the EU and model partnership with the U.S. distinguished the TTIP from the other economic integrations for Turkey. For this reason Turkey will be directly affected by the legal and commercial outcomes of TTIP as a unique situation differing from the other Turd countries.

Within this framework the high level committee established on May 2013, in order to dig deep in the economic relations and liberalize trade between Turkey and the U.S. while taking into consideration to the effects of TTIP due to Turkey EU Custom Union. According to all political and economic consideration the inclusion of Turkey in the TTIP process is inevitable. We sincerely believe that a possible Turkey/U.S. FTA will create significant opportunities for both parties.

As mentioned in the works of the Brookings Institution a possible FTA will create a legal framework for Turkey's economic and commercial relation which do not, unfortunately, reflect the level of our model partnership. Furthermore, a possible FTA for Turkey considering the structure and the process of Custom Union with the EU will help our exporters in the U.S. market to compete with EU producers and exporters on equal footing. Thus, from the beginning of the problems like trade diversion will be eliminated.

Considering the fields like trade and services, investments, public procurement, intellectual property rights, a possible Turkey/U.S. FTA will have a transforming power on Turkish economy on line with the needs and the rules of modern global economy, and will have an impact similar to the Custom Union from this aspect.

World Bank has shared the same argument in its report published last April on Turkey/EU Custom Union. The report asserts the prospective FTA between Turkey and the U.S. will have a transformative effect on the Turkish economy. It also mentions the positive spill-over effect of the Custom Union toward deepening the structuring while overcoming the current problems.

Turkey, having 76 million population, most of which is consisting in the middle class, and a growing international market as well as increasing import figures will be bold and attractive markets in terms of the U.S. export contribute to increasing the rate of U.S. employment. Turkey plans to invest in transportation and energy sectors amounting around \$250 billion in the upcoming 10 years.

Turkish economy grew 4 percent in 2013. In the last decade the average growth rate was approximately 5 percent per year, and the GDP per capita has tripled. With this regard, Turkey has become one of the most successful countries quickly recovering from the global economic crisis, and relatively being affected least by global economy uncertainty.

That economic growth performance will reinforce the prominence of Turkey as a dynamic market for the future. In addition to this, Turkey is located in a junction point of an area comprised of Europe, Euro-Asia, Middle East, and North Africa which have a population of 1.5 billion, \$10 trillion export potential, and \$25 trillion market.

Turkey is a hub for trade and investment at a regional and global scale which is your strategic location and growing relationship with its neighbors. A possible

Turkey/U.S. FTA will provide an opportunity for the U.S. and Turkish firms to utilize Turkey as a production and export based on order to access global markets.

Considering the fact that Turkey has a close relationship with the Middle East, Central Asia, and African countries a possible FTA will contribute both the increase in the U.S. imports used in the products which will be sold to aforementioned countries, and the rise of employment in the U.S. and Turkey.

With an FTA the U.S. is going to have an opportunity to compete equally in our Turkish market with the EU and other FTA partners. The U.S. will also gain access to the markets of all FTA partners of Turkey. What is more, a possible FTA is going to consolidate the common objectives that we have decided at the various international platforms, especially like WTO and G20.

Obviously, an FTA between the U.S. as a global actor, and Turkey as a regional power will give a global and regionally positive message in portable terms. Thus, the venerable process of Turkey/U.S. economic relations will contribute to the stability and welfare of the region.

Last, but not least, as also mentioned in the works' of the Brookings Institute, with a possible FTA to be concluded with the U.S., but in the TTIP process defined as an economic NATO. The Trans-Atlantic relation among the U.S. and UN/U.S. and Turkey is going to consolidate by taking a new dimension in the course of Turkey's intensive initiatives attempt before the U.S. and the EU at the governmental level. In alignment of FTA aim are to create a public opinion by the prominent think tanks which have good standing like Brookings Institute.

Within this context private sector umbrella organizations as well as think tanks become a driving force in the TTIP process. At this point we are pleased that non-governmental organizations with power over the decision-making mechanism declare

their support on an intensified trade liberalization process between Turkey and the U.S. on every occasion that the support verifies the legitimacy of the persistence in this process.

