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U.S.-Turkey Trade Relations

U.S.-Turkey trade relations have been historically less prominent than the political and security aspects of the relationship. However, Congress is monitoring bilateral trade more, particularly as tit-for-tat escalation of tariffs has intensified in recent weeks amid foreign policy tensions. Turkey, a NATO ally and emerging market straddling Europe and the Middle East, boasts an economy with high growth rates in recent years, an expanding consumer base, and links to the European Union (EU) market, which offer potential for U.S. trade and investment. Yet, bilateral trade ties are relatively weak overall and their further expansion depends on a number of economic and political factors.

Turkey's Economy

At $851 billion in gross domestic product (GDP, current dollars), Turkey was the world's 17th largest economy in 2017. It is smaller than other major emerging markets such as India, which is triple in GDP. Since a financial crisis in the early 2000s, Turkey's economy largely rebounded due to actions taken by the government to make market-oriented reforms, improve rule of law in commercial markets, and invest in infrastructure. EU membership prospects helped drive economic reforms, although Turkey's EU bid is mostly stalled currently.

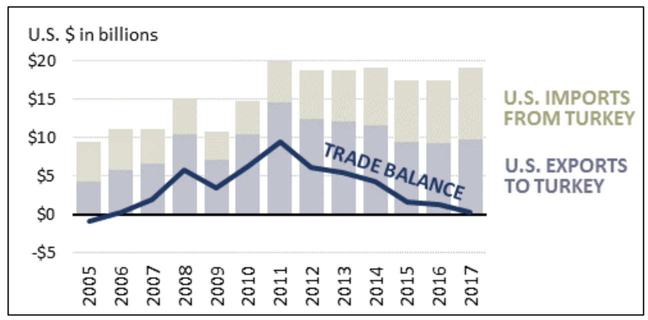
Turkey's economy, while growing over 7% in 2017, has faced an expanding current account deficit, heavy exposure to foreign capital flows, and high inflation rates. Under President Recep Tayyip Erdogan's policies, Turkey is in a currency crisis that could erode investor confidence.

Turkey's annual trade equals about half of its GDP. Turkey has reduced its trade barriers since 1995, following its accession to the World Trade Organization (WTO) and conclusion of a Customs Union with the EU, which allows free movement of goods between Turkey and the EU (excluding agriculture, coal, and steel). Turkey has a well-diversified export base, but relies heavily on energy imports. Turkish firms are typically toward the end of global supply chains, manufacturing most end-use products of high-value and sourcing intermediate inputs elsewhere. One exception is the auto industry, which supplies components to major global auto manufacturers.

Bilateral Trade and Investment Ties

Merchandise. Turkey is a small but growing U.S. trading partner. In 2017, two-way merchandise trade (exports plus imports) totaled $19.2 billion, more than double their 2005 level but less than 1% of U.S. global merchandise trade (**Figure 1**). U.S. exports to Turkey totaled $9.7 billion (led by civilian aircraft, engines, and parts; waste and scrap metals; cotton; coal; and petroleum coke), making Turkey the 28th largest U.S. export market. In 2017, Turkey was the 34th largest source of U.S. imports, supplying $9.4 billion in merchandise (led by passenger autos, carpets and other textiles, iron and steel bars and rods, airplane parts, and precious metals jewelry). This resulted in a surplus of $0.3 billion, smaller than prior years as U.S. imports have grown relative to exports. The trading relationship is more consequential for Turkey; the United States was its fifth largest export market and source of imports (around 5% of both). The EU, overall, is Turkey's leading trading partner, representing 48% of its exports and 37% of its imports.

Figure 1. U.S. Merchandise Trade with Turkey



Source: CRS, data from U.S. International Trade Commission.

Services. In 2016 (latest year available), U.S.-Turkey services trade ($5 billion) was about a quarter of bilateral goods trade. U.S. services exports were $3.1 billion and imports were $1.9 billion, resulting in a trade surplus of over $1 billion. Travel (e.g., for education or business) was the top traded service. Charges for Turkish use of U.S. intellectual property rights (IPR) also was a top U.S. export.

Foreign Direct Investment (FDI). Turkey accounts for less than 0.1% of U.S. outbound FDI, but some 1,400 U.S. firms are active in Turkey, including more than 60 that have established regional headquarters. U.S. majority-owned multinational firms in Turkey had 51,000 employees in 2016. Turkey also is a regional export base. It was the ninth fastest-growing source of U.S. inbound FDI in 2017.

Key Trade Issues

Tit-for-Tat Tariff Escalation

The Trump Administration's application of unilateral tariffs has caused frictions in U.S.-Turkey trade relations. On June 1, 2018, the United States began applying 25% steel and 10% aluminum tariffs under Section 232 of the Trade Expansion Act of 1962, after an investigation found that these imports threatened to impair national security. The tariff increases apply to all countries, but Turkey did not receive an initial exception like some trading partners, nor negotiate an alternative quota arrangement.

Turkey, the world's ninth-largest steel exporter in 2017, is one of the countries hardest hit by the tariffs. In 2017, it supplied the United States $1.2 billion in steel (4.1% of steel imports) and $13.6 million in aluminum (0.1% of such

U.S. imports). Turkey retaliated with tariffs (effective June 21, 2018) ranging from 5% to 40% on $1.8 billion of imports from the United States, including foodstuffs, paper, plastic, structural steel, machinery, and vehicles. In the WTO, Turkey joined the EU's challenge against the U.S. tariff increases, while the United States is challenging the retaliatory action by Turkey and some other countries.

