

THE BROOKINGS INSTITUTION

FALK AUDITORIUM

TURKEY, ITS NEIGHBORHOOD, AND
THE INTERNATIONAL ORDER

Washington, D.C.

Thursday, April 14, 2016

PARTICIPANTS:

Introduction:

CANSEN BAŞARAN-SYMES
President, Turkish Industry and Business Association (TUSIAD)
Istanbul

Panel:

KEMAL KIRIŞCI, Moderator
TUSIAD Senior Fellow and Director, Turkey Project
The Brookings Institution

BRUCE JONES
Vice President and Director, Foreign Policy
The Brookings Institution

ŞEBNEM KALEMİL-ÖZCAN
Neil Moskowitz Endowed Professor of Economics
Director, Center for International Economics
University of Maryland, College Park

FRANCIS RICCIARDONE
Vice President, Atlantic Council
Former U.S. Ambassador to Turkey

* * * * *

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

P R O C E E D I N G S

MR. JONES: Welcome to this panel discussion on Turkey, its neighborhood, and the international order, part of the TUSIAD U.S. Turkey Forum at Brookings.

I think it's significant for us to be examining Turkey's role in the international order today. It's long been my conviction, far from alone, that Turkey is a pivotal country in shaping the future of the West and holds tremendous potential as a driver of transition throughout the Middle East and Central Asia. And Turkey's role as an economic leader, as a NATO ally, as a host to millions of refugees, as a vital partner in the fight against ISIS underscores how multifaceted the relationship is and how instrumental the country is. But as we all know very well there's also growing concerns and questions about the recent direction of Turkey's politics, its economics, and its foreign policy. And that's at a very turbulent time in its neighborhood and in the international order itself. And I'll have some to say about that on the panel.

But all of this put together means it's essential for Brookings to maintain our focus on the dynamics of Turkey's domestic and foreign policy, and to assess the implications for the transatlantic relationship and the relationship to the United States. We do this both through research and convening. The Turkey Project here at Brookings has brought together a wide range of individuals and groups with diverse opinions and backgrounds to discuss these issues, Turkish officials, opposition leaders, journalists, scholars. We've had influential voices from across the ideological and political spectrum. Recent events we've had with Prime Minister Davutoğlu, Kurdish leader Demirtaş, the opposition leader, Kılıçdaroğlu, President Erdoğan, and we will continue to do a range of convenings with Turkish voices.

And of course we also do our own independent research. That's the

core function of our Turkey Project, which is led by Kemal Kirişci, who is also our TUSIAD scholar and will be the moderator of the panel in just a few moments.

I'd like to stress that TUSIAD is one of Brookings key partners. We're delighted to be joined today by a prominent delegation from TUSIAD, including their President Cansen-hanim, who will offer some introductory remarks in just a moment. As a leading civil society organization TUSIAD conducts (inaudible) of research, serves as a key network for dialogue within Turkey and between Turkey and the West, and develops practical solutions for Turkey's economic, social, and political challenges. And that very much mirrors the goals of Brookings. We are dedicated to independent research, the research that should be solution oriented. We're trying to solve problems, not just conduct analysis. So I only think that it's natural that TUSIAD and Brookings would form the kind of constructive partnership that we've had, a partnership that enables Brookings and our Turkey Project to provide analysis on Turkey, to undertake independent research, conduct a debate, constructive criticism, and develop actionable recommendations for improving public policy. And our partnership is effective because TUSIAD validates our objectivity. And we're grateful both for the support and for their respective for our independence.

Now before I turn to Cansen-hanim I'd like to flag an important upcoming event. In two weeks we're going to launch a new stream of products, an important stream of products. We call them Marshall Papers, which are short action oriented books designed to address some of the critical challenges of our time. I think it's suitable that the very first of these is going to be launched to Kemal Kirişci and Beth Ferris, looking at the Syrian refugee crisis and its implications for the neighborhood, including obviously Turkey. And so I'm going to be looking forward to seeing many of you back for that event in a couple of weeks.

So, in a moment, after Cansen-hanim gives her remarks, Kemal will take over as the moderator for a discussion on Turkey's strategic orientation, its economic orientation, and its role in the international order. And we'll look forward to the discussion both on stage and with the panel.

And so now I'd like to turn the microphone over to TUSIAD's president and chairwoman of the board of directors of Allianz Turkey, Cansen-hanim. Thank you very much. (Applause)

MS. BAŞARAN-SYMES: Ladies and gentlemen, I would like to welcome you all to our conference with the Brookings Institutions. The Brookings-TUSIAD program was launched in 2007 and we have already seen the positive impact it has had on perceptions and the U.S.-Turkey relationship. Since 2013 we have a large scope of programs to constitute the U.S.-Turkey forum. The Brookings Turkey Project, under the coordination of Kemal Kirişci is very productive, with conferences, seminars, analysis, publications and that has stimulated debates on topics of relevance to U.S., Turkish, and transatlantic relations.

The independent and bipartisan thinking and debate at Brookings are very crucial for the success of the program. I extend my thanks to all our colleagues in Brookings for their intellectual and organization contributions. The content of Turkey Program reflects the contents within the political, economic, and social agenda of Turkey and the transatlantic community as set.

Our next event will be in Istanbul just before the U.S. presidential elections to discuss the impact of the elections on U.S. politics in general and on our Turkish-American relations in particular.

Today we will discuss Turkey and the future of the international order. Following the global economic crisis the western world had to confront challenges that

might destabilize the foundation of its liberal democratic order. Economic inequalities undermine the social creation of western societies, gave rise to populism, radicalism, and political polarization. Turkey too is exposed to these challenges in an aggravated manner due to its unresolved historical political conflicts. We are concerned with the weakening of our common values. Thus, strengthening of Turkey's relations with its partners and allies is more crucial than ever. Our message has consistently been the same, can be summarized in one sentence -- Turkey's future is inseparable from transatlantic values.

Turkey's strategic orientation has two main pillars. One is its European Union accession process. The other one is its membership in NATO and its strategic relationship with the U.S. The main pillar for Turkey's continued transformation is new perspective; does Turkey need to accelerate the political and technical reform processes in new negotiations and recalibrate Turkish foreign policy towards the transatlantic community and its values. This perspective shall continue on the basis of accession, not under the indefinite framework of cooperation of economic partnership.

Second, Turkey's transatlantic position should not be reduced to just a strategic military partnership within NATO. We believe that the merits of U.S.-Turkey relationship must rest on shared values not only on common interests. These common values are based on the principles of liberal pluralistic democracy based on the principles of rule of law and secularism. The separation of powers, checks and balances, and independent judiciary, a strong civil society, and all fundamental freedoms, including freedom of expression, free press, right to assemble, and free enterprise are the different components of these political values.

These European and transatlantic dimensions are the natural results of Turkey's strategic choice of modernization since the Ottoman era. Despite some

occasional problems Turkey managed to stay in the transatlantic system not only a strategic ally, but also with its democratic aspirations. We hope that this line of long-term partnership is powerful enough to resist any deviation or derailment.

And by all means business in Turkey and TUSIAD will continue to be staunch supporters of this stance. Each democratic country has its responsibility for the success of international order based on the liberal democratic principles. We believe that the course of American policy will be in accordance with these principles after the election. I am sure that today's discussions will contribute much to our understanding of common future based on the liberal democratic principles of the transatlantic community.