We would like to see the continuation of this support. Besides the TTIP and the Custom Union the strong political will put forth by all leaders in May 2013 about deepening the economic relations and the liberalizing the trade in the case that the requirements are met. In this context we are aware that the approach which categorically excludes the FTA option from the beginning does not carry us one step further from our current state.

Once again, I would like to underscore that the negotiations of TTIP which will have substantial transformative effects on global trade and economies being closely followed by the third parties. Likewise, TTIP it's occasionally stated by some parties that the third parties may have a chance to join the agreement in the future.

Taking into consideration of the future situation of TTIP negotiations, Turkey does not categorically exclude alternatives such as docking clause which enables integration to the TTIP afterwards. However, it should be kept in mind that on the grounds of the Custom Union Turkey is in a unique position compared to other third parties.

In this respect with think that to adopt a precise position on this subject as a result of evaluating all the options that served our economic and commercial integration in line with the extensive political review is going to bring a benefit to both sides.

In this sense, all your attempts and activities supporting this aim will be appreciated very much by Turkey. Besides, we will consult your views as expectations throughout this process. Within this context I want to reemphasize that regarding a possible Turkey/U.S. FTA which will create a transforming impact for Turkey after the

Custom Union.

As NGOs and think tanks located in the U.S. your support is crucial for us. Ultimately, Turkey is determined as establishing economic and commercial integration based on a solid legal ground as it's already in place with the EU and other FTA partners.

By now, thank you for your participation and joining us. Tonight I will sit down and try to reply to questions.

MR. FERNANDEZ: Good afternoon. Thank you, Mr. Minister, thank you Kemal for that kind introduction earlier on. Mr. Minister, I'm honored to share the podium with you, and I'd like to thank you for your thoughtful and incisive remarks about Turkish trade policy in the context of a proposed Trans-Atlantic trade and investment partnership. Also, let me begin by expressing

I'm thrilled to be here today. I'm thrilled to be back in D.C. and see so many friends and colleagues from Turkey here in the audience. It's wonderful to see all of you again. As Kemal mentioned, I spent four years at the State Department.

At the State Department I had the privilege of leading our economic partnership commission delegation which were meetings that we held twice a year. Once here in D.C. and once in Ankara as part of the broader framework for strategic economic and commercial cooperation of SECC.

In my four years Turkey was, in fact, one of my top priorities in government. It is the country that I visited the most, six times in my four years, and it's the one that taught me something every time that I went there.

So let me start by stipulating and making clear what many of your already know. I've been called a Turkophile, a lover of music and culture, and I've never disabused anybody from that notion. Which is why I was delighted when Kemal called

and asked me to offer a few comments following the Minister's remarks.

So what led me to spend so much time working on strengthening U.S./Turkish relations? One word, basically, and that's opportunity. I firmly believe, and continue to believe, that our bilateral trade and investment relationship offers tremendous opportunities for two nations. It's a relationship that's just waiting to take off, but we have a number of obstacles to overcome, and that relationship will not take off unless we both work at it. I'll come back to that in a minute.

But I also believe that Turkey's importance to the United States went beyond economics. From a political and a strategic point of view it was my sense from the beginning that as a stable and as a thriving democracy, Turkey could act as a trusted partner in a part of the world where we needed all the help that we could get. As a trust partner Turkey, in fact, could serve as a validator with Muslim majority countries that sometimes viewed the United States with suspicion.

The U.S./Turkish bilateral relationship is both long-standing and strong. The many times that Prime Minister Erdogan and our President have seen each other they have spoken on countless other occasions, the frequent cabinet visits all demonstrate the strength of that relationship.

But they also highlight the growing important of economic issues between our two countries. Whenever I attended these meetings I was always struck by the fact that the meetings would be followed by a delegation of Turkish companies that would accompany the Prime Minister. Just as I was impressed by the number of U.S. companies that sent high-level executives to meet with their Turkish counterparts whenever we went to Ankara as part of our EPC.

