



## U.S.-Turkey Trade Relations

Turkey is a NATO ally straddling Europe and the Middle East. With a large consumer class, skilled and youthful labor force, and geostrategic location, Turkey has been attractive to U.S. companies for business and investment. Yet, U.S.-Turkish trade and investment ties are relatively weak overall, accounting for a fraction of U.S. international trade and investment. Constraints to greater U.S.-Turkey economic activity may include a range of economic, political, and geographical factors. U.S.-Turkey tensions, including over Syria and various matters concerning Russia, may complicate efforts to expand trade ties. Given Turkey's economic and broader strategic significance, Members of Congress may continue to monitor U.S.-Turkish trade ties and policy developments.

“Due to the ongoing prominence of broader foreign policy issues in U.S.-Turkey engagement during 2021, progress on economic matters was limited, though both sides remained committed to furthering the goal of boosting two-way trade.”—Office of the U.S. Trade Representative (USTR), *2022 Trade Policy Agenda and 2021 Annual Report*, March 2022.

### Turkey's Economy

Turkey, an upper-middle-income country, was the world's 19<sup>th</sup>-largest economy in 2021, with gross domestic product (GDP) of \$815 billion (current U.S. dollars). Services and industry comprise most of Turkey's GDP, but agriculture remains a top job source. Tourism is a significant services sector, and key manufacturing industries include textiles and apparel, iron and steel, chemicals, and autos. Turkish firms are typically toward the end of global supply chains, manufacturing end-use products of high value and sourcing intermediate inputs elsewhere. An exception is Turkey's auto industry, which supplies parts to foreign automakers.

International trade has become an increasingly important part of Turkey's economy, representing 71% of its GDP in 2021. Turkey has a diversified export base, and relies heavily on energy imports. It has reduced its international trade barriers since 1995, after acceding to the World Trade Organization (WTO) and concluding a customs union with the European Union (EU).

The Turkey-EU customs union allows free movement of goods between the two economies (excluding agriculture, coal, and steel). It also 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 EU-negotiated terms; yet, it lacks any guarantee of reciprocal market access from these countries.

After a financial crisis in the early 2000s, Turkey's economy generally recovered, benefitting from market-oriented reforms, stronger rule of law in commercial markets, and investments in infrastructure. EU membership prospects helped drive economic reforms, but Turkey's EU

bid has stalled amid a number of complicated developments in Turkish domestic matters and Turkey-EU relations.

With 11.4% GDP growth in 2021, Turkey has been among the world's fast-growing major economies, rebounding from economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic. Turkish domestic consumption and exports have been a driver of this growth. Yet, Turkey faces a number of economic challenges. Amid broad global concerns about rule of law in Turkey, Turkish President Recep Tayyip Erdogan has surprised markets by undermining the central bank's independence, leading the bank to repeatedly cut interest rates while the economy faces high inflation. Officially topping 80% year-on-year in August 2022, inflation has reduced Turks' purchasing power, affected domestic and foreign investment in Turkey's economy, and fueled domestic political discontent ahead of elections scheduled for 2023. Rising energy and other import costs are contributing to a widening current account deficit. Turkey's currency, the *lira*, has faced a series of crises since 2018, and is under further pressure during a time when the U.S. dollar is strengthening globally. The value of the *lira* has dropped by around one-third against the U.S. dollar in 2022.

Turkey's economy is projected to grow more slowly in 2022; the International Monetary Fund estimates 5% GDP growth. In addition to market uncertainty about President Erdogan's unconventional economic policies, Turkey is vulnerable to rising global energy prices and other economic spillovers from the pandemic and Russia's war on Ukraine.

### U.S.-Turkey Trade and Investment Ties

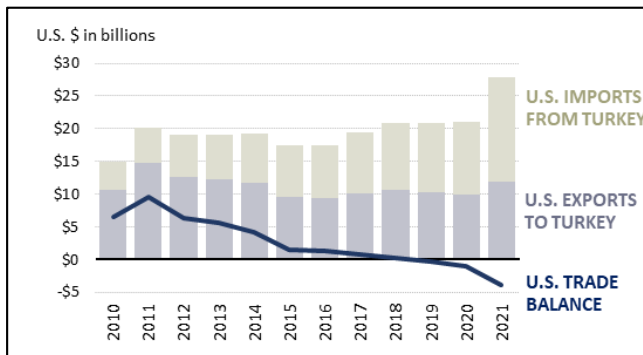
After declining by 8% in 2020, U.S. total trade with Turkey (exports plus imports of goods and services) grew by 33% to \$33 billion in 2021. Goods account for more than three-quarters of bilateral trade. In 2021, U.S. goods exports to Turkey grew by 19.5% to \$12.0 billion, and U.S. goods imports from Turkey grew by 44.9% to \$15.9 billion, resulting in a bilateral goods trade deficit of \$3.9 billion (see **Figure 1**). Top bilateral exports were aerospace products and parts, oil and gas, waste and scrap, basic chemicals, and certain agricultural products. Top bilateral imports were textile furnishings, petroleum and coal products, certain fabricated metal products, apparel, and iron and steel and ferroalloy.