Thank you for being here and for your participation to our conference.

Thank you very much. (Applause)

MR. KIRIŞCI: Good morning to you all. While the panelists get all wired up I'd like to thank you for joining us today at this event focusing on Turkey, its difficult neighborhood, and the international order. I'd also like to thank the president of TUSIAD, Cansen, as well as Bruce, my boss, for their introductory remarks.

I am Kemal Kirişci, the TUSIAD senior fellow here at Brookings, and I'm already into my fourth year here; a very enriching three years for me. I'll be moderating the panel today. I would like to remind those of you who might have been here just about a year ago when we did have an event focusing on Turkey's economic transition and transatlantic relations, the event took place on the heels of two important World Bank reports on Turkey. One looking at how the risk of Turkey being trapped in the middle income trap was becoming bigger as well as a report revisiting Turkey's customs union with the European Union. At the time our focus was mostly on domestic challenges in Turkey, structural challenges that was risking to keep Turkey in a middle income trap. Today Turkey's economic, not to mention political challenges, have become even bigger

compared to what they were just a year ago. Turkey's facing now Russian sanctions, economic sanctions. There's a clear fall in tourism income in Turkey and a very conspicuous loss of regional export markets, a function of the chaos and instability. These are clearly additional new challenges.

Furthermore, there is also a world economy that is not picking up from the recession it's being trapped in. And actually, today, in this very room later in the afternoon there will be a panel looking at the Chinese economy and the state of the global economy. Furthermore, again yesterday or the day before IMF just published a report on what the economic consequences of a Brexit would be for the European Union, the European Union with whom Turkey has very close to half of its foreign trade and is very critical to its economic performance. These are the challenges that Turkey is facing and its economy. And to address those very easy challenges we have Şebnem Kalemli-Özcan, the Neil Moskowitz Endowed Professor of Economics as well as the director of the Center for International Economy at the University of Maryland. I can assure you Şebnem has the pedigree to make these problems sound extremely easy to overcome and will try to explain to us the relationship between Turkey's economic performance and what is unfolding in its region and in the world economy. And maybe also help us to understand this puzzlement that surprisingly the Turkish economy is continuing to grow at a very respectable rate of around four percent.

In contrast to the event last year today we also hope to explore and discuss the domestic regional and broader political context behind these economic development. And the task goes to former Ambassador Francis Ricciardone who ambassador to Ankara and has a long distinguished career in diplomacy. He was I believe until today (laughter) the vice president of the Atlantic Council, but he will move to greener grasses as the president of the American University in Cairo. And I am very

excited to make this public, that I'm given the privilege to do this by the ambassador because American University in Cairo is considered together with the one in Beirut, a sister institution of my former University, Boğaziçi University.

Lastly, Bruce Jones, our vice president at Foreign Policy, whose research focuses on the state and evolution of the liberally international order, will reflect on how these economic and political developments in Turkey and the region reflects and interacts with the challenges that the international order faces, increasing challenges.

All panelists will have eight to ten minutes to address these otherwise very simple issues and if there are any unanswered questions and time allows, I'll engage them into a quick conversation, but otherwise turn the floor to you for hopefully an engaging and energetic question and answer session.

Thank you.

The floor is yours; the ball is in our court.

MS. KALEMLI-ÖZCAN: Thank you very much, Kemal-hoca for this great opportunity to be among very distinguished co-panelists here and distinguished audience.

So, ladies and gentlemen, let me start with the international context because this is going to be extremely important give the Turkish boom during the last decade and a half happened in a global environment where global liquidity was in abundance. You know the simple way of putting it is money was cheap. In return the environment we are living in today is one where U.S. started increasing the interest rates and the global growth still remains weak. In fact, with the exception of the United States much of the advanced world still remains in trouble, especially Europe. And what is worse, the giants of emerging markets, such as Turkey, Brazil, China, Russia, they all started slowing down. So in this environment of low global growth and still a weak

recovery from the global financial crisis of 2008-2009 and the European crisis of 2010, it is extremely important to understand the linkages between the global context and Turkish economic developments. But it is impossible to de-link the Turkish economic developments from this global picture, especially given the Turkish linkages in terms of trade and finance to Europe, Russia, and Middle East.

So let me start by grouping events in two categories, external events. I will first go over the external events that helped the slowdown of the Turkish economy and then talk about external events that helped the Turkish economy.

So let me start with the slowdown. So much of the Turkish slowdown is actually related to the global business cycle. As Kemal-hoca just said, half of the trade is with Europe, three-fourths of the foreign direct investment into Turkey is from Europe, so Middle East, until recently, was the fastest growing export market for Turkey. So clearly, it's a no brainer that the slowdown in Europe and troubles in the Middle East is going to have a direct impact on the demand for Turkish goods and exports. Moreover, the tension between Russia and Turkey is a big problem. Why is that? Russia is not only sending many tourists to the country, but also a big supply of oil.

Now, just keep these events in mind. Because I said oil let me also say a little bit about the external events that helped economy recently. I believe the single most important external development is the ultra low oil price. That's really helped the Turkish economy. That combined with still abundant global liquidity is keeping the economy going to a great extent. So the low oil prices helped the current account deficit to narrow down. What is current account deficit? Simply the difference between exports and imports. You can also take it from the financing side as the difference between country's saving rate and investment rate. So that narrowed down to a little above five percent from a whopping ten percent a couple of years ago. That's a good development.

But, you know, let us remember that any blessing -- I mean low oil price is a blessing for Turkey -- any blessing can also be a curse. We are not in the business of predicting things because you know that it's hard to predict, but oil prices can easily rise again at some point.

To clarify this point further let me zoom in on two very important factors that are important for the business cycle of any emerging market, any -- Argentina, Brazil, Russia, China, Mexico, Turkey -- not only Turkey. These two important factors will be the capital flows and the commodity prices, particularly oil prices. Let me just dissect these two a little bit. Capital flow is actually associated with boom and bust cycles in emerging markets. When you look at the research done by the giants in our field, such as Carmen Reinhart and Ken Rogoff, this fact has been around in the last 200 years. Generally how the cycle evolves is, if you're an open economy like Turkey, you have strong ties to global economy, you have a credit boom in your country filled in by capital inflows. The effect is first currency appreciation, so increasing value of your currency. And then at some point these capital flows start reverting, turn into capital outflows. And then this is accompanied generally by currency depreciation and a bust, and most of the time with a financial crisis. Now given this, you know, very robust historical picture that characterizes emerging markets in the last two years. It is important to understand the developments in the U.S. A higher U.S. interest rate can be one reason why capital is flowing out of the emerging markets. Of course, there can be other reasons, such as counter risk. At the end of the day it is very hard to take things apart. What I mean is if the money is flowing out of Turkey and the other emerging markets, because the return is higher elsewhere, particularly in U.S., or because there is counter specific risk, which would be also a relevant thing in the case of Turkey. In fact, when you look at the capital outflows in the last few years it has been uneven. It has been uneven in the sense that out of the pool of

emerging markets Turkey has been one of the vulnerable ones. There were others that capital didn't leave that much, others left in bigger quantities.

