TURKEY-GCC RELATIONS: TRENDS AND OUTLOOK
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TURKEY-GCC RELATIONS: TRENDS AND OUTLOOK
Turkey’s relations with the member states of the Gulf Cooperation Council (GCC) have made significant strides in the 21st century. While important antecedents took place in the last quarter of the 20th century, the AKP-led government that came to power in 2002 developed unprecedented relations with the Gulf states. The report outlines the unique bond that has developed between Turkey and the GCC states through a historical, political, and economic perspective.

Part I provides an overview of the historical trends between Turkey and the Gulf states. It focuses on the key defining events that have influenced the historical trajectory between the two. It begins by showing how the Cyprus crisis, which isolated Turkey internationally, and the oil crisis, that followed the 1973 Arab-Israeli War, provided the necessary conditions for Turkey to pursue closer relations with the Gulf states. Political changes in Turkey in the early 1980s coupled with a second oil crisis paved the way for economic reforms that transformed Turkey into an export-oriented country—which in turn enhanced its economic ties with the Gulf states. The 1990-91 Gulf War was a pivotal moment in Turkey-GCC relations as Turkey played a role in the efforts behind the liberation of Kuwait. Part I then looks at how the AKP-led government at the turn of the century ushered in a new era of institutionalized relations between Turkey and the GCC states, epitomized by the High-Level Strategic Dialogue founded in 2008 which expanded both political and economic ties. Part I concludes with a case study highlighting Turkey’s emerging soft power in the Arab world, which supplements and further deepens socioeconomic relations between Turkey and the GCC region.

The Arab uprisings that erupted in late 2010 brought to the forefront the challenges facing Turkey-GCC relations in light of some similar and some conflicting regional policies—the topic of Part II. It focuses on two primary issues that have connected and separated Turkey and the Gulf states in their foreign policies towards the political developments taking place.
in the region since the Arab Spring. The first of these is political Islam. While on one hand Turkey and Qatar have championed Islamist political factions in crisis-hit countries across the Middle East, the other Gulf states have found themselves supporting the opposite end of the spectrum. Egypt in particular proved to be the most contentious case that has divided Turkey and most GCC states. The other primary issue covered in Part II is how Turkey and the GCC states have reacted to growing Iranian influence in the region. Particularly in the case of Syria, Turkey and the GCC states find themselves fighting a proxy war against the Iranian-backed regime—a feat which has brought closer security cooperation between Turkey and some of the Gulf states. Part II concludes with a case study on arguably the most significant political development between Turkey and the GCC region—the former's impressive military agreement with the State of Qatar.

Part III examines Turkey-GCC economic relations, beginning with a review of the primary drivers facilitating their shared trade and investment. This review is followed by a topical introduction to the primary sectors composing Turkey-GCC economic relations: hydrocarbons, real estate, and construction. The section highlights the construction sector as essential to Turkey-GCC economic relations given the extent of Gulf states’ increasing investment in Turkey’s real estate market and Turkey’s growing dominance in foreign contracting services awarded by GCC states for construction projects. Part III then introduces four dynamic secondary sectors of growing importance to this engagement: banking, retail, defense, and agribusiness. In the defense sector, for example, Turkey’s defense industry is pursuing further market entry in the GCC region, given the complementarity of Turkey’s industry to Gulf states’ defense-related needs and their growing defense outlays. This review of secondary sectors is followed by an itemization of the primary challenges to Turkey-GCC economic engagement with a focus on logistical, political, and economic stability concerns. Part III concludes with a case study on GCC tourism to Turkey, a sector which has boomed over the past few years.
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PART I:
HISTORICAL TRENDS
INTRODUCTION

The collapse of the Ottoman Empire constituted the lowest point in what would become Turkey-Arab relations. This was especially true given the popular narrative of the Arab Revolt sanctioned by Sharif Husayn of Mecca and backed by the British against the Ottoman Empire. Despite the majority of Arabs remaining loyal or neutral to the Sultan throughout World War I, the revolt resulted in a narrative that perpetuated suspicions between the Turks, and by extension the then-newly-founded Republic of Turkey, and the emerging countries in the Arab world.¹

