

Summary of H.E. Zafer Caglayan's remarks:

I have visited CSIS many times in the past decade and I am here today as the minister responsible for foreign trade to talk about new steps to improve US-Turkish commercial and economic ties.

The US-Turkish relationship has a long history. Commercial agreements with the US date back to Ottoman Empire. The US has been an ally, indeed a strategic partner, for many years. The two countries have been collaborating closely to maintain peace and regional stability, most recently in Afghanistan.

There is a great dialogue between our prime minister and the president of the United States. However, our economic relations and commercial ties do not reflect the close relationship between Turkey and the US.

In 2002, Turkey's GDP was 230 billion dollars. In 2008, before the global economic crisis, Turkey's foreign trade had reached 742 billion dollars.

In 2002, Turkey's exports were 36 billion dollars; in 2008 this number had quadrupled to 132 billion dollars.

Between 1973 and 2002, foreign direct investment (FDI) in Turkey totaled 30 billion dollars. Between 2003- 2009, total FDI was 75 billion dollars. FDI in 2007 was 20 billion dollars, in 2008 it was 22 billion dollars and in 2009, in the midst of the crisis, it was 8 billion dollars.

American direct investment in Turkey is 10 billion dollars. Despite Turkey's great economic progress and potential, the world's biggest economy with a GDP of 14 trillion dollars, the world's biggest importer, does not have satisfactory commercial relations with Turkey.

I have completed my first year as the minister responsible for foreign trade. This is my 47th overseas visit and I have been to 37 different countries. I have traveled around the world 8 times and I would be willing to travel even more to improve commercial ties.

During these visits, everyone points out that Turkey is a great ally of the US and asks me about our economic relationship. I find it very difficult to explain why export volume to the US is only 3.2 billion dollars. Imports from the US amount are just over 8 billion dollars and our total trade volume is approximately 12 billion dollars.

There has been an increasing trend in our exports since 2000 and they have quadrupled between 2003 and 2008 under the Justice and Development Party. However, our exports to the US began to decrease in 2002. This was not because Turkish exporters were unsuccessful but because of certain roadblocks to Turkish exports to the US.

It was very important for us that President Obama included Turkey in his first overseas trip. In his meeting with President Abdullah Gul, President Obama talked about a model partnership. A few months later, Prime Minister Recep Tayyip Erdogan visited Washington and the model partnership idea was one of his most important discussion topics. After their meeting at the White House, the two leaders announced a strategic framework which aimed to improve economic relations in a balanced way by increasing investments in each other's countries and promoting collaboration by businessmen in third countries. Our agreement is a significant milestone in order to improve economic relations. Within this framework Prime Minister Erdogan appointed Minister Ali Babacan and myself to lead this effort, while President Obama appointed Commerce Secretary Gary Locke and United States Trade Representative Ron Kirk.

We started to work on this initiative and I was planning to visit Washington in March. However, there was a roadblock: The House Foreign Affairs Committee discussed and passed the so-called Armenian genocide bill. This disturbed us greatly. Because of this vote, we decided to postpone all of our trips to the United States until President Obama's statement on April 24, which did not completely satisfy us but at least allowed us to reinstate the dialogue on commercial and economic affairs.

During this visit, I met with Ambassador Kirk. Since Secretary Locke is in China, I met with acting secretary Hightower and also with Undersecretary of State Hormats. We are discussing how we can improve our trade relations within this new strategic framework. Turkey is 28th in the list of US exports and 48th in the list of US imports following Bangladesh with a 0.2% share.

In 2008, total global exports were 16 trillion dollars. Turkey's share was 132 billion dollars. With the global crisis in 2009, total exports decreased to 12.5 trillion dollars and Turkey's share was 102.2 billion dollars.

The United States is a superpower, the biggest economy in the world, the biggest importer and the third biggest exporter. However, these would not mean anything if the US were to be isolated. A country could be very rich, very powerful, but if that country's channels to the rest of the world are blocked, such power would not mean anything. You need partners to connect you to the rest of the world. Turkey could be such a partner. Turkey is situated in a very important geographical location, has a population of 73 million with an average age of 28, complies with free trade agreements and has political stability and a dynamic business market.

Our government has been conducting a 'zero problems with neighbors' policy. You have seen an example of this during Prime Minister Erdogan's recent visit to Greece. Prior to accompanying Prime Minister Erdogan during his visit to Athens, I had visited Greece with 250 businessmen. During the prime minister's visit, we signed 22 different agreements on trade, economy, education, and tourism.

We have lifted visa requirements with our neighbors. Only seven years ago, there were mines on the Turkish-Syrian border. The situation with Greece was similar. But today

there are no mines on our border with Syria or Greece. Each day millions of Syrians visit Turkey and Turks visit Syria, setting the stage for improved economic and commercial relations. We have also lifted visa requirements with Russia. This is a very significant development as Russia has been an important commercial partner. In 2003, when our party came into power, Turkey chose the path of export-oriented growth and in six years trade with our neighbors was multiplied by seven.