The point is this type of pattern in general, you know, does not end well, you know, as happened in 2001 in Turkey and one of the biggest financial crises of the country. We don't need to go that far back. The carefree countries of Europe, southern European countries, went through the same thing. There has been now consensus that what happened in southern Europe is very much like this type of crisis, which is ironic because these countries are technically developed countries, although they show many signs of typical emerging market crises that happened during 2010.

So I don't want to sound like, you know, very pessimistic and this is definitely going to end with a crisis. Of course we are living in a different world, it can easily be that. We have learned to manage these cycles better as emerging markets and as Turkey, or it's not over yet, right. So we have to understand because -- and we want to not only in terms of predicting what is going to happen, but to be able to undertake the right policies and right structural reforms. So why do we worry about these developments? As I said, you know two factors that are central to ups and downs in emerging markets and in Turkey is capital flows and oil prices. Capital flows because this leads to currency moments. Why do we worry about currency moments? There are going to be two negative side effects of the currency depreciation when the money is leaving the country that we do care about. And these are particularly relevant for the case of Turkey.

These two side effects, inflation, two, increase in value of dollar. Let me start with inflation. It's very simple. Once your currency loses value this is going to feed back to your domestic prices, to your import prices. We call this in the jargon foreign exchange rate pass through into domestic prices. According to the recent World Bank

calculations the 12 month inflation right now as of January 2016, because of this effect, what I just told you, is at 9;6 percent -- 9.6 is a number (inaudible) to Turkey's central bank's target band of 3 to 7 percent. So let's leave this on one blog as the inflation effect of currency depreciation.

The second one is the dollar debt of the corporates. So the Turkish corporate has enough dollar debt that we need to be worrying about this trend. You might say well it's not as high as what Asian countries had on the eve of Asian crisis in the late '90s. Correct, maybe it wasn't that high, but it is still high according to the calculations done by Bank of International Settlement that this is a boring trap. The more depreciation, the bigger the value of this dollar debt. As you remember, one of the key counter arguments against a Greece exit out of the European Union a couple of years ago was exactly this reason. The debt that is in euro, if Greece would have been out of the European Union should have been turned into drachma; that would imply a quadrupling of the value of that debt. This is in spite of whatever export competitiveness you are going to gain because of your cheaper currency.

Let me underline that I think this export competitiveness because you have undervalued currencies all will belong both in academic circles and in policy circles. This is not a magic bullet. You have a global currency and suddenly you export tremendously. That's not going to happen like that. You need to have the capacity, you need to have industry, you need to have the goods produced. And Greece wasn't in that shape, and this is still a question for Turkey.

So circling back, I went through the one very important factor, the moments off capital flows, which is linked to moments of currency, which is linked to inflation and an increasing value of dollar debt in the economy.

The second very important factor in terms of emerging market business

cycles and understanding ups and downs of Turkey is the oil price. Now the Middle East is burning and oil price is collapsing. How is that possible? Let us remember what we know from the past. 1973, Israel-Arab state war. There was a huge embargo, huge increase in prices, led to stagflation of '74-'75. Stagflation is defined as high inflation, high unemployment. 1979, Iranian revolution, another huge oil price shock, another stagflation of '80-'81. 1990, invasion of Iraq, invasion of Kuwait. Again, huge price increases led to U.S. and global recession of 1990 and 1991. What is different now? I mean you have ultra low oil prices given the fact that the geopolitical instability in the region is very more widespread. I think the different thing is really the nature of the shock. This time around this is not what we call a supply shock, meaning nothing really happened to the supply of oil. I mean look at it, even the parts in Iraq controlled by ISIS, oil is still produced, smuggled out, and business as usual. Not just that, shale energy revolution in the U.S., oil sands in Canada, the ongoing onshore and offshore drilling in Mexico, all led to the expectation that the dependence on Middle East oil is getting less and less.

But having said that, let me make one point very clear, a burning Middle East and an unstable Turkey can do many harms to the world economy in many other ways. If the U.S. and Europe, the West in general, try to go at this problem by military intervention instead of diplomacy, instead of financial resources to create job growth, I think the region's problem is going to get worse and worse. And this is going to be bad news, not just for U.S. and Europe, for the global economy. And Turkey is clearly the bridge country in this context.

Now let me close by looking at how Turkey can be a great shining example here. In fact, while the enemy of many Middle Eastern countries until recently, three key decisions that was undertaken by Turks in the last several decades take the

country from being pure lower middle to an upper middle income level. What were those decisions? 1980, Turgut Özal stopped the choking state capitalism, opened the markets, liberalized trade, and focused on investment. 1995, Turkey EU custom union quadrupled the bilateral trade between EU and Turkey, opened the markets to Europe, increased investment. And finally, as I said, the worse financial crisis of its history, 2001-2002, Turkey adopted a very ambitious IMF program led by your very own Kemal Derviş. This program led to cleaning up the banks, taming inflation, increasing transparency in terms of state budget, put stringent controls on state budget, increased central bank dependence, and led the way not only to open and better regulated market, but also a clear path towards EU accession.

I cannot emphasize enough the importance of EU accession progress as the most important anchor for Turkish reforms. But once the IMF cure had worked its magic and EU started distancing itself from Turkey, all the impetus for reforms stalled. What do we have now? We have a very young dynamic country with a huge market, huge potential, amazing skilled workforce, and a very important strategic location. But it is in this upper middle income category below the top tier economies. FDI is back to 1988 levels. The steps that needs to be taken to fix the Turkey EU custom union, completely stalled, now solid foundation for Turkey to join the TTIP negotiations. We talked about this several times. So, I mean, if you look at the situation, we really can easily see that the answer is going to go to structural reforms. Institutional reforms that is going to increase the transparency, accountability, rule of law, judicial intake, and so forth, but also structural reforms to close the education deficit and the savings problem. And the savings problem is the single most important structural problem underlying the external deficit.

So of course, I mean, there are many plans and ambitious policy agenda

for these reforms, but let me emphasize the gap between the policy announcements and the plans and implementation. Implementation is extremely important and this gap between the two is getting wider and wider. This is one of the points we are focusing on our 2023 Turkey Project run by several think tanks under the leadership of Center for American Progress.

Let me close back by referring to what Kemal just said, Turkey's middle income trap. Middle income trap is a buzzword, we all use it, that's fine, but I would like to make a little bit of an emphasis on the word trap. I mean I don't like the word trap that much. Trap has this negative connotation to it. It sounds like as if you are going to be there forever or you need somebody to just come and take you. Let's look at what happened in reality. Who was in this trap before? South Korea, you know, the example we always like to give. They left the trap and they didn't get back into it. But there are countries who left the trap and who got right back into it. Who are those countries? Argentina, Greece, (inaudible). So this is something, this is a definition. You can be out of it; you can be back into it. The key here is to achieve this transformation that is going to be permanent. How you get out of that upper middle income status into high income status and stay there permanently? The key is really to move your economy from a know who to a know how economy. Unfortunately, in Turkey still connections matter more than competence. The emphasis on education and equality is extremely low. The way to achieve this is to build institutions that are going to propel the reform, transfer the economy from know who to know how, and these institutions are going to lay the foundations of long lasting economic growth.