That showed me that more and more companies are realizing that there are great opportunities in Turkey, something that must of you here today, in fact, already

realize. So I don't have to tell this audience that even after some recent set-backs Turkey has been a tremendous economic success story over the last several years.

The Minister alluded to the fact that Turkey is not the sixth largest economy in Europe. I've sometimes heard the seventh, but I won't quibble. It is now, also, the 17th, or even less, largest economy in the world.

That economic growth was built on some solid foundations. It was built on sound macroeconomic policies. It was built on investment, in infrastructure and education. In fact, our bilateral trade has grown from 2009 to 2011 our bilateral trade nearly doubled.

In fact, I used to say since our EPC started in 2009 that it was not a coincidence. That, in fact, only when we started working on the EPC did our trade double. But the fact of the matter is that our bilateral trade has continued to increase even after I left. So don't think that argument holds water.

On the investment side Turkey received somewhere in the neighborhood of 80 percent of its FDI from European countries, but most people who've looked at this, most observers believe that, in fact, Turkey is punching below its weight in attracting FDI.

Here the U.S. has the capacity to help remedy that problem. As the Turkish government introduces initiatives in a number of areas you've got major U.S. companies such as General Electric, Dow Chemical, Amgen that have already invested in the Turkish market and Turkish companies as well, which is something that a lot of people don't realize. Turkish companies, such as Barasat Management have pursued large investments in the U.S.

Yet despite the breadth of this economic relationship I'm always struck when I look at our economic relations by how much more we could do. For example, less than 5 percent of Turkey's FDI comes from the United States. Turkey, until recently,

understandably focuses on its neighbors in the EU and the Middle East.

There's many reasons, but for many reasons Turkish companies have not explored trade with the United States or opportunities, in fact, for investment here. On the U.S. side, despite the exceptions for the companies that I mentioned earlier there are still many companies that are still unaware of the size of the Turkish market, and the prospects for continued growth given what is a reality and that's Turkey's relatively young and growing population.

That's why the Minister's visit and his remarks here this afternoon, as well as a conference that a number of you have gone to over the year are so important to getting the word out that there are significant opportunities in Turkey. U.S. companies, in fact, risk losing out to the competition if they are not going into Turkey. There's a growing awareness of this in the U.S., but more needs to be done to highlight the benefits of Turkey as a trade and investment partner.

I've mentioned the word opportunity a number of times, so let me just be specific about a couple of the opportunities that I'm talking about. One key opportunity, and something that we pursued a lot in our EPC was infrastructure. The Minister referred to the plans and that Turkey has announced to improve its roads, its transportation, its energy production, and that's infrastructure.

There are hundreds of billions of dollars' worth of infrastructure in the coming years. It's not just investment in Turkey. As the Minister mentioned, the Turkish Contractors' Association is a juggernaut. It's a very, very successful organization. They are all over North Africa. They're all over a number of other places. There there are opportunities for U.S. infrastructure companies that may not go by themselves into some of these markets to partner with Turkish contractors.

In areas such as IT, investments in schools, energy projects, and new

airports Turkey's also ready to make significant investments. Here's a match. Here's a match to be made. It has been made, but there's a match to be made for U.S. companies that have experience in providing sophisticated infrastructure solutions around the world.

In the private sector Turkish companies also realize that in order to be more competitive they have to become more innovative, and they have to increase their use of technology. Such as expanding the integration of information, technology, and the internet into their processes. This plays right into the strength of many, many U.S. companies.

U.S. companies lead the world in innovation, and are the natural partners for Turkish companies seeking to take advantage of the latest technologies.

Finally, this is a consumer market in Turkey. There's an important market out there. Turkish consumers have become a very attractive market for U.S. goods and services as you've had a growth of the middle class which, again, the Minister mentioned the growth in the per capita income in Turkey.

Turkey has one of the largest populations in Europe with a growing consumption of products from pharmaceuticals to entertainment. Again, these are tremendous, tremendous opportunities for U.S. companies, and it's something that we try to work on as part of our EPC.

