



U.S.-Turkey Trade Relations

Turkey, a NATO ally and emerging market straddling Europe and the Middle East, offers potential for U.S. trade and investment. U.S.-Turkish trade ties are relatively weak overall, and their further expansion depends on a number of economic and political factors. At a time of continued bilateral tension, including over Syria and U.S. sanctions against Turkey's defense procurement agency for its purchase of an S-400 air defense system from Russia, Congress may seek to more closely monitor U.S.-Turkish trade ties and related policy developments.

Turkey's Economy

At \$754 billion in gross domestic product (GDP, current dollars), Turkey was the world's 19th largest economy in 2019. After a financial crisis in the early 2000s, Turkey's economy rebounded, due to the Turkish government's market-oriented reforms, strengthening of the rule of law in commercial markets, and investments in infrastructure. EU membership prospects helped drive economic reforms, but Turkey's EU bid is stalled currently. Turkey continues to face challenges, including concerns about corruption and rule of law, sizeable debt denominated in foreign currencies, and high inflation. An ongoing currency crisis has eroded investor confidence; the effectiveness of recent efforts to restore confidence with leadership changes and interest rate hikes is unclear. Turkey's economy has experienced slower growth in recent years, and it was projected to have contracted in 2020 amid the Coronavirus Disease 2019 (COVID-19) pandemic, though perhaps not as significantly as some regional neighbors' economies.

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). The Customs Union binds Turkey to the EU's common external tariff. As such, Turkey must open its market to countries with which the EU has trade agreements, on terms negotiated by the EU; yet, Turkey lacks any guarantee that these countries will grant Turkey reciprocal market access. This potential imbalance is of growing significance for Turkey as the EU negotiates more economically consequential trade agreements. Turkey and the EU have expressed interest in renegotiating the Customs Union, but ongoing Turkey-EU tensions, including over Cyprus and the Eastern Mediterranean, make the prospects uncertain. On December 29, 2020, Turkey and the UK signed a trade deal to continue tariff-free bilateral trade following the UK's departure from the EU; under the deal, Turkey and the UK also committed to exploring options to expand the agreement to include agriculture and services.

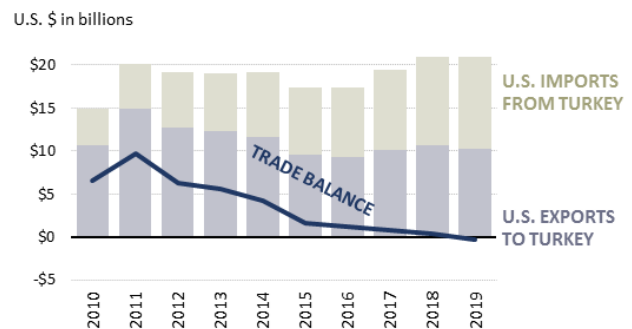
Turkey's export base is diversified, but relies heavily on energy imports. Turkish firms are typically toward the end of global supply chains, manufacturing most end-use

products of high-value and sourcing intermediate inputs are elsewhere. An exception is the Turkish auto industry, which supplies components to major global auto manufacturers.

Bilateral Trade and Investment Ties

Goods. In 2019, U.S.-Turkey two-way goods trade (see **Figure 1**) accounted for less than 1% of U.S. global trade in goods. The United States exported \$10.3 billion in goods to Turkey (led by civilian aircraft, engines, and parts; waste and scrap; and cotton), and imported \$10.6 billion in goods from Turkey (led by carpets and rugs; autos and other light-duty motor vehicles; and petroleum refinery products). (U.S. Bureau of Economic Analysis (BEA) and U.S. International Trade Commission.)

Figure 1. U.S. Trade in Goods with Turkey



Source: CRS, data from U.S. Bureau of Economic Analysis.

The trading relationship is more consequential for Turkey. The United States accounted for 5.0% of Turkey's exports, following the 27-member EU (43.1%), the UK (6.2%), and Iraq (5.6%). As for Turkey's imports, the United States had a 5.6% share, following the EU (32.4%), Russia (11.0%), and China (9.1%). (WTO, 2019 data.)

Services. In 2019, bilateral services trade (\$6.2 billion) was about one-third of bilateral goods trade. U.S. services exports were \$4.2 billion and imports were \$2.0 billion, resulting in a trade surplus of \$2.2 billion. Transport, travel, and business services were top traded services. Charges for Turkish use of U.S. intellectual property rights (IPR) were a top U.S. export. (BEA data.)

Foreign Direct Investment (FDI). While Turkey accounts for a fraction of the stock of outbound and inbound U.S. FDI, bilateral investment ties are notable in some respects. U.S. majority-owned multinational firms in Turkey had 57,000 employees in 2018, and, for some U.S. companies, Turkey serves as a regional business hub. Turkey was the 9th-fastest-growing source of U.S. inbound FDI in 2019.

According to official Turkish data, between 2003 and 2019, the United States cumulatively comprised 7.3% of Turkey's inbound FDI, ranking as Turkey's second-largest source of FDI—after the Netherlands (16.1%), and ahead of Gulf

countries (Turkey’s categorization, 7.0%) and the UK (7.0%).