Thank you. (Applause)

MR. KIRIŞCI: Wow. I have to go back to the classroom (laughter) and go through another Ph.D. to be able to absorb this really very rich, fascinating

presentation by Şebnem. I do remain though still very much confused and somewhat at a loss. However, I also greatly appreciate the way in which she was able to put this really complicated picture into almost a nutshell. I also noted how she referred to country risk element in our efforts to try to understand how economy grows and then contracts.

And it is at that point that I'd like to turn to our ambassador and ask him to help us how that relationship works, help us to understand it with the experience that he has accumulated as ambassador in Ankara, but also has served in Ankara in the region as well as a diplomat.

You have that difficult task. (Laughter) I look forward to hearing your views.

MR. RICCIARDONE: Thank you, Kemal-hoca. And thank you to TUSIAD and your delegation and Brookings for doing this. And I mean that in a very substantive way, which I'll come to at the end.

I see several faces and there are probably more that I haven't picked out of people in this room who might share my view more than others in the room. I like teasing my Turkish friends who take a dark view of Turkey, the world, and the region, and where it's all going. I've been in and out of the Turkey business, mostly in, and the Turkey-U.S. business for most of four decades. So I have a longer-term perspective maybe than other Americans, some other Americans. Also a cold warrior's perspective. I see Jim Connell here, and Sharon and I are littermates from the foreign service. I've seen Turkey in really tough times. So I guess the bottom line for me is I'm very confident about Turkey actually, about the Republic, its durability, about the civil society and its people just internally. I'm very confident and optimistic that it will do better than muddle through, better than just be stuck in a middle income trap. It could, but I don't think it has to.

I'm also very confident and even optimistic in the future of American-Turkish relations. When I had my first foreign service job as a diplomat it was in Turkey and it was -- Jim Connell was already there -- it was only two years after I think Congress had put an embargo on arms sales to our NATO ally because it had invaded Cyprus in the summer of '74. And then we had just lifted the embargo and things got better. So I mean that level of crisis between two allies was pretty stark. And if we talk about the questions of Turkey's role in NATO, how reliable is the ally, Turks asking how reliable is the American ally, let's remember that we have a history together that shows vexation. It's a been a relationship of close allies collaborating on a lot of things, but always vexed one way or the other with a lot of frustrations. Turkey has had its own internal growing pains as a democracy. I was there for the run up to the coup of 1980 and then the coup. I was there for the near coup -- people debate whether it was a coup or not -- in '97. It was less of a democracy in those days. There was politics, but politics intruded less on the state to state relations. Turkey was then, as I believe it still is, a state of institutions and laws. And the institutions in those days were less troubled by democracy really, less troubled by public opinion. There was no social media. To the extent there was mass media it was broadcast media under state influence and the influence of a few parties that were pretty establishment.

So in a way in that world it wasn't just the U.S. and Turkey, in that world the conduct of state to state relations was an easier thing than it is now between states. Likewise economic relations in many ways are much more limited and much more under -- especially in the case of a place like Turkey -- under state influence and control, where it was more overtly and explicitly a totist economy.

So before we start weeping and gnashing our teeth and saying how bad and difficult and dark thing are now, we just have to remember it's never been an easy

relationship, it's always been a high maintenance, high value relationship, and it's pretty worked to both country's benefit, economic and security benefit, and people to people benefit, which I'll come back to.

So where are we now? It's a time of particular vexation in the relationship. Turkish politics are white hot. I would say it's a result of more democracy not less. Turks themselves are debating fiercely the perils that their democracy is in. The questions of media freedom, for example, and use of state authority against opponents. This is all being roundly debated in Turkey and that debate is a necessary, not a sufficient condition, but a necessary condition to improve Turkish democracy and functioning as a modern Western style state.

It's noisy and it's stressful for Turks, and it's certainly noisy and stressful for Turkey's friends. At least as recently as the period I was there, and I'm reliably informed by colleagues who are still in government on both sides, the institutions of state are still strong. They're under stress because politics is coming into those institutions in Turkey. There is social media now. There's a giant personality in the person of President Erdoğan. Half the Turks -- maybe whatever the -- it depends on the latest election or the latest polls, but something like half really like him, or at least a third really like him, half voted for his party as recently as November 1. The other half are fiercely opposed. Well, that's life in a democracies, that's how it goes. And he is a very strong personality. But he is the democratically elected President of the country and his party was just reaffirmed as the party that has the strength that it has in parliament. We'll have to see where that goes. Those are facts of life and that's the way it is.

On our side we're in what is in my lifetime one of the strangest political seasons I've ever seen where both parties, both of the major establishment parties are facing internal insurgencies that are really threatening the very bases of those parties.

And we have some strong personalities too. We have a president who is near the end of his second term with many accomplishments to his credit and who, while still in office, has candidly expressed his vexation with the world and our allies and his own -- us, the foreign policy establishment. That's the way life is now today.

But I think we can nonetheless step back a little bit and recognize the huge assets we have as Americans and the greatness and strength and standing we have in the world. And then with other great countries like Turkey, who are great and have their strengths, and together what we intend to do to make this a better world, at least with respect to the region that Turkey lives in. I should say the regions, because it's not only the Middle East of course, it's a stronger Europe, it's a stronger Eurasia, it's dealing with the great catastrophes of our time, the millions of displaced people that are washing across Turkey into Europe, the stresses and strains as Russia figures out its way forward and how it will retake its historic course. Turkey is at the middle of all of that. I know many, many thoughtful Turks in government and outside who recognize the value of the relationship, not just with Europe but with the United States. And I find the same in Washington. People are angry, people are upset, words like betrayal come out on both sides in the media, harsh criticism from Turkey toward us. Again, cries of betrayal, you know, Pennsylvania plotting conspiracies, trying to undermine us. From Turkey and from the United States, you know, dictatorship and encroachments on freedoms. And there are reasons for those sorts of stuff. But the state to state relationships are going on, whether it's defense to defense, diplomatic to diplomatic, intelligence to intelligence, law enforcement to law enforcement. There are frustrations, there are difficulties. We haven't accomplished all we wanted, but this is still a fair amount of accomplishment.

Let me get to what makes me really optimistic though about the relationship and why I think there's so much to work with whoever succeeds President

Obama next year, whoever might succeed President Erdoğan whenever that may happen, and that is us actually. It's the people to people stuff that's happening now that was not there in this kind of strength when I started out in the Turkey business. There are more things like the American Turkish Council that was mentioned, the attention that think tanks are paying to Turkey, these kinds of conferences that we're doing. I found as ambassador groups like TUSIAD, TUB, MUSIAD, all the others that are there, TUSKON. The business to business relationships and the structuring of them, the precipitating of sort of like minded groups within business in Turkey with a plethora of demographics and viewpoints is I believe a healthy thing. It's anyway a natural thing in functioning societies, and that they're coming together with American counterparts in so many ways, deliberately. The TUSIAD recognizes the importance of fostering these kinds of conversations in Washington and I would say reciprocally. I am about to leave the Atlantic Council, but we do an annual conference in Turkey, not about Turkey, but in Turkey every November on regional energy issues mostly, but also security and broader issues.

