

THE BROOKINGS INSTITUTION

IN THE EYE OF THE STORM:
TURKISH FOREIGN POLICY IN AN AGE OF DOMESTIC REALIGNMENT

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P R O C E E D I N G S

MR. TALBOTT: Good afternoon, everybody.

SPEAKER: Good afternoon.

MR. TALBOTT: Thank you. I'm Strobe Talbott, and it's my great pleasure to welcome you here to Brookings and also to the first minutes and hours of a new relationship that I'll come back to in a few moments between the Brookings Institution and TUSIAD. And special welcome to our friends from TUSIAD who are here in this room this afternoon.

But before going further, I want to express on behalf, I'm sure, of everybody in the room and anybody who can hear my voice the deep, deep sorrow and support that people all over the world -- notably including here in the United States, of course -- feel for the people and the leaders of Turkey as they cope with the devastating consequences of the earthquake that so shattered the lives of the people in the Van region of Eastern Turkey. I gather that while the rescue operations continue, support is of course coming in from many parts of the world.

But Umit, I would say to you as a representative of your people, our admiration, our sympathies, our condolences, and our good wishes as you seek to recover from this domestic natural tragedy. And you are doing so at a time when the eyes of the world are on Turkey for other much more positive reasons, and that is to say, the emergence of Turkey in recent years as a major player, not just regionally but globally as well.

And of course we're all aware of the importance of the role that Turkey is playing in the G-20, which is sort of the self-appointed board of directors of the world. And while unappointed, it's much more appropriate to the political and economic realities of the 21st century than was the G-8, the G-7, the G-5, and so forth. And it's all the more likely to be an effective mechanism because of Turkey's part in it.

And over the course of this year that is now coming to an end, the year that began with this extraordinary set of developments in North Africa and the Arab world, we have seen Turkey once again assert a very powerful influence on events in that region, being as it is a secular democracy in an overwhelmingly Islamic country. So there is much reason for any institution like Brookings to ramp up the attention that it is paying to Turkey, and the collaboration that it is doing with Turkish institutions and organizations.

We at Brookings have paid a lot of attention to Turkey and worked with Turkish counterparts for some time. We have done so for all kinds of reasons well known to everybody in this room, including our conviction, shared by many, that Turkey is historically and integrally and going forward into the future a very European country. And it will be good news for the European Union, which the European Union could sorely use, when that day finally comes that Turkey is part of the European Union.

And more generally, we have recognized for a long time the growing geopolitical, economic, and cultural significance of the role that Turkey is playing. And we have had relationships with Sabanci University and also with TUSIAD, which is the center of our attention today.

For 40 years TUSIAD has conducted innovative research and served as a key forum for exchanges between Turkey and other major players in the international community. And it's thanks to a memorandum of understanding that Umit Boyner and I have just signed a few feet from here that we are opening up a new stage in the relationship between the Brookings Institution and TUSIAD. As a result of this agreement, this understanding, we are going to have the benefit here at The Brookings Institution of a TUSIAD senior fellowship, which will allow us to have a world-class expert focusing on the issue of Turkey's role in the world.

And next year, we will launch what will be called the TUSIAD-U.S.

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Turkish Forum at The Brookings Institution. This will, of course as I've already indicated, build on the past relationship that we have had and the support that we have gotten from TUSIAD since 2006. And it's a great pleasure that we are able to move forward and do more for the good of the bilateral relationship between the two countries, and also the international community in which both countries are playing a leadership role.

Umit, it's particularly good to be able to welcome you here to Brookings. You and your colleagues were very kind to my colleague, Martin Indyk, the director of our Foreign Policy Program, when we called upon you in Istanbul just a couple of weeks ago. And it's also very good to see Soli Ozel, who is a professor at Kadir Has University and will be joining Umit and Fiona Hill, who is the director of our Center for the United States and Europe, which is quite properly the home for the TUSIAD senior fellowship here at Brookings.

I'm going to give the microphone first to Umit, and then Soli will offer a few observations of his own, and Fiona will moderate and participate in discussion. So, once again, would you like to remain seated or do you want to come up here?

MS. BOYNER: I'll remain seated.

MR. TALBOTT: Okay, very good. Thank you so much. (Applause)

MS. BOYNER: Thank you. Is my voice -- oh, right. Can everybody hear me?

First of all, I would like to express our gratitude to Strobe and Strobe's colleagues who contributed to the formation of this forum. We believe that the enhancement of our relationship with Brookings is going to start a new era on Turkish-American relations, and in explaining the role of Turkey in the changing atmosphere of the world.