So I was a diplomat and part of my job was to make things rosy. Let me turn the tables a little bit, and let me say that just because things are better doesn't mean that we cannot improve. The truth is that we're not back to the levels of Turkish imports and exports that we saw in the late 1980s. In fact, in the late 1980s we had twice the trade in U.S. goods that we do today.

Foreign investors in Turkey, regardless of whether they are Americans or

Europeans or otherwise, still complain about the extensive bureaucracy, the slow judicial system, the taxes, the weaknesses in corporate governance, the sometimes unpredictable decisions that are made at the local level, and the frequent changes in the legal and the regulatory environment.

Our agricultural companies feel that they face unclear import regulations, and sometimes they even face the possibility of criminal liability for importing genetically engineered products.

Our pharmaceutical companies, and there are many of them that want to invest in Turkey, complain to us all the time about intellectual property issues, and the significant delays that they faced in obtaining good pharmaceutical practices approvals.

That was just one side of the story. The Turkish companies had their own issues as well. They could also play offense just as well as U.S. companies could. So you had, for example, fig and pomegranate producers who have waiting years, in a couple of cases even more than a decade, to get the necessary permits to import their products into the United States. So the complaints were on both sides.

The bottom line is that we're doing better. We are doing better, but we are nowhere near what we should be in our economic and commercial relations. So whenever the time came for us to reveal the EPC, whenever we talked about what we wanted to do going forward we're always asking myself, what was holding us back? What made our economic relations so promising, and yet so incomplete?

So I concluded then that we could trace our difficulties to at least three factors. First, and this is something that the Minister alluded to also, the lack of historical familiarity between the two countries. In fact, you know, we've never, despite our good numbers in the 1980s, we've never been major trading partners. There's also no large Turkish ethnic population in the U.S. which can help sometimes to bridge gaps in

understanding.

Second, what I would call, elegantly, because I couldn't use a different word, the timidity and reluctance of U.S. companies to get involved in the areas that Turkey is focusing on. Areas such as energy and infrastructure that I spoke about before.

Thirdly, what I would call the structural differences in our economics. The Minister spoke about the small and medium enterprises, the so called Anatolian Tigers. But those companies are the very same companies that have a very, very difficult time breaking into a very large and very complex U.S. market.

So those structural differences were important. So when I looked at those issues I started thinking about what were the consequences of those factors? What these obstacles meant, in my view, is that despite our best intentions our relationship was sometimes prone to crisis. Be they blow ups over Congressional resolutions or differences in foreign policy that held back our commercial relations.

But it also meant that improving our trade relations was hard work. That there was really no magic wand for us to wave around and make things better all of a sudden. We're going to have to tackle issues that aren't terribly sexy. None of us wants to spend a lot of time talking about pharmaceutical permits unless somebody's paying you for it, or we don't really want to talk about complaints about figs and pomegranates not being able to get approvals into the U.S. So there's no magic wand, but it's hard work that needs to get done.

A third conclusion that I came to, and now this gets me into TTIP a little bit, is that to expand the U.S./Turkish economic relationship, Turkey will need more friends. Will need more friends in the United States.

You heard the Minister talk about TTIP and the consequences to Turkey.

Well, in a perfect world it would be evident that being part of TTIP, as Kemal has written about, not only benefit the Turkish economy, but it would also strength Turkey's democracy through the continued expansion of the principles of accountability, transparency, and rule of law.

Being part of TTIP would spur new economic reforms in Turkey in some of the areas that I've talked about, agriculture, innovation, and in services. In the perfect world it would be evident that no country could open up its market to third parties without being granted reciprocal access to its own goods, as Turkey would have to do with the U.S. product as a result of a Customs Union with the EU.

But this is not a perfect world. Although the Obama Administration has supported Turkey and believes deeply in the model partnership that President Obama has spoken about. I think Turkey still needs to make its case better in the United States which is why I'm so glad that you're hear, Mr. Minister, and why I'm so glad that these kinds of conferences will go on.