Bilateral services trade totaled \$5.5 billion in 2021. U.S. services exports were \$3.4 billion and imports were \$2.1 billion, resulting in a trade surplus of \$1.2 billion. Transport, various business services, and travel were top traded services bilaterally.

In 2021, U.S. foreign direct investment (FDI) in Turkey was \$6.2 billion and Turkey's FDI in the United States totaled \$2.3 billion (stock, historical-cost basis), both less than 1% of U.S. FDI with Europe overall. Yet, U.S.

investment ties with Turkey are active. More than 1,000 U.S. firms have a presence in Turkey, many dating back decades and some using Turkey as a regional business hub. In 2019, U.S. firms operating in Turkey had 59,000 employees.

**Figure 1. U.S. Goods Trade with Turkey, 2010-2021**



**Source:** CRS, data from U.S. Bureau of Economic Analysis (BEA).

Turkish trade with Europe far outpaces U.S.-Turkey trade. In 2021, for merchandise trade, the EU bloc comprised 41.9% of Turkey’s exports and 31.5% of its imports; and the United States comprised 6.5% of Turkey’s exports and 4.8% of its imports (per WTO data). For Turkey, the United States is its second-largest FDI source (8.1% share), after the Netherlands (15.7%) (official Turkish data for cumulative FDI inflows, 2003-2021).

## Selected Developments and Issues in Bilateral Trade Relations

The United States and Turkey primarily engage on bilateral trade issues through a 1999 Trade and Investment Framework Agreement, which they revived in 2017 to discuss issues such as digital economy, intellectual property rights (IPR), and market access. They also have a bilateral investment treaty that entered into force in 1990.

The United States and Turkey do not have a free trade agreement (FTA). Turkey previously sought to negotiate an FTA with the United States, prompted by concerns about the potential market-opening effects of the now-ceased U.S.-EU Transatlantic Trade and Investment Partnership (T-TIP) FTA negotiations during the Obama Administration. Interest in a deal to expand U.S.-Turkish trade resurfaced during the Trump Administration, but elicited mixed responses within Congress. Prospects for potential future talks may be tied to improvement in bilateral relations on other issues, as well as potential future U.S.-EU trade talks.

In May 2019, President Trump terminated Turkey’s eligibility for the Generalized System of Preferences (GSP), a U.S. trade and development program granting nonreciprocal, duty-free treatment to certain U.S. imports from developing countries that meet eligibility criteria. President Trump cited Turkey’s increased level of economic development in making the termination. More generally, GSP expired at the end of 2020 and would require congressional reauthorization to restart.

In November 2021, the United States and Turkey reached a political agreement on Turkey’s digital services tax (DST), which the United States viewed as discriminatory against

U.S. firms. In exchange for Turkey’s commitment to withdraw its DST and transition to a new global tax framework, the United States terminated related trade action against Turkey. The United States reached parallel deals with some other countries on their DSTs.

Meanwhile, U.S. “Section 232” national security-based tariffs of 25% on certain U.S. steel imports from Turkey remain, as do Turkey’s retaliatory tariffs (ranging from 4% to 70% on \$791 million of U.S. imports, 2019 trade data). In the WTO, Turkey is challenging the U.S. Section 232 tariff measures, and the United States is challenging Turkey’s retaliatory tariff measures.

The USTR has criticized Turkey’s “onerous and unpredictable” testing requirements for agricultural biotechnology for certain imports from the United States (e.g., wheat, rice). It has stated that Turkey’s efforts to harmonize its food safety laws with the EU could pose barriers for U.S. exporters, to the extent that they are not based on international standards or science-based assessments. Differences in regulatory approaches are a long-standing issue in U.S.-EU trade relations.

U.S. firms face a host of other challenges doing business in Turkey. Issues cited by the 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 (21.2%, versus 4.5% by the United States, trade-weighted average tariffs in 2020, per the WTO);
- 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’s deepening economic ties with Russia may also be a concern. In August 2022, Turkey and Russia agreed to increase some aspects of their business cooperation, a move that has caused consternation for U.S. and other Western trade partners. Some U.S. officials are wary that Russian firms could use Turkey to evade sanctions. In September, Turkish state banks suspended their use of Russia’s Mir payment system in response to U.S. concerns.

## Issues for Congress

Members of Congress may examine the current state of U.S.-Turkish trade and investment ties, and the opportunities and challenges that U.S. firms face in Turkish markets. They may consider whether to pursue an expansion of U.S. trade and investment ties with Turkey and efforts to resolve current trade frictions, and if so, in what forms. In doing so, they may examine the role of trade in overall bilateral relations and U.S. interests in the region.

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

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