A new world is -- a new normal is being formed after, I think, expedited

by the necessities of the financial crisis of 2008. And we believe that countries like Turkey are going to be very instrumental in creating the new governance rules as the importance of emerging countries like us increase in the world. So, we're very happy that we've created this forum and we have lots of hope and expectation that it's going to be very instrumental in our relationship.

I'm going to leave the foreign policy and Turkey and our regional issues to a great deal to Soli. But I would like to talk more about the economic backdrop that Turkey's operating with and, you know, some of the political and social issues that Turkey faces going forward.

We had a very bad week in my country. As a nation, we faced a week-long of national grief, first by the escalation of violence where we -- in 1 day we lost 24 of our soldiers against PKK attacks, which was followed by a Turkish military insurgence. And it was an interesting time because the timing of this attack, timing of the escalation, and I don't know if it was a coincidence, but it happened on the same day when Turkey started talking about the new constitution. And I think it basically shows us that PKK has a lot of intolerance for democratic resolution of the Kurdish problem.

And this event and also the massive earthquake that followed us, you know, within the same week I think showed us as a nation that it's really time not to procrastinate our problems any longer and face some of the issues that are facing in Turkey and deal with them, and maybe we need more public engagement in, you know, in solving all these long and entrenched problems. It's a sobering experience and I am hoping that the grief that we feel is going to give us the urgency to actually start doing more to open the way for Turkey without all these issues that we have to deal with.

The earthquake -- you know, I talked this way because we faced a similar earthquake in 1999, and, unfortunately, what we are facing today in Van shows us that

we have not done enough, even though we know that our country lies between many fault lines, that we have not been very successful in dealing with this risk and we're putting the risks of our people at stake too comfortably. So, I'm hoping that some good will come out of this lesson.

As I said earlier, I'd like to talk about the economic backdrop that Turkey's starting, this threshold where we're actually waiting every day to hear news about how Europe is going to deal with its problem, and it's very close to us, it's our major trade partner, and how we know U.S. is facing problems, especially with respect to growth, unemployment, especially in some of its regions, and all this talk about shift of value to the east of us.

Turkey went through a lot of lessons. We've lived through many crises, and the last one in 2001 actually paved the way for a lot of transformation, a lot of structural reform, that enabled us to deal with some of the issues that many of our neighbors, our -- that Europe is facing. Since the economic crisis that we faced in 2001, also with the EU convergence impetus that gave way to more reform, Turkey actually lived a decade of two cyclical anchors where we lived through a macro and micro restructuring and the nationwide tendency to more EU standards.

The EU membership issue we know today lacks a lot of vigor. It needs a lot of invigoration, and it's unfortunately lost its conditionality. But it's still an anchor and that convergence period brought us a lot of benefits in terms of the reform process.

We have become the 16th-largest economy. That, in fact, is quite good, but I think the real significance here is that we doubled our per capita income in less than a decade. The FDI inflow after the transformation, the reform process, has been very strong, steady. The privatizations added a lot to our economic life. But what remained a big anchor and is still keeping us quite strong is the fiscal stability that Turkey embarked

upon after the reform process, independent central bank -- the health in our financial sector, our banks -- and in that respect, Turkey at this point decouples from other emerging markets that are real competitors because we have more of an entrenched understanding and practice of market philosophy. I mean, on top of all the structural reform that has taken place we have a healthy private sector. But there are issues that we need to face, and actually maybe enhance -- this could be -- what could be a window of opportunity in the coming years when the world is going through this big change.

Another decoupling area from the other -- from EU countries is our demographic and our growth rates. We know that Europe is aging. It has a demographic issue, and there won't be a major growth for a long period of time. But with respect to Turkey, we still have growth rates that will be coming down. Obviously we will not be facing the growth potential that we had in the last decade, at least for the next couple of years, given what's happening around us. But given the low risk in our debt dynamics in both public and private sectors, we're in a good place to actually look at some of the more micro and macro issues going forward.

2012 and onwards, what Turkey will have to focus on is its current account deficit, which has become a major problem because our current account deficit has reached about 9 percent of our GDP, and it's sustainability because it is basically financed by short-term portfolio investments. It's telling us that we need to do more to create more value-added at home. It's also telling us that we need to be attracting more foreign direct investment into the country. That requires measures on both macro and micro areas.

We need to continue with our fiscal stability -- our fiscal dexterity measures. The floating exchange rate is a big strength that is keeping some of the market confidence in Turkey. But what is really important going forward is the micro reform agenda that is out

there for Turkey to make the investment environment better for direct investment and to create jobs.

There is a new industry strategy that's on paper, and it has a big, comprehensive agenda that includes anything from the liberalization of energy markets to improvement of intellectual property rights that will make competitiveness in Turkey more attractive. And this going forward is one of the measures that we can keep our economy less impacted than what's going to be happening in Europe.