This schism continued throughout most of the first half of the 20th century with a Turkey that was largely disengaged from the Arab world—its secular leanings gave it even less pretext for cooperation with the broader Muslim world—and that chose to closely associate itself with Europe. In 1952, Turkey joined NATO, which further placed it firmly in the Western camp, evidenced by its decade-long record against Algerian independence at the United Nations. Furthermore, the 1955 pro-Western Baghdad Pact—a defense alliance formed by Iraq, Pakistan, Turkey, and the United Kingdom (dissolved in 1979)—was also coldly received by the Arab League and hindered Turkish-Arab cooperation on any strategic level.

Finally, Turkey’s initially neutral position in the Arab-Israeli conflict was also a sticking point, contributing to low-level cooperation between the Arabs and Turkey. However, since the 1970s various political and economic factors led Turkey to start reengaging on a more strategic level with the Arab world. By 1971, the remaining Gulf states (Bahrain, Qatar, and the United Arab Emirates [UAE]) gained their independence creating a contiguous geopolitical block of Sunni monarchies endowed with a vast percentage of the world’s proven oil reserves—who in 1981 aligned themselves economically and politically into the Gulf Cooperation Council (GCC)—and formed the basis of Turkey’s relations with the Gulf states.

SECTION 1: 1970S

Towards the mid-1970s, two events helped push Turkey towards closer cooperation with Arab countries, the Cyprus Crisis and the Oil Crisis.

Cyprus Crisis

Turkey’s invasion of Cyprus in 1974 served as a turning point in Turkey’s foreign relations in the Middle East. After a coup by the Cypriot National Guard (supported by the military junta in Greece), Turkey invaded the island country and by August 1974 40% of the northern part of the island was under Turkish control and was turned into a northern Turkish Cypriot administration (which in 1983 declared itself the Turkish Republic of Northern Cyprus). The move was viewed as illegal by the international community and the United States levied an arms embargo on Turkey in 1974. This resulted in the suspension of the 1969 Defense Cooperation Agreement and by 1975 Turkey ended non-NATO operations in all US defense and intelligence facilities in Turkey (reopened in 1978 after the US Congress lifted the embargo).
Oil Crisis

The 1973–74 oil crisis influenced the reorientation of Turkey’s foreign policy towards the Gulf. The third Arab-Israeli War of October 1973 witnessed a united Arab front against a Western backed Israel. This prompted a collective Arab oil embargo (led by Saudi Arabia, Kuwait, and Libya) against the United States and the Netherlands in particular for their active support of Israel during the war. The embargo caused a sudden shortage of oil in the global markets and an increase of oil prices. Although the embargo was eventually lifted in 1974, sustained high oil prices held and generated unprecedented oil wealth for the oil producing countries.

The convergence of Turkey’s isolation at the United Nations—caused by the Cyprus crisis—and the confluence of Turkey’s financial hardship as a result of the oil crisis, and increasing Gulf wealth, drove Turkey towards exploring closer cooperation with the Arab and Muslim states—at this point Saudi Arabia in particular (Box 1). However, because of a lack of tradition of trade with the Arabian Peninsula and the absence of trade complementarity between the two regions—Turkey’s industry at the time was not export-oriented—closer relations did not bear fruit until the following decade (see next section). However, foundations for closer ties started to take hold. For example, in 1974, Turkey penned a trade agreement with Saudi Arabia that constituted the legal framework for economic and technical cooperation between the two countries.