The U.S. tariff dispute with Turkey has evolved in distinct ways. On August 10, 2018, President Trump signed a proclamation doubling steel tariffs against Turkey to 50%, on the grounds that imports had not declined as much as anticipated and U.S. capacity utilization had not increased to the target level. However, some analysts argue that the new steel tariff increase appears to be at least partly connected with Turkey's continued prosecution of a U.S. pastor whose release President Trump had demanded. Prior to the proclamation, also on August 10, 2018, the President tweeted that he had authorized a doubling of both steel and aluminum tariffs to 50% and 20%, respectively, and made a reference to Turkey's depreciating currency. Since the announcement, Turkey's currency has depreciated further.

While no additional aluminum tariffs have entered into effect, the President's earlier statement has factored in Turkey's response. In its own complaint, Turkey is challenging the United States in the WTO for doubling both steel and aluminum tariffs. Turkey also has retaliated again by modifying tariffs on the U.S. imports it previously targeted to rates ranging from 4% to 140%.

The tariff dispute has extended to other aspects of U.S. trade policy. Prompted by Turkey's original retaliatory tariffs, the U.S. Trade Representative (USTR) launched a review of the country's eligibility under the Generalized System of Preferences (GSP) on August 3, 2018. GSP unilaterally gives duty-free tariff treatment to certain U.S. imports from eligible developing countries. Whether a country provides "reasonable and equitable market access" is an eligibility criterion. In 2017, GSP imports (e.g., such as jewelry and auto parts) were 17% of U.S. imports from Turkey, the fifth largest GSP user by import amount.

Other Trade Issues

For Turkey, the United States is a generally open market; more than 70% of Turkish imports enter duty-free. U.S. firms, meanwhile face numerous challenges doing business in Turkey. The USTR's 2018 foreign trade barriers report identifies issues such as Turkey's:

- bureaucracy and weakening rule of law;
- "forced" localization barriers to trade, such as requiring pharmaceutical production and storage of Turkish citizens' personal data within Turkey;
- high average agricultural tariffs (43.1%, versus 5.3% by the United States) and hikes on tariffs in multiple sectors, which are within WTO limits (high "bound" rates) but increase uncertainty for U.S. exporters; and
- inadequate IPR regime, including Turkey's role as a source of and transshipment point for counterfeit goods.

Turkey-EU Trade Relationship

Turkey's trade ties with the EU, a key U.S. trading partner, could affect U.S. trade. Turkey and the EU have voiced interest in renegotiating their Customs Union, but Turkish political issues make those prospects uncertain. If pursued, renegotiation could examine the scope of the Custom Union, such as whether to expand to services and other sectors. The Custom Union's impact on Turkey's external trade also is a potential issue, particularly as the EU negotiates trade agreements with larger economies. This issue arises because, as a Customs Union member, Turkey adopted the EU common external tariff for non-EU countries, and must open its market to EU trade agreement partners on the terms negotiated by the EU—without any guarantee of reciprocal access to those countries' markets.

For example, Turkey previously sought to negotiate a free trade agreement (FTA) with the United States, prompted by concerns at the time about the possible economic impact of U.S.-EU FTA negotiations (Transatlantic Trade and Investment Partnership, T-TIP) under the Obama Administration. Instead, the United States and Turkey took another approach to address concerns (**Table 1**). Under President Trump, this issue could resurface with the proposed new U.S.-EU trade negotiations announced in July 2018, and also as a way to address the increasing U.S.-Turkey trade tensions from recent tariff increases.

Table 1. Select Past U.S.-Turkey Trade Engagement

1990	Bilateral Investment Treaty (BIT) entered in force, providing investor protections enforceable through investor-state arbitration.
1999	Signed a Trade and Investment Framework Agreement (TIFA) to engage on a range of issues.
2009	Agreed to "elevate" bilateral economic relations to level of "political-military ties" and launch a strategic framework of economic and commercial cooperation.
2013	Established bilateral high-level committee to explore how T-TIP negotiations might affect Turkey and ways to liberalize U.S.-Turkish trade and investment.
2017	Revived TIFA to discuss issues such as digital economy, IPR, and market access.

Congressional Outlook

Congress could examine the costs and benefits of addressing U.S.-Turkey differences through tariff escalations. Depending on the assessment, some Members could seek to reinforce the Administration's approach, while other Members could apply pressure on the Administration to encourage alternative approaches, such as a negotiated resolution to the current trade frictions. Congress also could examine if the Administration is using tariffs as a sanction against Turkey and implications for U.S. trade policy and related international trading system. This could prompt legislative debate over modifying the President's delegated authority under Section 232. In addition, U.S.-Turkey trade relations present longer-term issues of how potential renegotiation of the Turkey-EU Customs Union and the proposed U.S.-EU trade negotiations could affect bilateral trade.

For more information, see CRS Report R41368, *Turkey: Background and U.S. Relations*, by Jim Zanotti and Clayton Thomas; and CRS In Focus IF10957, *Turkey's Currency Crisis*, by Rebecca M. Nelson.

Shayerah Ilias Akhtar, Specialist in International Trade and Finance

IF10961

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