The other issue that Turkey faces going forward, yes, we have some advantages in our economic stability. We have -- we know the pathway to becoming a better investment environment. The strategy paper is out there, it's just a matter of enacting the right laws and regulations. The other issue is the continuation of democratization and the reform process that started with the EU process, which, as I said earlier, now lacks a lot of vigor.

We're at a time in Turkey when, despite the fact that we always complain about our undemocratic political party system, our high threshold in the elections, we have a parliament that actually represents 95 percent of the electorate. So it is actually, in essence, a good opportunity to prepare the constitution that Turkey has been needing since -- we've made a lot of amendments in the constitution that was prepared after the military coup, but clearly there is more need of an upgrade in terms of some of the issues that Turkey has not dealt with.

We see that in three areas, which we believe the new constitution should deal with. The first is a solid foundation of the rule of law and protection of individual rights and freedoms, and the impartiality of judiciary, and the functional separation of powers is very necessary. The other two issues, as I said earlier, are on individual rights and freedoms, the freedom of religion, and the freedom of identities. These are three

issues that have become quite divisive in the society over the years, and we believe that even the method of writing this constitution where all political parties are part of this process is quite a medicine in improving the democratic environment of the country.

Well, I have to say that we are on the right track. And I want -- I am happy to say that, because what going forward we need is a more institutionalized, pluralist, and participatory democracy. And we will be able to do that only through this process of the new constitution.

What makes us quite special, I think, is we are a secular country. That is very important. We operate in a market economy, and we are in a part of the world geographically -- and in the wake of the Arab transformations, in the wake of all the democratic surge in that region, and also the issue of energy security that's going to be very important for sustainability for the global economy. Turkey sits in a very, very important region.

So, we believe we have all the right tools at this moment. We just need to make improvements in our system to prepare Turkey for the threshold to make Turkey a first or higher-league country in the future.

With respect to our relations with the U.S., we believe that our communication is increasingly better-coordinated. It certainly is in a much better threshold, given the last couple of months, despite some bumps in the divergence in policies, for instance, concerning Iran's nuclear program. But I think we are all in a state of the world where we're navigating our way through turbulence of the times, both economically, socially, and politically.

And I'm going to stop here, with respect of time. And I will be happy to answer any questions or deliberations you would like to have later on. Thank you, Fiona.

MS. HILL: Thank you so much. (Applause)

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Soli.

MR. OZEL: Good afternoon. I don't keep my talks short, but we have very, very little time and the midpoint is partially my boss. So, you would want to ask her questions. I'll try to give you telegraphically the messages on Turkish foreign policy, if I may.

In a way, we can discuss Turkish foreign policy in terms of geopolitics versus values/identities versus politics. Or the question to ask is Turkey where it used to be, a very important or important enough because of where it is? And that's the geopolitics of the country. And I think one can make the argument safely today, as Mrs. Boyner did at the very end of her talk, that Turkey today is probably as important if not more so because of what it is and precisely because of where it is.

And if that is correct, obviously what Turkey is today is a function of choices that had been made in Turkey previously in the Ottoman Empire for a period of about 200 years. And I would argue this is what actually enables our prime minister, who for a long time was seen as the antithesis of what Turkey stood for in terms of its ideology, political roots, and what have you, to say -- to go to Iraq, for instance, and visit a Shia shrine, the holiest Shia shrine, that of Khalif Ali; have an audience with the highest Shia authority of Iraq, if not the world, Ali Sistani; and travel all the way up north and also meet with the Kurds after he has already met with all the responsible political operators in Baghdad. Or this is what enables him to say, to the surprise of the Muslim Brotherhood crowds who have greeted him at 2:00 in the morning at the airport, that what Egypt needed was a secular constitution. And that although he himself was a very pious person, that he was a Muslim, that didn't keep him from being capable of running a secular state.

And indeed, he presented secularism as the guarantee, if you will, or the

safety valve for a peaceful transformation in Egypt. And when everybody wondered if he has misspoken, he repeated all these in Tunis, and in Libya -- in Tunisia and in Libya. And I think if there are certain pictures that stick to one's mind from his travels in North Africa, none probably more significant than him meeting Pope Shenouda of the Copts, who are besieged and extremely vulnerable in today's Egypt, which is full of turmoil.

And what brought this about, that is, what brought this importance about and what enables Turkey to actually play such a role, in my judgment, is of course the failures of the United States, which is why I think we are now so enamored of one another. And quite frankly, I've been in this town for quite a long time, since 1981 as a student and as a professor, and I've been coming in and out, and I've never really seen such a wonderful, touchy-feely relation between Turkey and the United States, for which I am actually very happy.