Box 1: TURKEY GARNERS SUPPORT THROUGH THE ORGANIZATION OF THE ISLAMIC CONFERENCE

One example of Turkey’s attempt at closer cooperation with the Arab and Muslim states was its policy towards the Organization of the Islamic Conference (OIC). Initially taking a low-level representation in the OIC’s activities since its founding in 1969, this policy shifted after the Cyprus crisis. In an attempt to garner further support from Muslim countries on Cyprus, it intensified its activities with the organization by first contributing to its budget in 1974 and, for the first time, participating at a ministerial level at the sixth foreign ministers conference hosted by Saudi Arabia in 1975. During the meeting, where Turkey had invited the Cypriot Turkish leader to address the convention in his capacity as “the leader of the Turkish Muslim Community in Cyprus,” the joint communiqué expressed sympathy with the Turkish Cypriots rights of self-defense, and Turkey was successful in its request to host the seventh foreign ministers’ meeting the following year. While Turkey had previously rejected appeals from the Muslim world to ratify the charter of the OIC on the grounds that it contravened its secular constitution, prior to the Istanbul meeting it decided to ratify the charter and join as a full member. In 1975, Turkey also officially recognized the Palestinian Liberation Organization and provided capital for the Islamic Development Bank, founded at the behest of Saudi Arabia two years earlier, becoming a full member of the bank. The Bank’s Islamic Solidarity Fund consistently has provided assistance to the Turkish Cypriots since 1976. Today, Turkey plays an active role in the OIC, particularly since the ascent of Ekmeleddin İhsanoğlu, a Turkish citizen, to the position of Secretary-General of the organization between 2004 and 2014.
SECTION 2: 1980S

In 1980, two interrelated events drastically changed the course of Turkey-Gulf relations, the Second Oil Crisis and Economic Reforms.

Second Oil Crisis

The Iranian revolution of 1979, which deposed the Shah dynasty and founded the Islamic Republic, brought about a temporary suspension of exports and created an oil crisis that lasted throughout the 1980s. The result was a reduction of roughly 8% of the world’s total output and a spike in oil prices by more than 100% in 1979.9

As Turkey was importing more than half its oil supply from Iran, the crisis had a severe impact on its economy, resulting in approximately a 55% reduction of its contract oil—the price hikes reportedly cost Turkey close to $1 billion. Throughout the crisis, the domestic scene was characterized by fuel shortages, high unemployment, and disruption in public services, including healthcare and transportation.10 The country was gripped by economic and social unrest leading to a coup in September 1980. Just as the economic impact of the crisis waned, the breakout of the Iran-Iraq War caused a relapse. As in 1979, Turkey’s oil supplies were significantly reduced as Iran and Iraq constituted the majority of their imports (while the combined outputs of those countries significantly dropped). Turkey needed urgent alternative supply and by November that year signed a contract with Texaco to import “emergency assistance” oil from Saudi Arabia and Kuwait (320,000 and 110,000 tons respectively) by the end of 1980. However, most of the oil was not delivered until the following year when the crisis had subsided.11

The crisis made Turkey susceptible to pressures from the broader Muslim world—particularly Saudi Arabia. The Saudis were particularly keen to see Turkey edge closer to the Muslim fold by allowing Saudi-led Islamic projects in the secular-leaning republic, for Turkey to become more involved in Muslim affairs more generally, and—with this—to see a severing or downgrading of Turkey-Israeli relations.12 Turkey’s vulnerability and the uncertainty at the height of the crisis pushed it to seek a $1 billion loan from Saud Arabia. An agreement to loan $250 million to Turkey was signed on August 23, 1980. By the time the Iran-Iraq War broke out, only $100 million had been transferred and uncertainty loomed over the remaining sum. It was not until December 2 of that year that Saudi Arabia transferred the remaining amount, which was also—not coincidentally—the same day Turkey downgraded relations with Israel (which included a withdrawal of the military and economic attachés).13

Turkey-Israeli relations had already deteriorated after the latter introduced its Jerusalem Law, which declared the city its capital in July 1980 by recalling its ambassador and closing its Consulate-General office in Jerusalem a month later. Still, Hayrettin Erkmen (the foreign minister during the initial deterioration) later observed that after the outbreak of the Iran-Iraq War “there already were other factors and other pressures that produced the decision to lower representation.”14
The crisis, coupled with Saudi pressure, also likely influenced Turkey’s Prime Minister Özal’s role in introducing interest-free products and services, with the first institution (Al Baraka Türk Participation Bank) established in 1984 with Saudi capital. This was seen as a political move rather than an economic one, and by 1989 Kuwaiti capital helped to establish the Kuveyt Türk Participation Bank.