All that is happening. I've lost track -- I used to talk about this when I was in office before, how many non stops there are between Istanbul and the United States now everyday thanks to Turkish Air. And if you figure that's 350 people per airplane with each thing, that's just the physical human contact that goes back and forth. Schools, think tanks, business. The level of business is nothing like what it should be. If you compare the Turkish economy to say the Italian economy, plus or minus, and its standing in the G-20, the Italian-American level of trade is something like two or three times that between Turkey and the United States. So it ought to be higher. But we all know that and Turkish business knows that, American business knows that, governments on both sides are actively supporting it, there's more we can to, TTIP is an issue, et

cetera. But the fact is there's much more fabric and a complex fabric of the relationship than there used to be. And by and large I think that fabric is healthy. More and more students are coming from Turkey to the United States and going back by the way. And each time they do that it isn't just education, its personal networks. My wife is a scientist and when she worked in Turkish labs and universities in Turkey inevitably a lot of her colleagues had studied in the U.S. and had their own networks -- in her case molecular biology -- all across the United States. Some into Europe as well, but mainly U.S. In this country I can tell you in American laboratories connections to Turks and Turkish post docs are really valued. That kind of stuff is strong and it's there. There are dangers. I don't mean to, you know, look at everything through rose colored glasses. There are risks. We could blow it. Bad leadership, less than wise leadership, reckless decisions can cause danger or can at least set things back between us and for Turkey itself, or for our country itself.

But on the whole, I think the picture is so much more positive than appears when you have scuffles outside of Brookings a week or two -- that's a -- I mean it's terrible. (Laughter) It's a bad thing. But that's not an accurate picture of Turkish-American relations. It's not how Turks and Americans deal with each other. It is not typical. It is great for social media; it will trigger lots of Twitter things, but it's not the experience any of us have as we're doing business with each other. This is maybe more boring and doesn't make it to Twitter or CNN, but this is the stuff of the relationship. And I'm very confident of it going forward.

So that's where I wanted to wind up. Thank you again TUSIAD for what you've been supporting with Brookings. I don't owe Brookings anything other than my appreciation. Kemal has been a friend and Strobe Talbott has been a mentor for years. Please keep doing it. No matter what keep up your confidence and support for business

to business ties. And thank you for recognizing the interplay between business and public policy even here, and that think tanks are a good way in engaging in that. I'd like to see more American engagement also in the Turkish side of things.

Thanks very much. (Applause)

MR. KIRIŞCI: Many thanks, Frank. If there was some kind of a Nobel Prize for optimism (laughter) and I had any influence I would have no hesitation to nominate you and do my best to get you through that.

I honestly really hope that the observations you've made, which I have to confess I agree when you made comparisons with the 1970s and '80s. You know, '70s I was a student at Boğaziçi University and remember very well how limited our world was. You know, the United States was really oceans away. We today live in a much smaller world where developments here and there immediately impact on the others. You know, I don't want to bring in the back element into this great picture you drew --

MR. JONES: I'm going to do that. (Laughter)

MR. KIRIŞCI: Bruce, I'll help you with it. You made this reference to student contacts and that relates to my years. You know, we had only one American girl on our campus at Boğaziçi University. And when in my last years teaching at Boğaziçi University I used to tease European Union students that were coming on an exchange together with Americans, saying that I really now know how (inaudible) feels. I feel like my classrooms are being invaded. But that's disappearing, you know. I've just heard from my colleagues at Boğaziçi that many American universities are cancelling their exchange programs for the upcoming year. So there are challenges out there, even though we should, I agree with Frank, keep this more optimistic picture in the background.

And it's with those words I turn to Bruce Jones, nevertheless urging him

to keep as much as possible that optimistic element there when he looks at how all this relates to the international level.

Thanks, Bruce.

MR. JONES: I'm also an optimist, but I'm a Russian optimist. You know the old joke, the joke about the Russian psychology when they ask what's the difference between a pessimist and an optimist in Russia? So a pessimist in Russia is somebody who looks out at the world, sees that everything is dark, everything is black, and says my god, it can't get any worse. And the optimist says, oh yes it can. (Laughter) I'll try to be both kinds of optimists.

Look, I do think we are at a dangerous moment in the international system. I'm not referring to the U.S.-Turkey relationship in the first instance, but in the wider context. And it's a moment in which we're seeing a series of negative feedback loops between crises, global financial crisis that feeds a geopolitical disordering, which amplifies chaos in the Middle East, which is feeding political instability in Europe which is also fed by financial instability, and all of which is creating a sense in the United States of an instinct to isolation, an instant to withdraw, which would have catastrophic consequences in my mind. And these events and these issues are feeding one another and the intensity of that feedback loop is building. So it is a dangerous moment.

Where does Turkey fit in in this, where does Turkey fit in is a question of the state of the international order. I mean I think that if we look at the period between the global financial crisis and the present, that's the timeframe that we should be examining. And it seems to me that Turkey was one of several countries -- it wasn't limited to Turkey by any means -- was one of several countries that looked at the geopolitical situation after the global financial crisis, believed the predictions about U.S. decline -- I think that was extremely short sighted, extremely short sighted -- but believed

that narrative, got swept up in this equally short signed narrative of the rise of the BRICS, and decided it was a good moment to try to have a foreign policy of have your cake and eat it too. Remain inside the American led system, profit from NATO, profit from the stability of the international system, profit from the American role and leadership of the American power in the international system, but also flirt with the other actors in the system and get closer relationships to Putin and build economic ties to China, and et cetera, et cetera, et cetera. It was a perfectly legitimate foreign policy strategy, a perfectly natural strategy for Turkey, for Brazil, for Indonesia, for India, et cetera. But there was a consequence of all of these countries pursuing that have your cake and eat it too strategy, which is it did feed a sense of geopolitical reordering, it fed a sense of geopolitical diffusion and a loss of order in this system, a kind of rise of more chaotic elements.

Now if that had not coincided with the Arab spring maybe we would be having a very different conversation about where we are in the international system, but it did coincide with the Arab spring, and then the Arab counter spring or counter revolution or the Arab winter, or whatever we want describe. And so for Turkey, sort of situated at the confluence of those two events, at the confluence of the rebalancing between the core of the West and this wider set of actors in the international system on the one hand, and the un-ordering of the Middle East at the same time, Turkey gets caught in the middle of those two phenomenon. And it seems to me that Turkey ends up very rapidly, partially by its own design and partially by events that surround it, and a very difficult situation in terms of its role in the international order. I mean you all know perfectly well what's happened in Turkish foreign policy, but it goes from a zero problems to zero friends situation at sort of extraordinary speed. But again if that were the only thing that were happening, then maybe we could find ways to navigate through that, et cetera, but

the fact that there's similar dynamics happening in other regions and similar dynamics are happening at the geopolitical level all of these things start to fuel itself. Instability in the Middle East course, and particularly in the form of Syria, the nature of American decision making on Syria, all then start to feed instability in Europe, through the form of the refugee crisis that's feeding kind of right wing tendencies in Europe, which is putting pressure on these systems. So all of these things begin to build. And Turkey it seems to me is in a very, very difficult place in that.