And of course, you know, all these nice -- and feelings don't come out of the blue. And obviously as, again, Mrs. Boyner said, there were bumps in the road. I remember coming here in 2003, right after the Turkish Parliament rejected the government's decree to deploy American troops. And one retired colonel almost was going to punch me when I was trying to explain to her that Turkey was a democratic country and the parliament did something that the government didn't want, and it was testy. Anyway.

Now, -- and of course, the geopolitics of Turkey obviously play a part. And what I would argue for the sake of brevity, again, what makes Turkey special is the fact that it is simultaneously a capitalist market economy, secular democratic country with an overwhelmingly Muslim population that happens to be a member of NATO and aspires to be a member of the European Union. That's what makes the country unique. And to the extent that we juggle all these balls properly, then we have more opportunities to play around and to be flexible in our foreign policies than any other country. Otherwise, you

know the quip nowadays, from zero problems with neighbors to zero neighbors without problems. (Laughter) You could only make that switch, if you will, if such it was, because of your ability to adjust and adopt to circumstances.

The regional framework after the Iraq war when the political project didn't seem to quite succeed and Iran was obviously a good candidate to fill in the vacuum. And again, I must say since in Turkey we believe the Americans really run the world visibly and invisibly, it was very difficult to fathom that the Iraq war was going to make Iran the most significant, important, powerful country and that the Americans would actually destroy a 300-year equilibrium that existed between the Shia world and the Sunni world that obtained in Iraq. But that's exactly what happened and that, of course, gave Iran a lot of power. And that power, whether Turkey wanted it or not, could only be balanced in geopolitical and in military terms, probably by Turkey. And at that period, Turkey decided then with the zero problem with neighbors to put all values and ideologies, if you will, aside and work with all the countries no matter what their systems were. And in that, Turkey gained ground as a geopolitical actor.

And then comes the Arab Awakening, and the legitimacy of all these regimes are now exposed as not really being quite there. And then, Turkey is not geopolitical attitudes, but its value attitudes and its membership in the Atlantic community starts to play up. And within -- I mean, in a split second almost, the Turkish government can first seize the historical moment that the Arab Awakening represented. And if it erred, for instance, as in Libya, it had no qualms about turning itself or reversing itself 180 degrees, and, therefore, take -- side with the NATO operation support and then recognize the Benghazi government before there was a Benghazi government.

And the same thing happens in Syria. Syria was the single most important country that the Turkish foreign policy has invested enormously in the last nine

years, and Turkey also believed that it could actually convince the Syrian regime that to change was the only way out for them.

As it turns out, the Syrian regime was in a life and death struggle, as far as they were concerned. They were not in a position to listen to anyone, let alone Turkey. And, therefore, our relations with Syria now, although we haven't withdrawn our ambassador, are not necessarily at their peak. But the thing is, no matter what happens in Syria, if the fate of that regime is going to come about sooner rather than later and that it will fall, Turkey, with 875 kilometers of borders with Syria and being part of the Atlantic Alliance, will just have to be part of everything.

Two last points. Iran and Israel have obviously been central to Turkey's relations with the United States, and those relations, by the way, as I said at the beginning, have never been better in my life anyway. And we'll see how long that will go. For the moment, there doesn't seem to be much reason to think that they will not continue to be well.

And the issue of Iran I think was resolved when Turkey -- what I then consider to be a mistake -- voted no on the sanctions vote in the UN Security Council in June 2010. Thereupon, Turkey had to prove its Atlantic credentials. And in Lisbon, it signed up for the missile shield program. And only six hours before it announced the sanctions against Israel because of a lack of apology on the part of Israel, at 2:00 in the morning, the spokesperson for the Turkish Foreign Ministry announced that Turkey was actually going to allow the deployment of the radar system for the missile shield.

And that of course brings me finally to Israel. And I have an article in a book and I want to advertise it. It's called *The Troubled Triangle*. It's Turkish-Israeli-American relations, and troubled that triangle is going to continue to be for some time.

The issue with the Israeli in my judgment is the following. The

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circumstances within which Turkey and Israel have interacted with one another, particularly since the mid-1990s, have changed drastically, partially as a result of the Iraq war and now, of course, as a result of the Arab Awakening, which basically it's like the end of *100 Years of Solitude* when the protagonist is standing there reading the book and Macondo is actually falling apart and, you know, disappearing.

And under those circumstances, what Turkey proposes is that it be the central player in the Middle East, and that it will continue to have good relations with Israel, but Israel will have to subordinate its existing security mentality to the changing circumstances which would necessitate Israel to be more accommodating. And the Israelis beg to differ.

As usual, radical rightists are very forthcoming in what they think, and they don't mince their words. And when this issue of apology was being discussed, Mr. Lieberman, the Israeli foreign minister, on two separate occasions at the Israeli Parliament commencement said Turkey is a regional power, it wants to play even bigger and better roles in world politics. And this will be at the expense of Israel, and I'm not going to allow it.