**Economic Reforms**

The 1980 coup brought about extensive economic reforms led by Turgut Özal (Box 2). He wanted to integrate Turkey with the global economy and to transform the country into an export-oriented economy. From 1982 to 1985, Turkey signed an agreement with Kuwait, the UAE, and Qatar on economic, industrial, and technical cooperation which served as a legal framework for cooperation. The reforms had a profound impact on economic relations between Turkey and Arab oil producing countries. Two important and measurable ways were the number of Turkish contracting companies in the Gulf and labor migration.

From 1972 to 1979 most of Turkey’s contractors were working in Arab countries, with its largest share of overall business in Libya (72.53%); while Saudi Arabia (15.45%) and Kuwait (4.71%) were the second and fourth largest. This was mostly for constructing housing, seaports, industrial plants, and roads. At that time there were nearly 20 Turkish companies with contracts amounting to $2.650 million. By 1983, the list of companies grew to more than 230 and the contracts reached nearly $13 billion in value. Correspondingly, there was a substantial increase in the number of Turkish labor migrants to these countries.

In 1985, nearly 99% of Turkish emigrants headed to Arab states including Saudi Arabia, Kuwait, and the UAE, with Saudi Arabia having the second largest number of Turkish expats, second only to West Germany. Similarly, the period also witnessed an increase in the number of Arabs visiting Turkey. From 1981 to 1985, the number of Saudis travelling to Turkey increased threefold from 10,229 to 32,102. By 1990, Turkey’s workforce in Arab countries amounted to 300,000, with more than half in Saudi Arabia (155,000).

**Box 2: Özal Reforms**

Following a military coup in 1980 (the third in the republic’s history), Turgut Özal retained his job in parliament as deputy thanks to his “unrivalled connections with overseas financial institutions and the high international regard.” Prior to the coup he served as undersecretary to the prime minister where he initiated economic reforms, dubbed the “24 January decisions,” aimed at liberalizing Turkey’s economy. After the coup, he was appointed deputy prime minister where he continued his economic reforms in line with the IMF. Özal was left in charge of the economy and set about a long and painful process of free-market reforms. This led to his decision to de-regulate interest rates and devalue the Turkish lira by up to 50%. Such reforms would ultimately help to bring a new class of economic and political elite in Turkey, largely conservative.
Turning the Tide

By the end of the 1980s, Turkey had tilted its trade balance in its favor with both its primary trading partners in the Gulf, Saudi Arabia, and Kuwait. At the start of the decade, Turkey was exporting $187.4 and $71 million to Saudi Arabia and Kuwait respectively and importing $410.4 and $106.7 million. By 1988, Turkey was exporting to Saudi Arabia and Kuwait $477.6 and $309.2 million and importing $113.7 and $52.5 million, respectively.20

This was supported by the decline in oil prices from $34.50 per barrel in 1981 to $17.60 per barrel in 1989. By the end of the decade, Turkey was paying approximately 25% less for nearly double the amount it imported at the start of the decade.21 Furthermore, as a result of Özal’s pro-export reforms, Turkey went from an export volume of $2.9 billion in 1980 to over $20 billion by the end of the decade.22

In a sign of growing cooperation, Turkey proposed its ambitious “Peace Pipeline” project, a study costing $2.7 million that would have constructed a pipeline providing 3.5 million cubic meters of water a day for the countries of the western part of the Arabian Peninsula and an eastern pipeline providing 2.5 million cubic meters a day to the six GCC states.23 Although the project failed to materialize, the 1980s ended dramatically differently than it had started, from Turkey seeking support from oil exporting countries at a time of crisis, to its proposing initiatives to the Gulf.