Turkey needs friends and allies not just in the U.S. government, in fact, it also needs them in Congress. Let's not forget that any FTA will need the approval of our Congress. It will need friends in business, and it will need friend with other stakeholders. It's just not enough to have government to government meetings.

I've always thought, in fact, that some of the best, in fact, probably the best foreign business organizations that I saw anywhere in the world were the Turkish associations. Associations like Tusiad, TOB, TUSKON and others were really second to none. They would be in our offices all the time. I can't tell you how many maps of Turkey I have that were given to me by some of these organizations. At some point I could do nothing with them. They were also less than 1999, by the way, to comply with regulations.

But I always wondered why these organizations that were so good, that were so great aggregates for Turkey, why the Turkish government did not make better use of them. So I think the case for getting more friends in Congress, in business, and otherwise, I think is an important part of the planning process.

Here, you'll note that I've said nothing about the political issues in Turkey that have dominated our press reports in recent months. That's not because I want to minimize these events, but rather because I believe that the obstacles that we face in our economic relations would exist even if these events, in fact, hadn't taken place.

But let's not kid ourselves. Turkey's image in the United States has been hurt by some of these incidents. As a friend of Turkey, as a Turkophile, as someone who believes in the potential of our relationship, I also believe that unless Turkey can regain the moral high ground, unless it continues to be seen as the beacon of democracy, freedom of speech, judicial independence that made it a model in a troubled region it'll be much harder to make the friends that we need to overcome the obstacles that I've spoken about.

But I'm confident. I'm confident because, as I said earlier, the Turkey I know has always taught me something. One of the things that it taught me, as I was reading a little bit of Turkish history is that before anybody in the U.S. was talking about soft power, which is really what we're talking about when we talk about making friends, the Turks were already using that strategy, already 100 years ago. Turkey knew about soft power.

One of my favorite quotes from Ataturk in 1918 during the War of Independence. He said the following, he said, a nation must be strong in spirit, in knowledge, and science, and in morals. Military strength comes last. Today it is not enough to have arms in hand in order to take ones' place in the world. What better

definition of soft power do you need?

So, yes, we have obstacles. Yes, this is going to be hard work, but I'm hopeful because one thing that I can vouch for is Turkey's commitment to improving our commercial relations. Many thanks.

MR. KIRIŞCI: Thank you, Minister. Thank you, Fernandez for these two great sets of speeches. Minister, I was struck by Dr. Fernandez's, a number of his points.

One is this point about timidity. Timidity on the American side was expanded on my Dr. Fernandez, but I think there is timidity on our side as well. As I attend meetings here in Washington D.C. since really early last summer many in Washington D.C. are disillusion and disappointed in the way in which in Turkey sometimes internal developments are blamed on the United States and on the West.

Unfortunately in Turkey there is this very deep seated negative attitude towards the United States. However, when it comes to the business world, and the business world you made references to and the bureaucracy that deals with this business world there is a recognition of the importance of these economic relations with the United States.

I agree with you that the Minister's visit to Washington D.C. and also visits of business association is very reflective. So one challenge I think we have in Turkey is to bridge the gap within Turkey between these two aspects.

Another lesson that I think I've drawn from you is your reference that we should not, I mean, here Turkey should not focus solely on the executive, and there the Congress is very critical. I think making some progress on Cyprus, which I understand is unfolding, I'm not privy to the details, but through the grapevine I'm hearing positive developments. The Vice President was there recently.

Certainly the Prime Minister's declaration on Armenia and Armenians is a

very important one. These are the kind of points that would earn goodwill, I think, in the Congressional circles.

I also agree with the picture that the Minister has drawn of the Turkish economy and its place in the region. I thank you for the compliments you have made for Brookings. We, indeed, do try to expand awareness on these issues.

But I think rather than address questions to you and to Jose Fernandez I realize that we've already taken up a lot of your time. We have just about 20, 22 minutes. I'd like to be able to squeeze in a couple of questions from the audience.