I was very glad that you said the things you did about the history of this because it does provide context, but I do think we are in a moment of some difficulty in the perception of the relationship. And again it's bound up -- it's not just a U.S.-Turkey issue -- it's bound up in a wider set of questions about the nature of the international system and the nature of America's role in the world. And it's a two part question, it's lots of other countries and people who have more economic capability than it had the past, they have more diplomatic options than they had in the past saying well why the hell should we allow the United States and the West to dictate the field of play, we want a more democratic international system. Again, a perfectly legitimate aspiration, but with some costs.

And at the same time in the United States, and not just in the form of Donald Trump, but in a much wider sentiment in the country, questioning the nature of our role in the world, the value to the United States of playing that role in the world and questioning it in the alliance structure, which has been the bedrock of American foreign policy since the end of the Second World War.

And let's leave aside some of the kind of crazy things that are being said in the political campaign about oh, you know, Korea and Japan should all get their nuclear weapons (inaudible). Let's leave aside the crazy comments, all right. Let's just

look at the kind of underlying debate, including from the President of the United States, as you said. The underlying debate in my mind breaks into two parts. If you look at the countries with whom we have treaty alliances, which are democracies, it does not seem to me that there's a fundamental deep questioning there. There is a complaint. We're taking the 75 percent of the costs of NATO, why aren't you paying more, et cetera, et cetera, et cetera. And I think that the American debate on those issues has been extremely narrowly focused on military spending and military action and has lost a kind of older memory of the political values of why we have those relationships and why it matters to us that Europe is democratic, why it matters to us that Europe is free. We've sort of lost perspective on that. And in the American -- I'm criticizing the United States here -- it's been a much too narrow military discussion about the role of the alliance. But I don't see a deep questioning of the relationships with NATO or with Japan.

What I do very much see is an increasing tempo of question about the security partnerships we have. They're not technically allies, but the security partnerships we have with countries like Saudi Arabia and increasingly Egypt under Sisi. So why are we in these security relationships with authoritarian statesman? There's always been that theme in American foreign policy, but it's gaining in intensity, especially in this election moment.

Now Turkey should be covered by that first category, treaty ally, NATO, democracy, et cetera, but the more Turkish politics becomes authoritarian the more it's finding itself in the second category. And people, when they're asking questions about the relationship to Saudi and the relationship to Egypt, it's increasingly not uncommon to hear the word Turkey come up in that question as well. And that strikes me as very problematic and very worrying, and the tendency that we have to be quite preoccupied by both inside Turkey and in the relationship. To my mind the alliance structure is a crucially

important one for American foreign policy and for American's role in the world. And that structure remains vital to the stability of the system that we live in. But we shouldn't pretend that we are not in a moment where the underlying politics of this is quite weak. And those of us who care about America's role in the world, those of us who care about the transatlantic relationship, about the U.S.-Turkey relationship, are going to have to pay a lot of attention both to the economic and political foundations of that relationship and not just assume that the foreign policy dimension can stay unchallenged if we don't address that underlying strand.

But I have to say quite, as I said earlier, I was thankful that you pointed out some of the past hiccups along these lines. It does create context. I am genuinely optimistic, not just a Russian optimist, but a genuine optimist about the United States. I think we'll get through the kind of turbulence that we're in right now and continue to play the kinds of roles that we've played, at least to some fashion. And where Turkey chooses to fit into that, and it is Turkey's choice ultimately, where Turkey chooses to fit into that will be a very consequential part of the overall stated international order.

(Applause)

MR. KIRIŞCI: Thank you, Bruce. Your remarks about fundamentals, treaty allies versus convenient partnerships, security partnerships, and your mentioning Saudi Arabia was particularly interesting because I believe today the Turkish President is being hosted by the Saudi King. In Turkey I think there are those who worry deeply as to what this means. But I'm still hopeful like Frank that the fundamentals of the relationship will manage to overcome the challenges. I mean there is absolutely nothing wrong with having close relations, economic relations, political relations with Saudi Arabia as long as you make sure that Turkish politics itself and the political system remains open, democratic, and liberal. The United States has that kind of relationship with Saudi

Arabia. Many of the European Union countries have that. There is nothing wrong with it, but when you start to begin to look like those countries, that's a challenge in itself.

I realize that we all went a little bit overboard with our time allocations, maybe except Bruce. A lot of the blame goes to Şebnem, but it's --

MS. KALEMLI-ÖZCAN: But you gave me extra.

MR. KIRIŞCI: Yes, yes. I think there is a lot of material there that should precipitate a good debate. I will pass on my questions and remarks as far as this debate has come so far and turn to the floor. And I'm sure you will have questions to raise with the panel there.

Well, I'm overwhelmed. Let me do this; let me take one round of three questions from this side of the hall and then another round from here. Please mention your names and keep as far as it is possible your questions brief. We start with the gentleman in the front there.

MR. HURWITZ: Thank you very much for an excellent presentation. My name is Elliot Hurwitz. I'm a former State Department official, World Bank contractor, and an intelligence community contractor. Would anyone on the panel, or anyone else, like to comment on Turkey's relations with Israel?

MR. KIRIŞCI: Thank you. Behind you, yes. Yes. And then in the corner by the wall.

QUESTIONER: I would like to thank you for a great presentation. I'm (inaudible) at Georgetown University studying international political economy. I would like to ask about how the recent economic crises all over the world will influence the countries -- how will it influence the open economies in the world, how will it influence international trade? And will it cause autocratic regimes all around the world and right regimes all around the world, like as we can see from the rise of Donald Trump and

(inaudible) in Netherlands and Erdoğan in Turkey?

MR. KIRIŞCI: Yes, very good. Thank you. Yes, ma'am.

QUESTIONER: Thank you. Hello, (inaudible). I have two questions. One is also the thesis of Donald Trump. Do you believe that there is any updating needed in NATO, and if there could be any collaboration between the United States and Turkey with regard to the updating of the NATO in the light of increased security risk due to terror?

And the second question, Ambassador Ricciardone mentioned that what we saw outside Brookings Institution was not a reflection of the U.S.-Turkey relationship. Do you believe that Turkey should be better at strategic communications? How do you evaluate the country's strategic communications?

Thank you.

MR. KIRIŞCI: We have one more question in the front from a good colleague, friend, and a former MP.

MR. ERDEMİR: Thank you. Aykan Erdemir, I'm a senior fellow at the Foundation for Defense of Democracies and a former member of the Turkish parliament. My question is to Professor Kalemi-Özcan, but before that a few things.

First, thank you for your critical reflection piece on Brookings webpage of April 4. And you raised a very important issue that is Turkey's mainly legitimate concerns were lost in the noise of needless scuffles, and I underline the needless. And I hope --

MR. JONES: That's why I'm still alive.

QUESTIONER: I hope we do a better job in the future.

Another thanks goes to the TUSIAD President, Miss Başaran-Symes. Thank you very much for underlining transatlantic values at a time when we Turks need to be reminded that values are important, exactly at a time when we tend to value

transactional and tactical over the long-term and values based orientation. And I have to thank Ambassador Ricciardone for a very generous and optimistic take on Turkey, especially because he has suffered so much smear campaigns, insults, attacks in Turkey's media. And if Turkey has such friends I'm sure Turkey will do greatly.

But finally, Professor, the question is this, academics, journalists, and dissidents tend to be very vocal when they're victimized. But there is one community that understandably has to be silent, and that's the business community. And they are often not in a position to raise their concerns. My question to you is: are you concerned about right to private property in Turkey and market freedoms in Turkey? And if Turkey's trajectory of market freedoms continue on this path what could be the economic consequences in the mid to long-term?

