

Turkey at the crossroads

Turkey is a member of NATO and has a comprehensive and complex Association Agreement with the EU. In some senses Turkey's border is the EU's border given the provisions on movement of people. Germany is friendly towards Mr Erdogan, not least because the EU welcomes Turkey's willingness to provide a home for refugees from war torn parts of the Middle East. The EU offers Turkey financial assistance with the refugee programmes, and with strengthening the long Turkish border with Middle Eastern countries. All this implies Turkey remains an important part of the Western system.

Turkey also has a complex set of relationships with Arab countries to the south. An opponent of Islamic State and similar terrorist groups, Turkey is also opposed to Kurdish independence movements and worried about the likely attack on Idlib by the Syrian state given the number of rebels and displaced persons in the last remaining rebel stronghold in Syria, close to Turkey. Turkey has allied herself with Qatar, a state which has fallen out with Saudi Arabia, the USA's main ally in the region.

In recent months there has been a sharp deterioration in US/Turkish relations. President Erdogan felt the US did not offer sufficient support and sympathy when there was an attempted coup in Turkey. The USA thought Turkey over reacted and imprisoned too much of the opposition to the regime. Turkey does not like the way NATO works with Kurdish forces in its interventions in Syria, and is now locked in a trade war with the USA over steel and aluminium tariffs. Recently the USA has renewed its demands for the release of Pastor Brunson, and Turkey has imposed a range of high tariffs on items like cars and rice from the USA.

President Erdogan timed his re election well. The economy was growing at a rapid 7%. Public spending shot up just before the polls, and the government urged the Central Bank to keep interest rates down despite the obvious build up of inflationary pressures. Shortly after the election win markets turned against the Turkish lira and demanded action to raise rates, slow the economy, rein in debts and curb price rises. The President has no wish to do these things, and has appointed his son in law as Finance Minister to help him see off unruly markets.

So far markets have been getting the better of him. A massive slide in the lira is posing problems for the Turkish companies that took out substantial dollar borrowings in the good days. The Central Bank has raised rates to 17.75 % despite Presidential reluctance, but markets want more. Now Qatar has provided some much needed relief for the banking system by offering loans of \$15bn to ease shortages of foreign exchange. The Central Bank has imposed controls on commercial bank dealings in foreign exchange, and the government may turn to a wider range of controls on the movement of money to stem the run against the lira.

Russia sees all this as an opportunity. Turkey has already bought some anti aircraft missile defences from Russia despite being a NATO member. The USA is

now blocking the sale of F35s to Turkey and is concerned about what technology and intelligence it shares with a member state that is developing closer relations with Russia. Tomorrow I will look at the options facing the main participants and discuss what might happen next.