I'd like to invite you to briefly mention your name and try to keep the question as brief as possible. I'll try to take two to three questions in one round. With a bit of luck we could squeeze in one. Yes, sir.

MR. MARSHALL: Dana Marshall with Transnational Strategy Group. Thank you very much. These two speakers, one of whom I've just met, the other, Jose, of course, is a well-known quantity to many of us.

Questions for the Minister. One is a couple specifics on economic issues. There has been some reporting about the possibility of Turkish interests in renegotiating its Custom's Union agreement with the European Union in light of the challenges that the Minister pointed out quite well with TTIP.

The Minister's views of a number of consulting firms that have looked at the Turkish economy generally, and seeing that one of the areas that it could move to is to higher technology exports. Right now a lot of it is low and medium tech. Nothing wrong with that, but in terms of moving forward the economy what steps is Turkey doing to increase its high-tech industry and high tech investments?

MR. KIRIŞCI: Thanks. Can we take another question? Yes, please.

MR. TANNIS: Hi, Toga Tanis with Teria. Thank you for this panel. The

quick question regarding the Turkish interest to TTIP and the integration of the West. Mr. Minister, can you please clarify the interest -- you raised your interest to TTIP negotiation, a parallel negotiation maybe with the TTIP.

But at the same time, the Turkish Prime Minister is giving, sometimes, mixed messages in terms of this integration to the world economy. Especially when it comes to the Shanghai 5, for example, the Turkish Prime Minister is sometimes raising his interest to be a member of Shanghai 5.

What is the motivation behind this interest? Do you think that there is a conflict between this interest to the Shanghai 5 and this TTIP process?

Also, the rapid growth of Turkey is very inspiring and very promising for all the Turks, but at the same time if you let me give another figure, according to the ILO figures, for example, Turkey has the third worst workplace figures all around the world, and the worst public workplace safety figures in Europe. So given the interest to the Shanghai 5 is it the deal that Turks have to pay for the sake of the rapid growth?

Mr. Fernandez, another question regarding this integration with the Turkish economy. \$18 billion between Turkey and U.S. total trade volume, and the \$14 billion is coming from the U.S. companies and \$4 billion is coming from the Turkish companies.

I think it's not sustainable. One of the fragile issues for the Turkish economy while it is an account deficit problem, what will the U.S. government do to help overcome this difficulty and keep this trade volume sustainable for the future?

MR. KIRIŞCI: On the cover of two questions we already have three questions for you, no four questions for you.

MR. ZEYBEKCI: Four questions for me.

MR. KIRIŞCI: One question for Jose. I think we would start with you,

Minister.

MR. ZEYBEKCI: Starting from the first question. Yes, with the European Union with the (inaudible) which is the economic and trade concern of the European Union.

Starting from last December we had started negotiations with them to upgrade the Custom Union. Now we agreed, both sides, Custom Union like this as it is, is it continued for Turkey and for Europe? From European side in some areas out of the Custom Union which is the agriculture, and the services, and the public procurements. We kept them out. They're asking us to put them in the Custom's Union.

On the other hand, we are asking to be in the decision taking table. We are asking to be equal in the votes of what the decision is taking in the Custom Union. We are asking them to be automatically in the FTAs agreements they are doing with the Turd countries. These are the things we are asking from them.

Until now in four months, four and a half months we had three official meetings. I think approximately another three unofficial meetings with them, with him. By myself and the team. It's really a very good point we are now in. In June we will have another official meeting which is going to be very encouraged, it's going to be very (inaudible). I am very hopeful, to be on the positive side.

Thank you for the second question because high-tech. As Turkey's target, which is the 100th anniversary of the Turkish Republic which is the 2023, we are targeting the \$500 billion export. On the \$50 billion service income as Turkey.

Today's conditions is really very difficult, almost impossible for Turkey to reach its target with this export goods basket. Today our export volume on a yearly basis is 155, 150s. Only 4 percent of all export is high-tech goods. If we compare Turkey with Korea, in their export high-tech products is the volume or the share of the high-tech

products is 20 percent. That's why, so starting from the year 2002, which is the starting of all governments or the Prime Minister starts to say that.

