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Turkish lira plunges as US trade war measures strangle Turkish economy

Turkey's currency fell 16.2 percent yesterday against the US dollar, as US President Trump threatened to strangle its economy by blocking its exports to the United States with high tariffs.

On Twitter, Trump wrote: "I have just authorized a doubling of Tariffs on Steel and Aluminium with respect to Turkey as their currency, the Turkish Lira, slides rapidly downward against our very strong Dollar! Aluminum will be 20 percent and Steel 50 percent. Our relations with Turkey are not good at this time!"

The fall of the lira and the closing of US markets to Turkey's metal exports threaten to slash Turkish jobs and devastate its economy. In 2017, Turkey sold 1.5 million tons of steel to the United States, its largest steel export market. Much of Turkey's foreign debt was reduced in value when the lira traded at less than two to the US dollar. Since it now trades at 6.62 lira to the dollar, the cost in lira of buying imports and of servicing Turkey's roughly US\$453 billion in outstanding foreign debt has exploded.

The euro and major stock markets fell amid concern of a new financial crash possibly starting in Turkey. The European Central Bank is monitoring several major European banks they say are heavily exposed to Turkish debt, including Spain's BBVA, Italy's UniCredit and France's BNP Paribas. Spanish, French and Italian banks have loaned Turkey \$83.3 billion, \$38.4 billion and \$17 billion, respectively.

As the lira's collapse accelerated in recent days, becoming the world's worst-performing currency, Turkish President Recep Tayyip Erdogan turned to Russia and China for aid. On

Wednesday, he announced that Turkey will issue so-called “panda bonds,” that is, borrow Chinese yuan instead of US dollars, “to diversify its sources of financing.”

Yesterday, he called Russian President Vladimir Putin for talks. According to a Kremlin statement, “A telephone conversation took place between Vladimir Putin and the President of the Turkish Republic Recep Tayyip Erdogan. The state and prospects of further development of mutually beneficial trade and economic cooperation between the two countries were discussed.” The two presidents made a “positive assessment,” the Kremlin said, including on possible “joint strategic projects, primarily in the energy sector.”

As US-Turkish relations collapse, Trump is using trade war measures to try to compel Ankara to step up attacks on the working class and totally subordinate its foreign policy to the demands of US imperialism. His Tweet made clear that his tariff threats are economic retaliation for the many explosive US-Turkish disputes that are erupting, particularly over foreign policy.

Erdogan, for his part, denounced the measures as “economic war against Turkey” and said Turks “who have dollars or gold under their pillows should exchange gold and hard currency into lira.” He pledged to wage a “national battle” against the lira’s fall, adding: “Don’t forget, if they have their dollars, we have our people, our God.”

Behind Erdogan’s posturing as an anti-imperialist, he is desperately trying to cut a deal with Washington. Turkey’s Trade Minister Ruhsar Pelcan said he would “implore President Trump to return to the negotiating table” and stop “the drift between the NATO allies ... through dialogue.”

The Erdogan regime is also trying to placate the major European and US banks at the workers’ expense. Yesterday, Turkish Finance Minister Berat Albayrak gave a policy speech promising to cut state budgets, increase interest rates, impose “structural reforms” and enact other austerity measures to stabilize Turkish finances and free up money to pay foreign investors.

Financial commentators internationally dismissed Albayrak’s presentation, however, and demanded that the Erdogan regime go further in imposing austerity.

Bulent Gultekin, a former governor of Turkey’s central bank who now teaches finance at the University of Pennsylvania, told the *Financial Times* that banks still need more assurances, as it is unclear “how economic policy is being planned or carried out, and who is responsible for what.” He called for more austerity in Turkey, which he said “needs an adjustment program to give confidence that they are aware of the problems and are trying

to do something about them. Markets are nervous because they haven't gotten these signals yet.”

Win Thin, a strategist at Brown Brothers Harriman & Company, said: “This is not going to end well. The way things are going, markets need to be prepared for a hard landing in the economy, corporate defaults on foreign currency debt, and possible bank failures.”

Above all, Trump is trying to whip the Turkish regime into line with US foreign policy as he wages war in Syria, cancels the Iranian nuclear treaty and prepares for war with Iran, as part of a broader plan to assert US geostrategic hegemony in Eurasia. The US drive to sanction Iran and its targeting of Russia and China have brought Washington into open conflict with Ankara.

In recent days, Washington has imposed sanctions not only on Iran but also on Russia, which both intervened to oppose the US proxy war for regime change in Syria and prop up President Bashar al-Assad. As it imposes tariffs on Iran's western neighbor, Turkey, it is also threatening to veto IMF loans to Iran's eastern neighbor, Pakistan, which plays a central role in China's One Belt-One Road Eurasian infrastructure plans. US Secretary of State Mike Pompeo said there was “no rationale for IMF tax dollars ... to go to bail out Chinese bondholders or China itself.”

A bitter row has erupted between Ankara and Washington over Turkey's detention of US pastor Andrew Brunson, whom Ankara accuses of involvement in the failed military coup launched against Erdogan with US and German backing in 2016. Brunson now faces 35 years in prison. On Wednesday, US-Turkish talks on his case reportedly broke down, and US Deputy Secretary of State John Sullivan bluntly ordered Ankara to release Brunson in a week.

Turkish lawyers from the Association for Social Justice and Aid have also filed a petition that NATO's Incirlik air base be temporarily shut down, and for the prosecution of seven US officers at Incirlik that they allege were involved in the coup.

In the meantime, it is ever clearer what broader geostrategic calculations led Washington and Berlin to back the 2016 coup attempt against Erdogan. Turkey's turn towards closer relations with Russia and China, amid growing conflicts with its NATO allies over a range of issues including their backing of Kurdish militias in Syria, is fundamentally unacceptable to the NATO powers, and particularly to Washington.

In an August 8 column, the *Financial Times* bemoaned the fact that “Turkey is heading back to Eurasia, and Russia and China will be the beneficiaries at the expense of America and Europe.”

It added, “Turkey, NATO ally or not ... is already the third leg of a new power tripod in the Middle East, with Russia and Iran. Only with a green light from Russia, whose air force turned the tide in Syria’s civil war, could the Turks stop the US-backed Syrian Kurdish forces from uniting their territories into a self-governing entity, linked to the rekindled Kurdish insurgency inside Turkey.” It also warned that “it is not hard to see the Chinese government trying to fasten Ankara into its Belt and Road initiative, alongside, for example, Pakistan and Iran.”

Trump is making clear on the question of Iranian sanctions that Washington will tolerate no deviation by Turkey from US war policy in the Middle East. Indeed, by targeting Ankara, Trump appears now to be acting on his threat against trade partners of Iran on Twitter: “Anyone doing business with Iran will NOT be doing business with the United States.”

Ankara has refused to re-impose economic sanctions on Iran, however. “Time and again we have made it clear that we will not implement US sanctions against Iran,” declared Turkish Foreign Minister Mevlut Cavusoglu last week.

For now, Ankara is still set this year to buy its contracted 9.5 billion cubic meters of Iranian natural gas, on which much of Turkey’s electricity generation depends. Energy Minister Fatih Donmez said, “We will be continuing this trade, as we can’t possibly leave our citizens in the dark.”