Selected Trade Developments and Issues

Tariffs. The Trump Administration adjusted twice the original “Section 232” U.S. national-security-based tariffs of 25% on steel imports from Turkey. In August 2018, President Trump doubled steel tariffs to 50% for Turkey, citing that U.S. steel imports had not declined as much as expected and U.S. domestic steel capacity use had not risen to the target level. Some analysts argued, however, that the new steel tariffs appeared to be at least partly linked to Turkey’s prosecution of a U.S. pastor whose release the President sought; the pastor was released in October 2018. In May 2019, President Trump lowered the steel tariffs on Turkey to 25%, citing the decline in U.S. steel imports from Turkey and improved U.S. industry capacity utilization. Turkey has been shifting its steel exports more to other markets, such as in Europe.

In June 2018, following the Administration’s original imposition of steel tariffs, Turkey applied retaliatory tariffs ranging from 4% to 70% on \$791 million of imports from the United States (based on 2019 trade). Turkey adjusted these tariffs to rates ranging from 4% to 140%, following the U.S. doubling of the steel tariffs in August 2018, but later withdrew the additional increases after the United States reduced tariffs on Turkish steel.

In October 2019, after a Turkish incursion into northeast Syria, President Trump announced plans to apply sanctions against Turkey and raise tariffs on U.S. steel imports from Turkey from 25% back to 50%. While the Administration applied and then lifted the sanctions after an announced cease-fire in hostilities, it did not apply the tariff increase.

The United States and Turkey are challenging each other’s tariff measures in the WTO. Separately, in a challenge by a U.S. steel importer against the U.S. government for doubling the tariffs on steel imports from Turkey, the U.S. Court of International Trade held that the increase did not follow Section 232 procedural requirements.

Generalized System of Preferences (GSP). Effective May 2019, the Trump Administration ended Turkey’s eligibility for GSP, a U.S. trade and development program that grants non-reciprocal, duty-free treatment to certain U.S. imports from developing countries that meet eligibility criteria. The President cited Turkey’s increased level of economic development, a GSP criterion, as the reason for ending Turkey’s eligibility, pointing to Turkey’s rise in gross national income per capita, declining poverty rates, and greater export diversification. In 2018, U.S. GSP imports from Turkey (e.g., jewelry, stones, and motor vehicle parts) were 18% of all U.S. imports from Turkey. While Turkey was GSP’s fifth-largest user in 2018, the amount of Turkish-U.S. trade under GSP (\$1.9 billion) was a small share of Turkey’s world exports (\$168 billion).

Digital Services Tax (DST). In March 2020, Turkey launched a DST of 7.5% that applies to certain digital services suppliers with revenues above a certain threshold that are supplying services domestically in Turkey. Some U.S. companies expressed concern that specific aspects of the DST target them. The Trump Administration subsequently launched a Section 301 investigation into

Turkey’s DST, alongside investigations of the DSTs of some other countries. On January 6, 2021, the U.S. Trade Representative (USTR) released findings in the Section 301 investigations against Turkey; it found that the DST was discriminatory, was inconsistent with prevailing principles of taxation, and burdened or restricted commerce. USTR opted to not take any specific actions but to continue to monitor all options.

Other Trade Barriers. U.S. firms face challenges doing business in Turkey. Issues cited by USTR include Turkey’s:

- bureaucracy and weakening rule of law;
- “forced” localization barriers to trade, such as requiring storage of Turkish citizens’ personal data within Turkey;
- high average agricultural tariffs (20.4%, versus 4.6% by the United States, trade-weighted average tariffs) and hikes on tariffs in multiple sectors, which are within WTO limits (high “bound” rates) but increase uncertainty for U.S. exporters; and
- an inadequate IPR regime, including Turkey’s role as a source of and transshipment point for counterfeit goods.

Bilateral Trade Negotiations. During the Obama Administration, Turkey sought to negotiate a free trade agreement (FTA) with the United States, prompted by concerns about the impact of the now-ceased U.S.-EU Transatlantic Trade and Investment Partnership (T-TIP) negotiations. Instead, the United States and Turkey engaged in other ways to address concerns (see **Table 1**).

The Trump Administration expressed interest in a deal to expand U.S.-Turkish trade. However, in October 2019, at the same time that he announced the planned increase of the steel tariffs back to 50%, the President also announced a stop to trade talks. In November 2019, President Trump raised with President Erdogan the idea of reopening trade talks under certain conditions, eliciting mixed responses within Congress. Prospects for potential future talks may be tied to improvement in bilateral relations on other issues, as well as any potential future U.S.-EU trade talks.

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

1990	Bilateral Investment Treaty (BIT) entered into force
1999	Signed a Trade and Investment Framework Agreement (TIFA) to engage on a range of issues
2009	Launched a strategic framework of economic and commercial cooperation
2013	Established bilateral high-level committee to explore T-TIP’s effects and ways to liberalize bilateral trade
2017	Revived TIFA to discuss issues such as digital economy, IPR, and market access
2019	Turkey’s eligibility for GSP was terminated

Selected Issues for Congress

- To what extent would a Biden Administration continue or change U.S. trade policy with respect to Turkey?
- What are the benefits and costs of addressing trade differences through continued tariff escalations or a bilaterally negotiated resolution, or in the WTO?
- What are options for the United States and Turkey to grow their bilateral trade? Is such a focus desirable?

See CRS Report R44000, *Turkey: Background and U.S. Relations In Brief*, by Jim Zanotti and Clayton Thomas.

Shayerah I. Akhtar, Specialist in International Trade and Finance

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