And so you have both parties actually sticking to their positions, and the United States desperately trying to get them to be more civil, if you will. And sooner or later, one could expect that as things change and the Arab Awakening's honeymoon period is over and things get rougher, I suppose Israel and Turkey are also going to start seeing that they do, indeed, have a lot of interests in common. We've already seen an attempt at cooperation when Turkey participated upon Israel's demand in the latest Hamas deal, and that it accepted to host 11 of the Hamas prisoners or Palestinian prisoners that were released.

Finally, we are at the threshold of building the third Turkish republic.

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This is what the constitution issue is all about. And the kind of republic we're going to have, how democratic it's going to be, is intimately tied to the Kurdish issue, and that we can discuss if you have questions about it. (Applause)

MS. HILL: Thank you very much, Soli. Well, as I open it to the floor for questions from our audience, there's a couple of things that struck me from what you were both saying here. The one issue is also the unpredictability of the geography, not just the geopolitics. And we've spoken of the great tragedy this week in Van.

And this is a reminder, as you yourself pointed out, of how wild card scenarios -- the natural catastrophes -- can really upset politics. Because 1999, the Marmara earthquake, had a major impact on Turkish politics. And many of the developments that we're talking about today can ironically be traced back to that real movement of tectonic plates, rather than some of the political issues we're talking about.

And of course we're reminded every decade there seems to be a major earthquake. They're not predictable, but if you think back in 1988, 1989, there was the major earthquake, the Spitak earthquake on the other part of the Anatolian fault into neighboring Armenia. And this particular earthquake in Van was also felt in Armenia again and in Iran, reminding us of how fragile the whole region is and, again, underscoring the necessity for, as you said, political and civil engagement to deal with these very unfortunate incidents that can really turn things on their head. And of course, we don't know how this is going to play out.

But obviously this is also a critical issue for the other issue that you're talking about. Van is one of the centers of the Kurdish population in Turkey. And one of the other questions that many external commentators -- and I think also, commentators in Turkey -- have raised that was it not just the fact of the constitution that may have treated the latest round of PKK provocations, but also the general upheaval in Syria and

elsewhere where there are large Kurdish populations and a great deal of uncertainty now in that particular environment.

And I just wonder before we turn over to the audience, I mean, Syria seems in many respects a really critical test for Turkey at this point, as it does indeed for all of us. And the Kurdish dimension adds another element of complexity and unpredictability here as the regime is in its clearly -- oh, I don't want to say it's in its death throes because we don't really know what is exactly going to happen in Syria. But certainly in a great deal of angst and upheaval that often as we've known in the past, Turkey has had the PKK and the Kurdish issue turned against it in many respects in some of its dealings with its neighbors. Is this something that you're fearful of, particularly as you're moving in to this constitutional process, which is intended to resolve some of these critical issues?

MR. OZEL: Well, the Syrians do have a time-tested record of helping, aiding, abetting the PKK. And now that we are no longer in vacation-taking mood with them, it is -- it would not be terribly awful to say that they might actually dust off old files and old intelligence frameworks and help their former allies. And of course, I can't -- Mashaal, was it? The Syrian Kurdish leader who was killed, I suppose by Syrian authorities, I don't know, and the pronouncements by the PKK after his death that the Syrian Kurds should not oppose the regime, which was being besieged by imperialist powers, if you put all those things together, there seems to be an undeclared alignment between the PKK in Iraq and the Syrian regime. And obviously this changes Turkey's security configurations rather drastically.

You never know where the Iranians are, kind of. But, you know, do they fight Pajak, don't they fight Pajak? Did they arrest the PKK leader; did they not arrest the PKK leader? But of course, the Iranian foreign minister showed up in Ankara about three

days ago, and again it was a very nice, laughing and smiling photo opportunity as well. But I'm sure the other things were discussed.

And this is all, by the way, happening in the context of the United States preparing to leave within two months in its entire -- taking its entire troop presence out of Iraq. And obviously, we don't know exactly what that vacuum is going to be or is going to create.

MS. HILL: Yes, the irony that in 2003 the relationship with the U.S. was basically upended because the U.S. wanted to get in and now there's the question of now what happens when we all get back out again.

MR. OZEL: Well, in the exit period the communication seems to be more solid.

MS. HILL: Well, at least that's a --

MR. OZEL: The two sides appear to be speaking the same language.

MS. HILL: So it's a little bit more positive, anyway. I'm sure there are lots of questions here from the audience. We have a very distinguished group of people here who are some Turkey watchers, and I hope the length of the room will not put off people from asking a question.