Thank you.

MR. KIRIŞCI: Thanks. I think I'll turn to the panel. Let me this time, Bruce, if you allow me, start with you and then we'll work our way back towards Şebnem.

MR. JONES: I want to start with the question of whether there's any role in updating NATO. Look, I think the answer to that is yes. I would not have phrased it the way Donald Trump phrased it (laughter), to say the least. And for me there's nothing about what's happening that undermines my sense of the importance of the transatlantic relationship. Quite the opposite. I think we need more not less ties between European and American strategy and reinforcing the core values that are at play. Let's not shy away from the fact that we're watching a process of people deliberately attempting to erode liberal values and political freedoms in the heart of Europe. And that has to concern us profoundly.

My reasons for thinking about updating NATO is simply I think the fairly deep mismatch between a narrowly defined military tool on the one hand, and the much

wider set of instruments that are being used to try to challenge Europe and the European-American relationship. So the people who are antagonistic, the people who are trying to rework this structure, don't pose a military threat to the core of Europe. There's no risk of Russian troops marching into Berlin. That's not the risk. The risk is political, economic, social manipulation, settle what people are starting to call gray wars in the Baltics and Ukraine, et cetera. And NATO strikes me as not a particularly nimble tool to respond to that, and neither is the EU frankly. So kind of the politics of the relationship are important, the military to military structure is extremely important in terms of providing a deterrent to the kind of potential for major military, but it's not a sufficient answer.

So I would take a kind of a NATO plus argument about the need to work harder at finding -- that's on the geopolitical front. You also raised the terrorism front, and I think the answer there too is yes, we need to investigate more deeply what kinds of partnerships we need for -- and again we have a kind of coalition. We can use NATO for the narrow military piece of the puzzle. But that's an insufficient answer to the challenge of terrorism and the challenge of instability in the Middle East. Terrorism in the Middle East is a phenomenon in its own right and it is amplified by a whole set of dysfunctionalities, of state erosion, of collapse of legitimate authority, et cetera, to which military instruments are not the answer. And we don't have good tools in the international system to respond to state instability at a strategic level. We can do it in a small place but we can't do it a kind of major level.

So we're going to need to invest substantial new energy in the kinds of institutions and partnerships that can project effective engagement and effective values. And NATO should be part of that, but it's not a sufficient part of that. So, again, I would take a NATO plus approach to the current moment, not a NATO minus, if I could put it

that way.

MR. KIRIŞCI: Thanks, Bruce. Frank, maybe reflections on the NATO issue as well as Turkey's relations with Israel?

MR. RICCIARDONE: Sure. I certainly fully subscribe to what you said. NATO continues to exist because it does at least attempt to renew, in its ponderous way in such a large organization, deliberately it's built in. And Turkey, in my experience, has been one of the strongest voices in any of the issues besetting NATO. Often they're outliers, but they're very strongly committed in arguing for the Turkish perspective on whatever the issue of the moment is. So I've no doubt that Turkey will remain as actively engaged as ever. Whether that drives the rest of NATO a little crazy sometimes or not, but that's how the organization goes ahead as all the members have their input.

Relations with Israel floundered of course as we all know in May of 2010. I arrived there six months after that. The whole period of my tenure, almost three and a half years, was spent working with the Turks and the Israelis to try to get back on track. It seemed to me on both sides there was a lot of recognition of the interests of both countries. Even as the political relations tanked, those of you in the business community know that Turkish-Israeli trade, and indeed again air connections, which I think reflect trade and other substantive ties, continued to grow. So it seems to be long overdue. We keep hearing that they're on the cusp of solving the remaining issue over access to Gaza, and I gather that -- hopefully that will be resolved, but I've hung out around Turks in the Mediterranean too long, I don't like to say anything too optimistic because (laughter) (inaudible) is out there watching and let the evil eye not focus on this. I hope that works.

On this other question of the scuffles. I didn't mean to minimize the importance of differences over values and how strongly I feel and Americans feel about freedom of speech and of expression and all that. That was a bad thing. It is part of the

relationship. It is not to be dismissed. My point is you cannot take the anger and the differences that is certainly there on both sides and say that's the relationship. If you do you're doing to miss the big picture of collaboration going on and a lot to work with, a lot more we must do in business to business, government to government, and all other areas. So please understand that correctly.

MR. KIRIŞCI: Thanks, Frank. I mean there was an event that you led where a Turkish participant made a categorical statement on NATO that almost let me fall off my chair. And I realized that maybe Vladimir Putin did the greatest favor that he could have done to Turkey by imposing those sanctions and adopting a very belligerent threatening policy towards Turkey and reminding people of Turkey what Joseph Stalin had done in April 1945 that pushed Turkey out of neutrality into the kind of relationship that you summarized, Ambassador. But this Turkish participant said we now appreciate the importance of NATO membership for Turkey. It was the most categorical statement I have heard on this for a long time. But he didn't stop there, Frank, and I think the second bit was very important. He said we don't want to be just a loyal ally, but a loyal partner. And I think that message was very significant and maybe needs to be woven into the U.S.-Turkish relationship.

I can't help but say just one word on scuffles. There is a lot of aspects to it, a lot has been written. But the bit that shocked me the most about it is that the details of very conservative politicians overlooking a very basic precept of Turkish custom and tradition, that you show respect to the home of your host was violated. And that can't help me wonder kind of a Turkey have we become, let alone becoming.

Şebnem, you have two tough questions there. One from our friend from Georgetown University, a very good one, as well as from Aykan on property rights and liberal markets values.

MS. KALEMLI-ÖZCAN: Okay. Let me give a quick answer given that I already used a lot of time and we are running out of time. So, on the international trade question. So the effect of crisis, global financial crisis and then the European crisis on the trade at the beginning was very visible. If you look at the global trade, you know, during those years, 2008 to 2011, there was a collapse. But then when you look at it now, it reverted back. And most of the collapse at the beginning was because of the global finance. So we have to always think these things together. If there is trade, if we are buying and selling goods, there is also the other side that is financing this. And the way the global world trade is organized is very much now what we call the global value chain, meaning you have your iPhone in your hand, but every single bit of it is done in different countries, starting with China, and the financing also coming in bits from different financial centers. So because of the collapse there, you know, it collapsed, but then it quickly recovered. So going forward if we had another big global even like that there is going to be an impact on trade for sure, but if you are asking me is there going to be a permanent effect on global trade, the answer would be no. I don't think we are going to go back to the world before 1970s; global trade is one of the killers of the global economy and global international order. It's going to affect everybody's lives. So I don't see a permanent effect of slowing down trade. I mean for that to happen every single country has to close down and turn into a closed country. And even China, with all the closed financial accounts is turning to a country that is very open to trade. So I don't see that happening in the future.

