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The Impact of the Turkish Referendum

Turkey heads towards a constitutional referendum designed to grant its leader Recep Erdogan even greater powers. Although the public polls point to a neck and neck race, it does not take into account that the leadership circle in the country influences about 90% of the media and also controls it state-controlled. Therefore, such statements must be viewed with a great skepticism - but it is clear that the referendum will be free within a certain framework, but certainly not fair.

German trade with Turkey in 2015 came to approximately €37 Billion. Around 6700 German companies are represented in Turkey and employ 120.000 workers. However, the trend is down as can be seen in the 44% drop in direct investment when comparing the first half-year results in 2015 and 2016.

Assuming that the referendum goes in favor of President Erdogan his new powers could well be used to pass major prestige projects. In addition, he will do everything he can to build up new economic connections, which have hardly been possible in the past to reduce the influence and dependence on goods and business traffic with Europe and the USA. Europe's loss is likely to be China's gain as Turkey alone will be unable to provide the funds necessary for realizing planned megaprojects. Already today China accounts for 35% of Turkey's trade deficit and increasing. The Chinese phone company ZTE has recently bought 48.8% of Turkish Telekom and the largest bank in China, ICBC, acquired Turkish Tekstilbank. Other deals are under discussion including a massive \$ 45 Billion investment to modernize Turkish Railway-Systems.

German industry hopes that the Turkish referendum will not give President Erdogan even greater power. If this is nevertheless the case, it is certain to many people, that existing legal certainties, and thus also trade agreements, are likely to be renegotiated. German companies would be ill-advised, to invest in a country where laws can be introduced or changed at the stroke of a pen. President Erdogan is well aware of this, which helps to explain his increased interest in successively strengthen the relations with China. China has often shown that the country has little scruples to invest in countries that are violating human rights and freedom of the press, or where legal certainty is not given.

It is to be assumed that President Erdogan will implement his reforms, in order to be able to further determine the future course of his country without the Parliament, and to protect his personal interests and those of his closest advisers and supporters. This will have far-reaching negative consequences for the relations between Turkey and Europe.

Only a few German companies will have enough courage to take on a closer economic relationship with such a country. German companies are certainly well advised to observe their business relations with partners and in general with Turkey very attentively. Seemingly secure contracts or know-how employed in the country can be lost quickly, or can be altered on the basis of arbitrary legal changes initiated by politicians which would then result in adverse changes for German companies.

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