We have a microphone over here. And if nobody asks a question, I'm going to pick on someone. There we are, here. This gentleman here.

SPEAKER: Hi. I'm a student from the SAIS School at Johns Hopkins. I know you guys didn't necessarily talk about this, but I think that the relations with Cyprus are pretty important to Turkish foreign policy. So, my question would be as it stands right now, Cyprus is blocking I believe eight chapters of the ECU. And do you think there is a way that Turkey can sort of reconcile this to open up these chapters, especially since you know, I'm a big proponent of accession, I support it. And I really don't think that it's a

foregone conclusion at this point, especially with all these chapters closed.

So, what do you think can be done to sort of fix this?

MS. HILL: Yeah, and just to add to this very good question, there's also the Israeli dimension with the Cypriot and Israeli prospecting for energy resources in the Mediterranean that has also gained some attention from Turkey. So, how do things look?

MS. BOYNER: I'll leave the Israeli dimension to Soli. But I think in the Cyprus issue what Turkey has been faced with has been a discussion of, you know, these chapters, the way, you know, Turkey's accession talks and the opening of the chapters were blocked were legal. I mean, nobody can say anything about -- you know, if somebody says it's illegal you can't say much about it. But sometimes you have to question if it is ethical because to basically minimize the whole EU accession process of Turkey into the Cyprus issue, especially after what happened in 2004 when the Turkish Cypriots showed the willingness to be part of the solution, and the Europeans or Europe's sort of indifference to the matter, I don't think that's ethical. So, I just want to leave it there.

And I believe to a great length, yes, there are things Turkey can do. But certainly I think Europeans need to start rethinking, you know, how they are, you know, impacting the future of Europe by, you know, reducing the Turkish problem or the Turkish accession problem to the Cyprus issue, and I don't believe a non-solution is sustainable. We will get there, but, you know, Europeans have to come to terms with it.

MS. HILL: Will the Turkish government live up to its threat of suspending if not rupturing relations when Cyprus accedes to the temporary rotating presidency?

MS. BOYNER: Well, I mean, in terms of, you know, how the negotiations are proceeding, we are at a sort of full stop anyway. So, I mean, it's not like there is work to be done and it's going to be continuing. It's actually at a virtual full stop.

So the fact that, you know, if there's some distance that can be, you know, covered before the Greek Cypriots take the presidency would definitely motivate Turkey to proceed -- I mean, issues like visa, for instance, or issues on free trade agreements -- there are other, you know, areas where progress can be made, but it's not being done. I think any kind of step taken in that respect would motivate Turkey to not protest the Greek presidency.

MS. HILL: The Cypriot presidency, yes. Soli?

MR. OZEL: Well, Cyprus is a problem. But, I mean, Sarkozy is a bigger problem. (Laughter)

The thing is presumably these negotiations are for Turkey to become a member, right? And the French blocked five chapters because they say if these chapters are closed, Turkey can become a member. What do you say to that? I don't know.

Secondly, on the Cyprus-Israel thing. Based on one report that I've read, presumably there are 22 trillion cubic feet of gas with a value of about \$500 billion, and about 1.67 billion barrels of oil in that basin which encompasses the area of Israel, Lebanon, Syria, Egypt, and Cyprus. Okay?

Now, you can use or you can take this fact as a very good starting point for bitter wars between all the parties there, or you can take this as common resource. And if you know how to share it, you can all benefit from it. All right? And I think the Turkish government early on before there were any problems -- even before the sanctions against Israel in June -- the prime minister basically sent a message to the Europeans when he said we're going to cut off political relations with you once the Greek Cypriots take the presidency. What you wanted to say, don't let this problem simmer any longer, because sooner or later it's just going to generate even more problems.

So not only do you have the Israeli-Greek Cypriot agreement to explore

gas and oil, the exploration is being done by an American company. And the basket-case Greek Cypriot economy is being basically saved by none other than the Russians, which I think own the Greek Cyprus, okay? So, it becomes really complicated and it is truly irresponsible on the part of Europeans, the Americans, and everyone to think that this just can go on forever. I just don't think it can.

MS. HILL: Well, that's another level of complexity, that's for sure. Yes.

Do we have any other questions? Yes, at the very back. Steve Flanagan with CSIS. Thank you.

MR. FLANAGAN: Sorry, can you still hear -- thanks, Fiona. I wanted to draw Soli Ozel a little bit on his allusion to the deterioration of Iranian and Turkish relations, particularly over the PKK. But obviously despite a clear priority, particularly earlier this year with Prime Minister Erdogan seeking to open and expand trade and bolster relations, it seems as if the -- in the aftermath of the events in Bahrain and then differences over Syria and now the Turkish decision on the missile defense radar, as you mentioned, that the relationship seems to be back towards more of a rivalry, particularly for influence in the Arab Middle East.

And I wondered if you could give us your sense of the -- what you see as the trajectory of the Turkish-Iranian relationship.

MR. OZEL: Okay. I mean, first of all, Turkey and Iran did not really have war between the two of them since 1639. That's quite a long time for two neighbors.

Second, these two countries are destined to be bold competitors and cooperating partners. What, 700,000 trucks go through Iran?

MS. BOYNER: Yeah, every day.

MS. HILL: Every day?

MR. OZEL: Every year, 700,000 trucks to through Iran --

MS. BOYNER: Every year.

MR. OZEL: -- taking commodities back and forth to Central Asia. We get about 20 percent of our gas from Iran, we have investments in Iran, plenty of trade and about anywhere between 1 million and 1.5 million Iranian tourists who come to live in sin during the summer in Turkey.

So, this -- now, our relations with Iran, therefore, ought to be understood in the context of the greatest -- or one of the greatest novels written, *The Godfather*: Keep your friends close and your enemies closer.

MS. BOYNER: Closer.

MR. OZEL: So on the one hand you look as if you are protecting the Iranians during the deal in nuclear deal and whatever. On the other hand, you are in very stiff competition with them, rivalry even, in Iraq, in Syria, in Lebanon, even in Gaza, okay? And this is what I think Turkish diplomacy has offered to its partners saying I've got to deal with these guys, maybe it was right, maybe it was wrong. But I'm also trying to balance them in the Middle East, where there is no other party that can do it.

I think the breaking point really came with the no vote on sanctions and Turkey basically subscribing to the missile shield. Since then the Iranians blamed Turkey for instigating the revolts in Syria and all sorts of other ungodly things. But on the other hand, as I said, their foreign minister comes, we are all smiles and talk about things. We talk about cooperation to deal with both Pajak and PKK, and who knows what happens behind the scenes? The prime minister won't tell us.

MS. HILL: Umit, how much do you think many of these business relationships -- you know, as the head of TUSIAD right now -- really shape all the foreign policy?

Immediately after the breakdown in relations with Israel, there was a loss

of compliance from all across the business community from the whole spectrum about how bad this was for business. I mean, behind the scenes have these pragmatic business ties all continued, even as relations seem to have worsened in the case of Turkey and Israel, and as the political situations got very difficult elsewhere? I guess with Syria, given how situations on the board -- that must have really made a dent in a lot of the interactions.

MS. BOYNER: Well, I -- economic -- good economic relations, I think, bolster good political relations, that's for sure. But in times of political adversity between two countries, I think it's highly likely that you do not fulfill the economic potential that's out there. And I mean, I think you can see that in the case of Iran.

When you look at numbers, with respect to Israel in terms of trade, no matter what kind of difficulty our governments have created for us, the trade has not stopped. It's actually increased and continued increasing. As long as it doesn't become a problem between people, which why should it? The economic relations continue. But, you know, the real potential might not be realized.

MS. HILL: Soli, any thoughts on that?

MR. OZEL: Well, I think the increasing trade volume was 25 percent after the Marmara incident a year on. And during the summer that our -- three flights, five days a week between Istanbul and Tel Aviv and four flights on Sundays. On Saturdays, because it's Shabbat, there's only one.

MS. HILL: But there's still a flight.

MR. OZEL: Yeah, there is still a flight.

MS. HILL: Yeah, sir. A question and then this lady here.

SPEAKER: On the Aegean --

MS. HILL: I think we'll need the mic for the purposes of the --

SPEAKER: Thank you. A quick question on the Aegean. What is Turkey doing to have Greece apply international law in the Aegean in both the maritime delimitation and airspace boundaries? Keeping in mind that Greece claims an airspace that overextends several miles beyond the current six miles maritime boundary? Thank you.

MR. OZEL: I didn't understand really the question.

SPEAKER: Basically, the sea boundary is not the same as the air boundary --

MR. OZEL: As the air boundary, yes. Which is precisely why you have dogfights, yes.

SPEAKER: What is Turkey doing to have Greece apply international law?

MR. OZEL: The thing -- huh?

SPEAKER: International law.

MR. OZEL: I'll yield to the ambassador. (Laughter)

MS. HILL: International law expert.

MR. OZEL: No, we are also part of something called the Greek-Turkish Forum and we have done, actually, a paper on the Aegean. I really don't think the Aegean problems are true problems. If the -- and there has been negotiations --

MS. BOYNER: No dogfights.

MR. OZEL: -- between the two sides for the last eight years now, even more. And to the best of my knowledge, twice they reached an agreement. And both times the Greek governments had political crises, which is not surprising, and you couldn't really go ahead with the deal.

