The German pressures weighing on Turkey

Germany's inclination to 'punish' Turkey through economic sanctions continue to be a source of concern for Ankara

Stock image from 2008

Source: shut

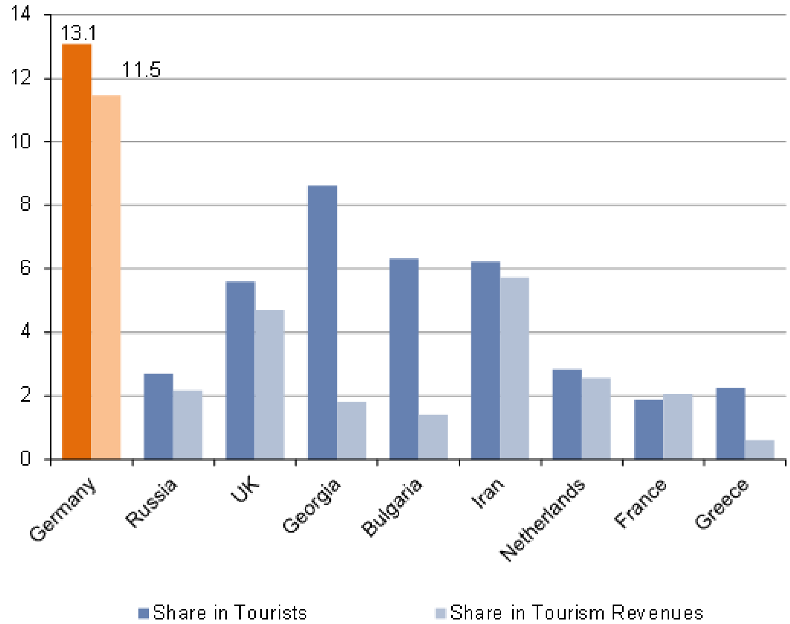
Strained relations

Ties between Turkey and Germany have been strained with growing risks to economic relations. However, a recent de-escalation should be a relief since full implementation of the measures would have impacted Turkey hard. Those growing tensions between the two countries, especially in the aftermath of the failed coup attempt in 2016, has resulted in a new political strategy by Berlin that aims to put economic pressure on to its historical ally. The four-pronged strategy focuses on the following:

1 Tourism

By issuing travel warnings, Germany targets a recent recovery in tourism revenues. The total number of German tourists visiting Turkey decreased from 1.45 million in the first half of 2016 to 1.15 million in the first half of this year. That's down by more than 20%. The travel advisory to avoid Turkey is expected to accelerate that decline still further. However, this move hasn't had a major impact on bookings to Turkey so far, according to Germany tour operators.

Breakdown of Tourist Flows and Tourism Revenues (%)



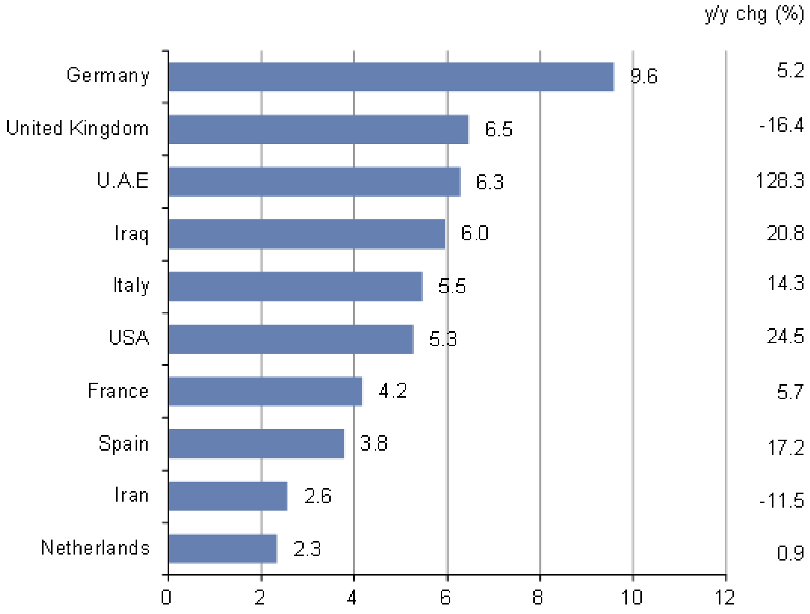
Source: TurkStat, ING

2 Trade

Germany plans to reconsider export credit guarantees (Hermes deals). Hermes credits granted to Turkish companies importing from Germany have already declined in the past year and further cuts will likely create a drag on strong economic relations between two countries. Germany's exports to Turkey were worth USD 20.1bn (9.4% of total imports) on a twelve-month rolling basis as of July, while Turkey's exports to Germany amounted to USD 14.5bn in the same period (9.6% of total exports).

Turkey's export markets

Top 10, %share, previous 12 months



Source: TurkStat, ING

3 Investments

Germany also warned its companies about investing in Turkey. German companies have a share of around 6.5% in direct investments in Turkey, ranking sixth in total flows since 2002. Additionally, German banks' exposure to Turkey has been on a downward trend in recent years and further declines in credit opportunities offered by German banks may also impact direct investments.

4 EU involvement

Germany has also signalled to its EU partners about putting more economic pressure on Turkey. The EU blocked some payments on a number of projects aimed at the integration of Turkey into the European space in the spring. Cutting pre-accession economic aid and blocking access to funds from the European Bank for Reconstruction and Development and the European Investment Bank can also be considered.

Additionally, the German government asked the European Commission to suspend preparatory work to update the customs union agreement between the EU and Turkey on the grounds that it would send the wrong signal. However, it should be noted that calls for EU countries to back Germany to pressure Turkey through economic measures failed to grab much support, a point reiterated by the Germany Foreign Minister, Sigmar Gabriel, in recent days.

What next?

Overall, Germany is Turkey's the biggest economic and trade partner, while German investments have significantly contributed to the economic performance of the country. The recent ease in tension, evidenced by the German Foreign Minister's statement that economic pressure on Turkey is working, should be a signal for not pushing further since a full implementation of the measures will impact Turkey hard. The prevailing view among Turkish policy makers is that Germany's stance against Turkey is populistic and attributable to the ongoing election process. However, fault lines between the two countries certainly remain and Germany's inclination to punish Turkey through economic measures may well be a source of concern for Ankara in the coming months.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer