

Strategic Analysis Paper

15 November 2012

Turkey: National Involvement in the Indian Ocean Region

Gustavo Mendiolaza
FDI Assistant Analyst

Key Points

- Turkey's geopolitical region can be a limiting factor in its economic growth. Between an unstable Middle East and an economically fragile Europe, Turkey must look beyond its immediate neighbourhood to maintain its rate of growth.
- Capitalising successfully on the opportunities offered by rising economies in the Indo-Pacific region may facilitate Turkey's own future economic growth and domestic stability. Turkey's Indo-Pacific strategy, therefore, is to extend its influence and trading opportunities.
- This flurry of activity can benefit Australia. With an expansion of the Turkish economy and trade, Australia can use historical and cultural links to bolster its trading partnership.

Summary

If the past four years are any indication, the Indo-Pacific region is home to a rising batch of economic powerhouses, whose growth and capacity mean that they are outpacing Western countries as preferred trading partners. With that in mind, Turkey finds itself confronted with an uncertain future. Ankara may need to decide whether to stick to its historical roots and solely focus on Europe as its dominant trading partner, or to hedge its bets and concentrate on Indo-Pacific economies in the future. In any case, the need to diversify its economy in the wake of the 2008 Global Financial Crisis (GFC) and the protracted Eurozone Crisis has meant that Turkey is now looking elsewhere to fill the gap that Europe and the

United States cannot. To that end, Turkey is investing in deeper relations with India, Indonesia and South Africa.

Analysis

Turkey's Strategy: A New Focus on Indo-Pacific Economies

In the post-Cold War period, global awareness of Turkey's strategic concerns has declined. With perceptions of the legitimacy of the NATO security blanket waning and war weariness in the United States, Turkey's strategic autonomy lies more than ever in its own military capabilities. Ankara, being clearly aware of this, has pursued a macroeconomic development plan to increase economic growth and thus facilitate an increased military budget. That is why, since 2001, but more particularly since 2003, Turkey has sought to expand its economic options by looking to the Indo-Pacific. India, Indonesia, South Africa and Australia have become sought-after markets.

First of all, it is important to understand why Turkey is looking to the Indo-Pacific rather than its immediate periphery for economic trade. The rationale for this is very much based on the economic uncertainty of many of the states and regions that border Turkey. This is best exemplified by the inability of the Eurozone to contain its sovereign debt crisis, with a large number of member economies seriously affected and ranging from Ireland, Spain, Greece and Portugal, to concerns over the Italian and even Belgian economies. Thus, while Turkey's western frontier of is a main source of trade, the high degree of uncertainty has contributed to the need for Turkey to diversify its economic links.

To the east, Turkey faces a similar, or worse, problem. The region is highly unstable, both economically and politically. With countries such as Syria, Iran, and Iraq not appearing on any of the major credit ratings and with each experiencing different internal crises, stable trading operations are difficult, if not unlikely.

Faced with the above, Turkey has a pressing need to diversify its economy. Since 2003, when Prime Minister Recep Erdogan and his Foreign Minister Davutoglu took office, government policy has been tailored to make a strategic economic shift towards the Indo-Pacific. In the case of India and Indonesia, Turkey shares similarities in economic growth, technological development and religion.

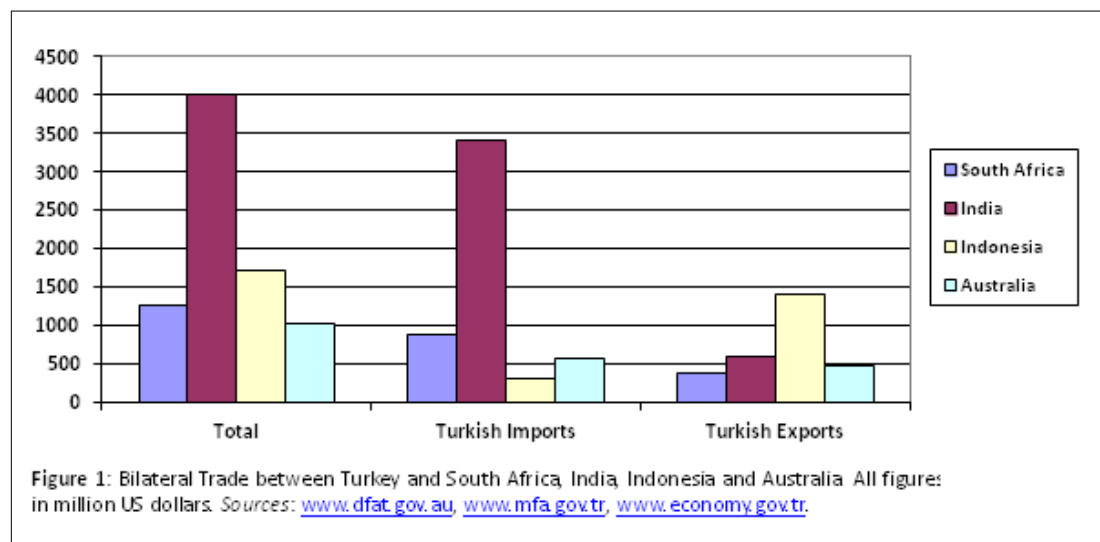
Turkey's Indian Ocean Policy

In 2009, the Turkish Economy Ministry updated its list of priority export markets. The list, updated regularly, is an indicator of which countries the Turkish Government feels have sound investment opportunities, and would most benefit Turkey economically. India, Indonesia, and South Africa are all in the "target" (highest priority) category. Other examples of Turkey's deepening relationships with those countries include the development of protocols relating to science and technical research and closer co-operation between the Indonesian and Turkish national airlines. Still in the Indian Ocean region, Turkey has also

listed Singapore and Iran as “priority” nations (a medium ranking). Further afield, China and Japan have also featured high on the list.¹

Indian-Turkish bilateral trade has increased. Looking at bilateral trade in the year 2000, which was valued at US\$635 million, there has been a seven-fold increase over the decade, culminating at US\$4.01 billion. The increase is, however, disproportionately in favour of India, but it is significant in that it signals an increased awareness of Indian Ocean markets. It is also a means of developing bilateral ties and a way of facilitating cultural exchanges.

That the relationship holds significant dividends is certainly true for India, as the balance of trade is already very much in its favour. The President of the Indian Merchants’ Chamber, Mr Dilip Dandekar, has been quoted as saying that he anticipates that bilateral trade volumes will exceed US\$5 billion in 2012 and more than US\$10 billion over the course of the next decade.²



The Turkish economy was one of the quickest to recover from the 2008 Global Financial Crisis. The economy contracted by 0.66 per cent and 4.83 per cent in 2008 and 2009 respectively, and highlighted Turkey’s economic vulnerability. The contractions were a clear signal to the government of the need to diversify the economy. Since its election in 2003, the ruling Justice and Development Party (AKP) has emphasised economic growth. Prime Minister Erdogan’s economic reforms are a strong contributing factor to Turkey’s aggrandisement and a facilitating factor in its “neo-Ottoman” foreign policy. A number of Indo-Pacific markets provide great opportunities for economic diversification as the combined Asian economies alone are forecast to grow exponentially in the period to 2025. As such, Ankara has placed an emphasis on developing economic ties with major Indo-Pacific markets.

¹ *Hurriyet Daily News*, 22 May 2012, ‘Turkey Shifts Exports Targets’. <http://www.hurriyetdailynews.com/turkey-shifts-exports-targets.aspx?pageID=238&nid=21300>.

² Chandrashekar, G., ‘India, Turkey in Talks for Free Trade Pact’, *The Hindu Business Line*, 16 April 2012.

South Africa has recently seen increased attention from Ankara. After the resumption of relations with Pretoria in 1993, bilateral trade remained at a fairly low level until recently. The year 2011 was an important timer for the two countries, with a visit to South Africa by Prime Minister Erdogan, accompanied by a business delegation. Turkish involvement in South Africa provides additional opportunities in that South Africa can act as a gateway for Turkish goods to enter the larger African market. Advocacy groups such as the Turkish Confederation of Businessmen and Industrialists (TUSKON) and the South African-Turkish Business Association (SATBA) have both placed a priority on developing further trading ties.

The Turkish Military Establishment

Turkey is developing its regional position through a combination of economic and military growth. The macroeconomic principles endorsed by Prime Minister Erdogan since 2003 have yielded positive results, with a (generally) sustained rate of high economic growth. As Turkey increases its engagement with the Indo-Pacific states, it will not ignore its European neighbours, which will continue to be its highest source of trade revenue. In many ways, Turkey looks set to emulate the post-war prosperity of Germany and Japan and become a regional economic power. In Turkey's case, though, its history will mean that Ataturk's legacy of an economy backed by a strong military will be maintained, even in spite of recent attempts by Prime Minister Erdogan to curtail the power of the military. In the period 2008-10, Erdogan had several generals and over 40 officers arrested or detained following two suspected coup attempts: the Ergenekon Organisation of 2008 and the Sledgehammer Plot of 2010.

Turkey's emerging regional dominance has lent itself to regional roles for its navy. Ankara co-operates closely with NATO and its Maritime Group by routinely involving its flagship frigate, the TCG *Gediz*. Multilateralism is the key for Turkey, acting with a concert of powers within NATO and the multinational anti-piracy mission, CTF-151. Turkey's involvement in CTF-151 has meant that, in September 2012, Turkey assumed command of the 27-country coalition for the third time, for a duration of three to six months. Turkey's CTF-151 engagement facilitates naval training at all levels and is a demonstration of its commitment to international norms and of its naval capability. Importantly though, Turkey's engagement with CTF-151 is also helps to secure its sea lanes of communication (SLOCs). Without these, Turkey's maritime-based trade, of which much flows through the Gulf of Aden, may be prone to attack by uncontrolled piracy. Furthermore, the Gulf of Aden SLOC is vital to the global economy and Turkey's interests in anti-piracy stem from practical, not idealistic concerns.