Furthermore, as Turkey remained neutral during the Iran-Iraq War24—both countries were primary destinations for Turkish exports throughout the 1980s amounting to between 50% and 60% of Turkey’s trade with the Muslim world25—it allowed Ankara to play a key role in the next phase of relations with the GCC countries, the Gulf War.

SECTION 3: 1990S

Gulf War

The Iraqi invasion of Kuwait and the subsequent Gulf War marked a clear departure in GCC-Turkey relations. At the beginning of the crisis, Turkey tried to remain neutral especially as nearly two-thirds of its oil was supplied by Iraq and it received close to $300 million a year in royalties for Iraqi oil passing through its territory. Furthermore, Turkey was exporting close to $1 billion worth of goods and services to Iraq.26 However, because of the Iraqi pipelines that ran through Turkey (which exported the majority of Iraqi oil), the government fell under immediate pressure to act against Iraq and participate in the sanctions regime.27 Although Turkey expressed its disapproval of the occupation, it did not want to break away from its long-held policy of non-interference in interstate disputes in the region.28 Turkey eventually faced an inescapable decision in its relations with its Arab neighbors and its NATO allies, and President Özal was largely believed to be behind the decision to move away from Turkey’s neutral position.29 The August 6 UN Security Council Resolution 661, which prohibited Iraqi imports into their territory, provided Turkey a mandate. On August 7, Turkey responded
Turkey–GCC relations: Trends and outlook

Turkey reportedly incurred severe economic damage because of the Gulf War. According to official statements, Turkey suffered a loss of $750,000 per month from the embargo on Iraqi oil pipelines and estimated its overall loss from the four-year embargo at more than $20 billion. Furthermore, by April 1991 it was reported that some 250,000 Iraqi Kurdish refugees had crossed into Turkey and that Turkey was spending roughly $1.5 million a day in humanitarian aid without sufficient support.

Turkey received roughly $8.5 billion in direct aid as compensation for the impact of the sanctions. Saudi Arabia and Kuwait provided $1 billion worth of oil each and the Gulf monarchies contributed $2.5 billion for a Turkish Defense Fund. One estimate places Turkey’s losses for the entire war and post-war effort at $30 billion, which includes losses from sanctions imposed on Iraq during and after the war and also from construction contracts in Iraq and Kuwait. Because of Turkey’s positive stance during the war, Turkish companies played a prominent role in construction projects that helped rebuild Kuwait after the war.

By banning the loading of Iraqi oil at its pipeline terminals, and the following day President Özal announced the closure of the Iraqi pipelines.

By December 1990, Turkey moved 135,000 troops (35,000 were reservists) along the 150 mile-long border with Iraq. This was particularly important as it supported the enforcement of sanctions and more importantly, the troops held eight Iraqi divisions in the north to stave off a potential attack, reducing Saddam’s manpower in Kuwait.

Turkey also allowed US and British warplanes to attack Iraq from its İncirlik base. Although Turkey incurred a series of costs caused by its participation (Box 3), one immediate impact of its cooperation was $830 million worth of economic and military aid in 1991—a roughly $300 million increase over what was originally budgeted.

Impact of Israeli–Turkey Relations

 Although Turkey’s involvement on the side of the GCC states generated goodwill between the two, it was offset by the growing Turkey-Israeli security cooperation in the mid-1990s. During the late 1980s, amid the intifada (popular uprisings in the Israeli-occupied territories), Turkey had denounced Israel and in 1988 became the first state with diplomatic relations with Israel to recognize a Palestinian state. This led to one of the lowest points in Turkey-Israeli relations. However, several factors in the early 1990s—the refusal in the West to provide Turkey with arms and technical assistance because of the Cyprus saga, a resurgence of radical Kurdish national activity and a shift in the military’s views of Islamist groups—created a dramatic shift in this regard. Hence the 1991 Madrid peace talks followed
The announcement alarmed Arab countries including the GCC states about the increased military access this would give Israel in the region. Closer Turkey-Israeli relations prevented strategic Turkey-GCC relations in this decade after the Gulf War. In his first presidential visit to Oman and the UAE in 1997, Turkey’s President Süleyman Demirel had to defend his country’s relations with Israel and stress that the bilateral military cooperation should not be viewed as a threat to any other country in the region. Despite stagnating Turkey-GCC relations, that same year Turkey signed an agreement on the Avoidance of Double Taxation with Kuwait, paving the way for similar agreements with other GCC countries in the following decade.