But I suspect that once Greece is finally back on some kind of track, it

would not be unthinkable that we finally can close the chapter on the Aegean.

MS. HILL: Well, that would be very positive. We have a last question, the lady here. If you just wait for the mic, and then I'll turn back to Umit and Soli for final words.

SPEAKER: Thank you. You mentioned -- Israeli and Turkish trade was mentioned earlier, and I was just wondering if you could both comment on Turkish-Arab trade and how Turkey's astounding economic growth in the past decade can contribute to an extension of its foreign policy in terms of its support that they've already lent to the Arab Spring.

MS. BOYNER: I think the Turkish, I would say, mercantilist foreign policy has quite a number of years. And it was a good decision in the way that I think we've foresaw the changing environment, you know, earlier than most of our competitors in Europe.

And Turkish private sector can operate in these markets more efficiently than European companies. In fact, the close relations that we've built in those markets paved the way for demand, you know, for trade together, co-investment, to do business in these countries.

As I said earlier -- well, maybe I said that during lunch -- I think the political environment that some of the Arab nations are going through today have been disappointing in the sense that I think Turkey was expecting the expansion of trade in these markets to be more of a low-hanging fruit nature and it's not really taking place. But you know, in terms of obviously the transition is going to happen, these markets will always be important for Turkey, for Turkish investment, for exports, and it will continue.

It certainly boosted our Southeastern region, for instance. But the current situation, for instance, in Syria really impacted that. You know, there was a big

hike and, you know, it had a very good impact in cities like Urfa, Gaziantep, which is now adversely affected with what's happening; or Libya where, you know, Turkey had, you know, a pretty high investment.

But the fact that we had established relationships there was a good investment and we will benefit from those in the years to come.

MR. OZEL: Back in 1999, Turkey's trade with the MENA region was about 8 percent of its overall trade. It reached, I think, about 20, 21 percent last year. Obviously this is going to go down now.

Secondly, when the prime minister went to Egypt, you know, he went with an army of business people and they came back from Egypt with about \$875 million worth of deals. And whether or not all of these will materialize, I don't know. But there are investments in Egypt, and they're obviously big contracts in Libya yet to be had. And we put a down payment of \$300 million into that by giving money to rebel authorities, at the time.

But there is something more fundamental, there is something more structural, and that should be my last point.

Mrs. Boyner mentioned the Southeastern region, Gaziantep, Urfa, and all the rest. There is today trade that is worth about 8- to \$9 billion official between Turkey and just the Kurdistan regional government alone. Trade between Turkey and Syria had expanded again from a very low of about \$375 million to about \$2-1/2 billion. But what is happening no matter what goes on in the next 10 years is the restitution of pre-nation state economic zones. And it's not just Ottoman, obviously. It was Roman, Byzantine, whatever.

The Aleppo and Antep have historically been twin cities that did business. Borders separated them, these borders are becoming meaningless in

economic terms now. This was, of course, the most important strategic goal of the current government. That is, do away with economic borders, which explains why Turkey today doesn't have visa requirements with 22 countries. I mean, really to go to Russia without a visa requirement is quite something. We can now go to Syria, but it's not a very welcoming place these days, so we don't. (Laughter) But when things were good, there was really massive human traffic.

MS. BOYNER: Exodus.

MR. OZEL: And I don't believe anybody did serious academic research on it, but I wonder what two or three years of free traveling between Turkey and many of those countries had -- whether or not it had an impact on the way these urban middle classes in those countries really compared their lives with that of their neighbors.

MS. HILL: Well, Soli, you've left us actually with a very promising thought for a line of research that we can do under the new memo of understanding. And I volunteered, and I'm sure some of the audience will come with me, to go on a trip around some of these cities to find out --

MR. OZEL: Gaziantep is very well known for its cuisine --

MS. HILL: -- you know, how people think about things. That's what I was thinking anyway.

But this has been a really stimulating conversation. Obviously we're delighted that this also marks a new chapter in the relationship with TUSIAD. We've been very grateful for the support in the past. We're looking forward to the new TUSIAD forum. Perhaps we can do a little bit better than the cookies in the back and have some more of the Turkish fare. We quite like the cookies.

But in any case, we're delighted to have both of you here, and all of your colleagues from TUSIAD. We'd like to spare a special thank you to Abdullah Akyuz, who

is the permanent representative of TUSIAD here in Washington D.C., though only for a few more months. We'll be very sad -- many of you will have seen Abdullah here. I don't want to say for how long Abdullah has been here, but many of you will have seen Abdullah at all of our various Brookings events, and this is time now to wish him farewell as he goes back to Turkey to start a new chapter in his career.

We just hope that we will see many of you all again at future events. And we don't want to make you late for your next appointment. So thank you very much to everyone. Thank you. (Applause)

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