So Aykan's question on the market freedom and property rights. So this is a very good question. I mean my own research shows that the single most important factor for foreign direct investment is the protection of property rights when you look at data, the last 30 years, over several emerging markets. So this is very important. So in

that sense when we look at the recent slowdown of FDI into Turkey we should be worrying about this. But at the same time protection of property rights and market freedom is not just the pillar of business investment and also democracy. I mean if you don't have that then what do you have? That means you have a big crack in democracy and you are going to have the business go elsewhere. I mean both the foreign business and the domestic business. Why anybody does any business, any investment in a country if you are not going to get a return on it. So I mean that would be a colossal mistake if you go down that path. The consequences would be dire. But I don't think the current government and the people who are in charge, I don't think they can be that kind of I would say (inaudible) that they do understand I believe the importance of property rights for the business investment and investment in the country which is a very important part of a country's growth.

But if we do go down that road, if we are having a serious threat to market freedom and protection of property rights, yes, that will affect the investment, business, and everything in a very bad way.

MR. KIRIŞCI: Thanks, Şebnem. Two, three quick questions. One from here, one from the middle, and one from the back. But they will need to be very short because we have just seven minutes left. Yes, Frances.

MS. TRIX: Frances Trix from Indiana University. And I have a question for Şebnem-hanim. I would like a recent example of an economy at work in the Balkans where it's moved from knowing who to knowing how.

MR. KIRIŞCI: Okay. Alar, our colleague. On your left.

MR. OLLJUM: Yes, Alar Olljum, EU visiting fellow at Brookings. Kemal, you already intimated part of my question, which was about the schism with Russia and the influence of that on Turkey's relations with the EU, with United States, with Israel. I

think it has a number of roll on effects.

Bruce, you came out with an excellent essay, title I think, from zero problems to zero friends. Actually I think there's another saying, which is that a friend in need is a friend indeed. And we look at what is happening with EU's relations with Turkey.

My question is, is the problem that Turkey has now with its relations with Russia not only leading it to rediscover the value of NATO, but also the value of the European Union? And in your sense -- and this is a question for anybody on the panel to answer -- has the EU response been adequate?

Thank you.

MR. KIRIŞCI: Thank you. One more question from the back. Yes, please, sir.

MR. SWITZER: Yes, I'm Tom Switzer, State Department officer, foreign service. I served in the Balkan region several years in which there was obviously a lot of Turkish relationship involved with these countries.

My key question though is the real relationship between Turkey and Russia as it stands now because -- I recall since the shoot down of the Russian fighter jet there months ago in which it seemed Turkey was right in that it was an armed jet flying over Turkey air space, I recall how Putin and the Russian leaders screamed and shouted revenge themes and so forth. But I'm unaware that that's really happened, at least on the overt military side. Have there been in fact any reprisals, economic, political, or military by the Russians in recent months? And the relationship overall, if you would.

MR. KIRIŞCI: Massive economic reprisals and a clear message that if it happens that a Turkish fighter plane weaves into Syrian air space it will be brought down, including any ground interventions there. It is very tense. But what struck me is when

the President spoke here two weeks ago the only conciliatory message that he shared with the audience was on Russia -- very interesting -- and to a limited extent on Israel.

But let me very quickly turn to the panel again and take maybe quick concluding remarks, bearing in mind the questions that were raised.

Şebnem, we'll start with you.

MS. KALEMLI-ÖZCAN: I mean I would still say the best example for that is South Korea, which is not recent. I don't know any example in Balkans. A recent example I would say, maybe Chile is showing all the signs of this, especially in certain industries. They are becoming a serious player in the world market in wine, for example. And again, you know, Chile is more my opinion and my friends, but South Korea would be more like a consensus example. But you might know better than me an example in Balkans.

SPEAKER: (off mic).

MS. KALEMLI-ÖZCAN: Of course, of course. It's very -- yeah, I don't -- yeah, I fully agree.

MR. KIRIŞCI: And in terms of know how I think wine was not a very good example for Turkey. (Laughter)

MS. KALEMLI-ÖZCAN: I know. Anyway. The people who are in this business would argue otherwise though because you really need to have an efficient production to become a world level exporter actually. So I mean, again, I'm not in this business, but I know people. They will say know how is important. Of course when we say know how, we think more in terms of South Korea, technology, and innovation and all that, yes, you are right.

MR. KIRIŞCI: But coming back to wine and know how, to become an efficient producer you need consumption as well.

Frank.

SPEAKER: The wine was good through in Turkey, you know. It's good wine.

MS. KALEMLI-ÖZCAN: But they're not at that level.

MR. RICCIARDONE: Quickly on Russia that it has been a rather dramatic turn in the overt manifestations of the relationship. There had been quite strong statements of admiration for Putin and his style of leadership, his stature in the world. I mean over the top statements of comparing Putin and Erdoğan favorably and unfavorably to Obama. Quite remarkable statements. And then I think that began to change, not just with the growing Russian intervention in Syria, but a dramatic point I noticed when I was still there was the Russian invasion of Crimea. Because Ahmet Davutoğlu, then foreign minister, was very close to Kerimov -- was that his name -- that shook things, seeing the Russians again make a military move in the area and against Tatars actually, against fellow Turks. That I think reminded Turks of the historical nature of the relationship with the Russians.

MR. KIRIŞCI: Thanks, Frank. Bruce. One minute actually.

MR. JONES: The key question is has the response of the West been adequate and I think the answer to that is no. And that's not to get super detailed about the customs used in negotiations or et cetera; it's just that, as I said at the outset, the challenges that something like the potential opportunity that comes from the crisis in the Turkish-Russian relationship in terms of the re-cementing of ties. If we were not at a moment of complete sort of self absorption and internal crisis in Europe maybe Europe would have had a far reaching reaction, but it didn't. If we wanted a moment of sort of massive introspection in the United States, maybe we would have a far reaching reaction, but we haven't.

So these crises build on one another and we lose opportunities. And that's I fear where we are, we're in a moment where each of these crises, whether it's internal to Turkey or in the relationships or et cetera, et cetera, each one compounds the challenges of the other and makes it easier for people who are interested in pulling apart and makes it harder for people who are interested in working together. And that's unfortunately where we are.

MR. KIRIŞCI: Very good, yes. Bruce, I can't help but on the heels of what you've just said flag out the EU-Turkey migration agreement. I belong to a tiny little majority that believes that this is a product of officials, people on both sides, who see this deal as an opportunity to rebuild the relationship. But out there there are a lot who are trying to stick the spanner in the wheels that is not going to benefit the refugees at the end of the day, neither the relationship and the point that Alar just made.

Just to conclude, when the EU was stuck in that deep financial crisis I had been hoping and praying that the minister for EU Affairs in Turkey at the time -- I won't mention names -- would have the courage to get up and say EU, you have always been behind us, we've had problems, we have had (inaudible), but this is now our time to see if we can give you a helping hand. And I thought such a line would also have gone really well with Turkish societal pride about itself. No, they didn't do it. To make worse, the minister made a statement that if the European Union is interested and wants to benefit Turkey's booming economy at the time, it was growing almost at the pace of China in 2011 especially, made the remark that they could come and apply for membership to the European Union. Such a cynical remark of course goes very well with some of the electorate there, but it was a missed opportunity.

Today I think there is another opportunity. It will be critical to work towards that.

I'm sorry, with those remarks I'm two minutes beyond the time that was allocated to us, but I'd like to really thank the panel, thank the TUSIAD delegation here for supporting such events, and most importantly thank you for joining us today and raising these very good questions with us.

Thank you. (Applause)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016