**Anatolian Tigers**

In part because of the reforms initiated by President Özal in the 1980s and the rapid expansion of exports in the manufacturing industry—whose share of total exports in the 1990s exceeded 90%—this period witnessed the rise of a phenomenon commonly referred to as the Anatolian Tigers. The movement refers to the rise of SMEs (small- and medium-sized enterprises) in provinces outside of Istanbul, which created new industrial centers that started to increasingly account for a more significant share of Turkey’s exports, particularly in textiles and labor-intensive industries. The centers, further enabled and encouraged by interest free banking, which also expanded in the 1990s, prioritized trade with the Middle East and were more likely to support Islamist political parties (and would later support the AKP government). Up until 2002, their rise was surprisingly achieved with little state support or foreign investment.
SECTION 4: THE 21ST CENTURY

In 2002, a new party called the AKP led by its chairman, Recep Tayyip Erdoğăan, emerged and received a super majority in parliament which ushered in a new era in Turkey’s relations with the GCC states, the Middle East, and the Muslim world at large. A commitment to neo-liberal economics and a pan-Islamic outlook—devised by Ahmet Davutoğlu since his time as foreign policy adviser to the ruling party—meant that the AKP sought and prioritized enhanced relations with the Middle East, with religion serving as the basis for developing closer ties. Since the founding of the republic, Turkey has never had a more proactive Middle Eastern policy than under the AKP rule—relations with the GCC region being no exception.41

2003 Invasion of Iraq

After the 9/11 attacks, the United States led invasions of both Afghanistan and Iraq. Prior to the invasion of Iraq, stories broke out in the summer of 2002 that the United States was considering using Turkey as a front for an attack that would remove Saddam Hussein from power.42

The new AKP government—which came to power in its landslide victory of the November 2002 elections—communicated that Turkey was opposed to war in Iraq and that certain military cooperation (such as the use of Turkey’s airspace to carry out strikes and stationing of special units) would be possible only with a UN Security Council resolution authorizing use of force against Iraq—a position also shared by Saudi Arabia.43 Although subsequent negotiations seemingly tilted the government’s stance in favor of military cooperation in the event of an invasion of Iraq, a parliamentary vote on March 1, 2003, failed to yield a supermajority necessary to pass a resolution in favor of Turkey’s intervention. Turkey’s main objection to the invasion was the uncertainty that a political vacuum would create, particularly in giving rise to a Kurdish state.

Similarly, the GCC countries were concerned about US intentions in overthrowing Saddam because of the uncertain aftermath. As the GCC’s main geopolitical strategy at the time was to maintain a balance between Iran and Iraq (two adversaries), undermining one, they feared, would empower the other, as would prove to be the case in Iraq.

Therefore in the build up to the invasion, a Saudi-led plan in cooperation with Turkey attempted to convince Saddam Hussein to leave power and open his country for UN inspectors to avoid a war that could see a break-up of the country.44 This was also expressed in an OIC meeting in Doha in February 2003, a month before the invasion, where the meeting’s communiqué, read by the Qatari foreign minister, rejected actions targeting the “security and territorial integrity of Iraq.”45 The UAE President Sheikh Zayed bin Sultan Al Nahyan had also proposed an offer to facilitate exile to Saddam, which was scuttled at the February Arab League Summit.46
Despite the GCC states’ reservation prior to the war—with the exception of Kuwait who continued to be threatened by the Saddam regime—all GCC member states had provided some degree of cooperation to the military campaign by the time the war was underway. Although Turkey’s participation was revoked by its parliament, the government agreed to provide 10,000 troops to help stabilize post-war Iraq—opposition from Iraqi leaders prevented their deployment.