We have to increase the Turkish research and development expenditures from the GDP. Ten years ago it was 0.5 something, less than one percent, half a percent, let's say. Now, in Turkey it's very close to 1 percent, 0.98 we came to the (inaudible).

Although we tripled (inaudible) GDP, but our target is in the next decade, in the next 10 years, to triple this research and development expenditures rate to the GDP to 3 percent which is the same as Germany or France, the developed countries in Europe. We are targeting them.

As you know, I think the United States is 3.5 percent or 4 percent (inaudible). Japan is approximately more than 4 percent. You are pointing very right point. If we are going to be in the first leg of the economy in the world, if we are targeting to the 10th economy, 10th biggest economy in the world this is a very impressive figure we have to catch, we have to reach.

Yes, the second question, TTIP, are you following the TTIP or Shanghai 5? As I said, we have relations, we have an agreement with the European Union as the Custom Union. With the Custom Union we are trying to make FTAs part of with the European Union.

On the other hand, totally out of the European Union we are doing FTAs, for example, with Malaysia. We are in a very good point with Singapore. On the other hand, we are really racing, competing with the European Union to finish the FTA with Japan. If they are going to be the first, who's going to finish first?

I think we have the advantage to finish it first with Japan. I mean, on the other hand, for example, two weeks ago I was in Kazakhstan. I officially offered

Kazakhstan to be in their Custom Union. Kazakhstan and Russia and Ukraine they have a Custom Union in three countries, but I know they are working to extend this Custom Union with other Turkik Republics like Turkmenistan, Azerbaijan, Uzbekistan, Kyrgyzstan, with these countries.

These are the countries we speak the same language. These are the countries we share the same history. These are the countries we help. Very, very big advantages to be in their countries. Turkey cannot miss them to be in the other organizations which Turkey is not in. That's why we are underlining the importance of Turkey in this region, to the U.S.

For example, when we have the FTA or a kind of TTIP or in the TTIP with the USA we are putting this on the table. We are strong there. I mean, we have, we call it cultural joy of Turkey. We have the same history with Central Asia with the Koufikis in the Balkans. In North Africa in the Middle East in the Gulf area, I mean, we have many problems we are sharing together.

That's why we cannot avoid to any organization in the world. Okay, Shanghai, maybe is a bit far away, but we are really affected from these organizations. We are not afraid of being anywhere. As I said at the beginning, 18 years ago Turkey didn't put the agriculture and the services and the public procurements into the Custom Union. Now we are asking the European Union to negotiate this.

We are not the country to put in the walls to protect our economy or our industry. From now on we are going to open all the doors, all the walls or Turkey. We want all the sectors of Turkey to compete with the world in equal standings. That's why we will be negotiating. We will get in touch with these kinds of organizations.

Yes, my friend, he asked me Turkey is the third worst country in the labor conditions. This information, I don't know. But on the other hand, I don't think Turkey's

the third worst country in the world. I think some hundreds of countries, this international label organization they cannot go in and make measurements in these countries. That's why they are putting some kind of figures like this.

Yes, we are very sorry about the things that happened in Soma. We lost approximately 300 brothers there. I am here, and sometimes trying to be in Washington D.C. the last two days. My heart and my brain and my everything, and all my feelings are there in Turkey now.

I wish we don't have such a big disaster again. We will take very big lessons from this accident. In Turkey, I'm not (inaudible) Turkey is the worst country in Europe. I know many countries in Europe. Okay, I mean, I don't want to compete on the backside of the labor conditions, but our target is to be in the 10th -- when we say our target is to be the 10th biggest economy in the world with all standards. With the human rights, with democracy, with international law, with workers and everything. The working conditions also we would like to be in the first 10th of the world.

Our target also in the next decade is the third biggest economy in Europe, and also in the third best conditions in Europe. Our target is this. Thank you.

MR. KIRIŞCI: Thanks Minister. I think it's good that you should mention that improving labor conditions is part of that objective.