The Caucasus, Central Asia, Africa are all regions with which Turks have a religious, ethnic, historical or cultural affiliation. Therefore, Turkey is a great partner to the US in establishing connections to these regions. We also have good relations with Latin American countries and Asia- Pacific countries. In my first year as the minister for foreign trade, I visited China three times. I will be going again after my visit to Latin America.

Within the framework agreement with the United States, successful Turkish and American businessmen will be forming a business council which will meet regularly. In June, Minister Babacan and I will meet with these businessmen and non-governmental organization representatives and we will be sending a report to our American counterparts. There will then be business council meetings in Istanbul and Ankara. In July, there will be a Trade and Investment Framework Agreement (TIFA) council meeting in Washington. The American Turkish Council (ATC) will be having its postponed annual meeting in October. I will be attending that meeting with Minister Babacan along with our counterparts. Our businessmen will meet before the ATC conference in a business council meeting.

Questions & Answers:

Q- Could Muhtar Kent be the leader of the new business council that is envisioned within the Framework agreement?

A- It would be too early to say who would be the leader of this business council. It will consist of 10-12 businessmen who have a significant business and investment portfolio. Of course, Muhtar Kent would be an extremely valuable addition to this council.

Q- Could you explain further why US-Turkish commercial relations did not reach the desired levels?

A- We have to analyze the reasons. We have not been able to successfully identify areas of cooperation. There have been some technical barriers on the import of certain products. The quotas within the context of the Generalized System of Preferences (GPS) were insufficient, there was no Qualified Industrial Zone (QIZ) agreement and commercial relations simply did not reach the desired level. We have to come up with new ways to improve this situation. The United States has a federal system. For too long, we have seen the United States as being made up of only New York and Washington. Under my tenure we have started to work on

trade with the US on state by state basis. Several states have bigger economies and GDP's compared to Turkey. For example, California's imports are twice as big as Turkey's imports. Last year, Turkey's imports were 140 billion dollars, whereas California's imports totaled 277 billion dollars. Turkey's exports to California are only 59 million dollars. New York's imports add up to 211 billion dollars but Turkey's export to New York is 228 million dollars. Texas has 254 billion dollars' worth of imports but our exports are only 191 million dollars. Therefore we have changed our methods. We have drawn up action plans targeting California, New York, Georgia, Texas, Florida and Illinois. These six states make up 60% of US imports. We will be working on these action plans within the context of the strategic framework. We will be visiting these regions in July with Turkish businessmen.

Q- Do you see any risks of over dependency on Russia, specifically in the energy sector?

A- 75% of our gas imports come from Russia. Turkey is located within the parameters of a geographic area that has two thirds of the world's gas supplies. Turkey has a critical role in transporting these supplies from East to West. For example, with Nabucco, Turkey would be transporting gas from its neighbors to Western markets although it is neither a supplier nor a producer. It is a very important country in the energy corridor between East and West. Turkey's total imports in 2008 were 202 billion dollars, its energy imports amounted to 49 billion dollars. This number decreased to 29 billion dollars with the economic crisis in 2009. The Turkish construction sector is the second biggest in the world and totaled 32-33 billion dollars last year. Russia is an important partner for this sector as well. In 2008 our trade with Russia was 40 billion dollars, with the crisis the number went down to 20-23 billion dollars.

Q- You have visited Greece recently, how is Turkey planning to help Greece with its economic crisis?

A- Good friends are only there for you in the most difficult days. With our recent visit to Greece and with these new 22 agreements we have shown that Turkey is a real friend of Greece.

Q- If the UN Security Council passes a resolution leading to new sanctions on Iran, how would that affect Turkey's trade relations with its neighbor?

A- Iran has been our neighbor with important trade relations for centuries. Our trade with Iran adds up to 13-14 billion dollars. As you know, Turkey aims to have zero problems with its neighbors and other regional countries. In this context our aim is to have "zero problems and limitless trade." This is our new slogan. Turkey has been against any nuclear facility that could be used against people. We only approve nuclear power for peaceful purposes. Turkey has been an important negotiator along with Brazil on Iran's nuclear program. The recent agreement

where Iran would ship its uranium to Turkey and Turkey would ship the enriched uranium back in a year seems to have left some countries unsatisfied. During the conversation Prime Minister Erdogan had with President Obama, President Obama stated that he appreciated Turkey and Brazil's initiative on this topic.

Q- What effects could foreign trade have on improving the global economy following this recent crisis?

A- The Turkish financial sector has not been affected by this global crisis. Indeed, its credit score has been upgraded. In the context of "zero problems and limitless trade" we have signed many free trade agreements and established working groups with several countries to lift the customs requirements.