**Institutionalized Relations**

In 2005, a landmark Economic Cooperation Framework Agreement was signed between Turkey and the GCC with its goal a Free Trade Agreement. The agreement, signed in

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**Figure 1:**

**TURKEY-GCC TRADE VOLUME TRENDS, 2003-2014 (US$ MILLIONS)**

Source: Ministry of Economy, Republic of Turkey.
Bahrain, set in motion a foundation for institutionalized relations between the government of Turkey and the GCC states. The agreement pointed towards strengthening and developing economic, cultural, and scientific cooperation.48

Hence subsequent years (2005–08) witnessed increased bilateral agreements including the extension of the Avoidance of Double Taxation Agreement to the rest of the GCC states, as well as the Reciprocal Promotion and Protection of Investments Agreement signed with all member states, which facilitated greater trade and economic activities (see Annex 1 for details on agreements between Turkey and the GCC states). While Turkey’s principal trade partners in the GCC were Saudi Arabia and the UAE—with both enjoying close to $4 billion in trade volume in 201049—the agreements spurred a sustained increase in trade between Turkey and other GCC states (see Part III for current trade patterns). For example, the trade volume between Turkey and Kuwait saw an increase from ~$182 million in 2003 to ~$610 million in 2010, while Qatar witnessed a staggering increase from ~$24 million to ~$340 million in that same period (see Figure 1).

In 2008, relations peaked with the Turkey-GCC memorandum of understanding (MoU) signed in Jeddah, which formalized a High Level Strategic Dialogue (HLSD) at the ministerial level, making Turkey the first country to have a formal mechanism for strategic dialogue with the GCC. Through the agreement, the two sides confirmed that the purpose was to “anchor cooperation between them on a solid institutional basis and to cover all areas of common interest.”50 This cooperation was complemented by unprecedented cultural ties intensified by Turkey’s increasing soft power in the Arab world (see Case Study 1).

By the July 2009 HLSD meeting, held in Istanbul, areas of common interest already included the Iranian nuclear issue, the Arab-Israeli conflict, Iraqi security, in addition to issues in the economic, cultural and scientific domains. Also of importance is the expression of support by the GCC for Turkey’s admission in the European Union which according to a joint-statement would “have important implications for promoting cross-cultural dialogue and understanding with positive repercussions for the whole region.”51 In contrast to Turkey’s identification with Europe in the previous century which was hindering Turkey-Arab cooperation, Turkey’s EU overtures in the 21st century, under its new pan-Islamist approach, is no longer seen as detrimental, but rather an asset.

In the 2010 HLSD meeting in Kuwait, a landmark Joint Action Plan was adopted—serving as a blueprint for cooperation on several areas including investments, agriculture, energy, health, tourism, and environment. Thus the first decade of the 21st century ended with unprecedented relations between Turkey and the GCC states, with strategic depth and institutionalized mechanisms for cooperation on economic and political affairs.

The Arab uprisings that erupted in December 2010 marked a new phase in Turkey-GCC relations, which showed some of the limitations yet interdependence between Turkey and the Gulf states on regional politics and security cooperation as well economic and trade relations—the subjects of the Parts II and III of this report.
Case Study 1: TURKEY’S INCREASING SOFT POWER IN THE ARAB WORLD

From the rise of the AKP to the Arab Spring, there has been a steady rise in the positive image of Turkey in the Arab world and subsequently a rise in its soft power. A 2011 poll conducted by the Turkish Economic and Social Studies Foundation posited three main factors to explain Turkey’s increasingly positive image: first, Turkey as a viable political and economic model for the countries of the region; second, Turkey’s “zero problems” foreign policy aimed at resolving conflicts in the region coupled by its confrontational stance towards Israel; and third, the dubbing of Turkish soap operas in Arabic, which have gained great success in Arab countries.