MR. ZEYBEKCI: Sure.

MR. KIRIŞCI: To become 10th --

MR. ZEYBEKCI: Otherwise you cannot improve. You cannot do a lot.

MR. KIRIŞCI: Because also this is an important issue in TTIP on the American side.

MR. ZEYBEKCI: Let me add one thing. I don't see any country in the world having less democracy, less human rights, worse working conditions, and they are

the biggest economy. Okay, maybe there's one country you can say something, but on the other hand -- okay, do not forget this one example.

On the other hand, some countries who have incredible energy sources they are the biggest exporters of the energy in the world, but on the other hand their level of country is not the same as us.

MR. KIRIŞCI: We won't mention the name.

MR. ZEYBEKCI: Okay.

MR. KIRIŞCI: It also has --

MR. ZEYBEKCI: It was just coming out, but I stopped.

MR. KIRIŞCI: Yes.

MR. FERNANDEZ: I'll be brief. I think the issue of the imbalance in trade is something that's always, always brought up by Turkey. A couple of things there that I would just point out. It's a broader discussion. But that includes defense items and that also includes items that are re-exported from Turkey into some neighboring countries.

But the point that I would make there is that I think that shows there is no magic wand. There's a lot of work to be done. From a government point of view the best you can do is provide opportunities, work with organizations to get them in front of U.S. companies and U.S. consumers.

But the other point that was mentioned when I wanted to start an argument with my Turkish friends, which was not often, I would say fine. But that same ratio if the ratio of FDI, American FDI into Turkey as Turkish FDI into the U.S.

So if the objective is to create jobs, to transfer technology, then I think I'm not sure that it would make much of a difference whether you get it as part of consumer goods being sold by Turkey here or you get it as part of FDI, American Foreign Direct

Investment into Turkey.

So there is two sides to the story. I don't think the point is -- I'm not sure it's something that can be done much about by the U.S. government. I do agree with you that it's got to be dealt with, but I would also pause it that it is not as stark as you make it sound because it does not include foreign direct investment flows from one country to the other.

MR. KIRIŞCI: Thanks. We're fast running out of time, but I think we could take one more very quick question. Go ahead. Please, not a long one. You have a reputation for long questions.

MR. OZCAN: Thank you very much, Mr. Minister, for coming here and for the presentation. I'm Yurter Ozcan. I'm the U.S. representative for CHP, Republican People's Party.

One quick comment and a question.

MR. KIRIŞCI: No. No comment.

MR. OZCAN: Question? Okay.

MR. KIRIŞCI: Yeah. Just a quick question.

MR. OZCAN: As you are visiting Washington D.C. a video emerged this morning, footage taken inside the supermarket in Soma yesterday where our Prime Minister, unfortunately, hit a young person in the market and then he gets beat up by the body guards afterwards.

So there's new footage, so there's talk in town, at the moment, from White House and State Department, as I can't follow my emails?

MR. KIRIŞCI: So what's the link to TTIP?

MR. OZCAN: Look, if a Prime Minister, I've never personally seen a president or a prime minister hit somebody in the world. If the Prime Minister is hitting a

person who do you expect that there's rule of law or governance in a country and how do you expect to bring investment to a country where even a citizen is not safe from the Prime Minister's backlash? That's the connection to TTIP.

MR. ZEYBEKCI: My suggestion to my friend is as soon as possible go to Turkey and (inaudible) politics there. I don't want to go to the domestic politics here. I am here to discuss TTIP and economic cases.

We really need in Turkey young, new, good educated, high-level new politicians. That's why I'm suggesting to be in Turkey.

MR. KIRIŞCI: Well, thank you very much Minister for that. Thank you to Jose Fernandez too for having spared his time coming down from New York City.

I'd like to thank the delegation, our Turkish Ambassador, members of the Economy Minister. I understand the Ambassador of Macedonia is here too. I'd like to acknowledge him. A good neighbor of Turkey and hopefully one day in the European Union and in TTIP as well. Thank you.

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