As Turkey's economy rises, so too will its energy consumption. Turkey is already an importer of Australian coal, importing over \$200 million per year. If the Turkish economy continues to rise, as is expected, it is reasonable to expect that its coal imports will also increase. Again, while current trade is quite low, this may increase as both the Australian export market and Turkish energy needs escalate. This relies, however, on the assumption that vital SLOCs will remain secure. With failing and failed states, such as Yemen and Somalia, facilitating piracy in the Gulf of Aden, increased trade will also entail an increased risk of piracy. These fears are compounded as piracy tactics in the Gulf of Aden have evolved in recent years, with pirates operating out of "motherships" that potentially increase their range several times over.

Increased Australian trade with Turkey could lead to greater co-operation between the two countries in waters such as the Gulf of Aden.

Opportunities and Challenges for Australia

Turkey's interest in Indo-Pacific markets presents opportunities for the Australian economy. In the realm of defence spending, Australia has, from 2009, broken into the Middle East defence market. The period 2009-12 saw Turkey purchase \$12 million worth of defence goods, mostly relating to low-tech equipment such as tents, medical equipment and other non-lethal goods. With Turkish defence expenditure valued at US\$4 billion in 2012, and expected to reach US\$8 billion by 2016, opportunities exist. The Australian Department of Defence has indentified Turkey as a major potential market for Australian defence goods, especially high-tech goods such as radar, unmanned vehicles, communication systems and a wide range of 'soldier modernisation' equipment. Thus, the Turkish market holds great potential 'for the right products.'³

Although Turkey is a rapidly modernising nation, Australia appears to have not yet capitalised on the opportunities it could present. Even though the two countries signed an Investment Promotion and Protection Agreement in 2005, giving each other "most favoured nation status", most individual entrepreneurs are ignoring Turkey in favour of Dubai. Nukte Ogun reports though, that because of the highly competitive situation in Dubai, Australian traders may be set for disappointment as they compete in highly flooded market.⁴ In contrast, the Senior Commissioner for Austrade has said that Australia is in a good position to trade with Turkey. Coupled with Turkey's strong economy, Australia also has a strong ethnic connection with the Eurasian country, with over 150,000 Turks living in Australia. Thus, as Turkey grows and goes through a period of rapid development, Australia should fully utilise its connections to the mutual benefit of both countries. Growing affluence within Turkey means that goods ranging from high-end electronics to knowledge-based services could market positively.

Efforts to increase trade relations between Australia and Turkey are already occurring at a governmental level. On 2 October 2012, Trade Minister Craig Emerson visited Ankara for a series of high-level meetings with the Turkish Deputy Prime Minister and other trade officials. Such meetings are highly important as a means of facilitating closer economic links.

Turkey's growth presents significant economic opportunities for Australia. The energy sector could also benefit as Turkey's energy needs increase in line with its economic growth and rising affluence. But Turkey is already looking to address these issues. If Australia wishes to capitalise on these opportunities, it should act quickly before the market mirrors that of the UAE in complexity and competition. Securing investment and trade opportunities now may provide Australia with strong economic benefits later.

³ Team Defence Australia, 'Turkey – Defence Market Profile', <http://www.defence.gov.au/deu/docs/INFO_SHEET-Turkey_Defence_Sector.pdf>.

⁴ Ogun, N., 27 November 2007, 'Exporting to Turkey' <http://www.dynamicbusiness.com.au/export/exporting-to-turkey.html>.

Conclusion

With economic and/or military crises occurring on two of its frontiers, Europe and the Middle East, Turkey is increasingly looking to the Indo-Pacific region. Relations between Turkey and key Indo-Pacific economies are mutually beneficial, with bilateral trade generally increasing, despite occasional hiccups in the global financial system. For Turkey, trade with India, Indonesia, South Africa and Australia presents opportunities to engage more deeply with the Indo-Pacific region. For Australia in particular, Turkey's growth provides an opportunity for the defence industry to tap into the highly competitive Middle Eastern defence market. Ultimately, unless Ankara's foreign policy shifts unexpectedly, Turkey will continue to have a growing trade focus on India, Indonesia, South Africa and Australia.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.

Published by Future Directions International Pty Ltd.
80 Birdwood Parade, Dalkeith WA 6009, Australia.
Tel: +61 8 9389 9831 Fax: +61 8 9389 8803
E-mail: lluke@futuresdirections.org.au Web: www.futuresdirections.org.au