Although Turkey’s policies, especially its anti-Israel rhetoric, have garnered it wide support among large sections of the Arab population, Turkey’s response to some of the events of the Arab Spring have deteriorated its image. This was especially seen in Syria and Egypt where its anti-Assad and anti-Sisi positions negatively affected its image. In 2013, polls indicated that affinity for Turkey in Egypt was at 38%, down from 84% in 2012, while in Syria it was the lowest at 22%. Furthermore, although Turkey is seen as a textbook Muslim democracy by many Arabs, a good number of them also reject Turkey as a model on the basis that it is not Muslim enough. Therefore, it appears that the first two factors have had conflicting effects on Turkey’s image. Turkish soap operas, however, remain more popular than ever in the region and as a result represent the most prominent and stable projection of Turkey’s soft power in the region.

Kuwait News Agency article entitled “Turkish Soap Opera Increases Interest among Kuwaitis in Visiting Turkey this Summer” 17/06/2008.
Turkish soap operas were first broadcast in the Arab world in 2007 on MBC, the Saudi-owned pan-Arab media channel. Although the first series witnessed limited success, the second series, “Years Gone Past,” proved very popular, garnering some 67 million viewers, and the third series, “Noor” (Gümüş), was the most successful, attracting more than 85 million Arab viewers. The success of “Noor” prompted Arab channels to dub and broadcast more Turkish series, and in recent years a number of other soap operas have witnessed similar successes.

Several reasons have been put forward to explain the success of these series. The cultural proximity of Turkey and the Arab world make it easier for Arab audiences to connect with the characters portrayed. Furthermore, the series are dubbed into colloquial Syrian which is readily understood and well-liked by Arab viewers. The high quality production of Turkish series in comparison with Arab series is also noted as an important factor—whereas a Turkish series costs nearly $100,000 per hour, traditionally an Arab series costs $35,000 to $40,000.55 Other reasons presented include the daring topics portrayed and the beauty of landscapes, both cited by a number of Kuwaiti writers and TV personalities as the main reasons that Turkish series are more successful in the Gulf than Gulf productions.57 Finally, after the Arab Spring, because of the limitations placed on Syrian and Egyptian soap opera productions,58 Turkish series became even more popular with Arab audiences especially in the GCC region.59

The soap operas portrayed a positive image of Turkey because they created “attachment, understanding, and affection for Turkish identity, culture, and values.”60 Their widespread popularity was reflected at both diplomatic and popular levels. In 2012, for instance, Turkey’s president Abdullah Gül reported that he discussed Turkish soap operas during a meeting with Emirati officials as well as with students from Zayed University.61

This newfound interest in Turkey was financially beneficial to the country through the sales of the series and the spike in tourism. In 2010 alone soap operas brought $50 million in export revenues.62 As for tourism, the beauty of the landscapes shown in the series were an attractive alternative for Gulf tourists, especially because the usual destinations like Egypt, Syria, and Lebanon became too dangerous to visit (see Case Study 3 for more details on GCC tourism to Turkey). Furthermore, a study concluded that there is a correlation between tourists from Arab countries and their affinity to Turkish soap operas.63 In light of this it comes as no surprise when Turkish Airlines made Kıvanç Tatlıtuğ (the lead actor in “Noor”) the new face of the airlines in the Arab world. In addition, Turkish celebrities were often used in both Turkey and the Gulf to promote events.64

In all, Turkish soap operas have succeeded in changing the image of Turkey, especially in the Gulf, and extended the country’s outreach to Arab audiences. The phenomenon continues today, and it could take years to fully evaluate its impact on Turkey’s soft power in the Arab world.
Notes
1 For an accurate account on the Arab Revolt see Rogan 2015, 275–309.
2 Zurcher 2004, 277.
3 Ibid.
4 Republic of Turkey Ministry of Foreign Affairs.
5 In 2011, the name of the OIC was changed from “Organization of the Islamic Conference” to “Organization of Islamic Cooperation.”
7 In 1979, Turkey opened a PLO office in Ankara; incidentally the same year the Turkish Cypriot Republic was upgraded from “guest” to observer status at the OIC.
8 Turkish Republic of Northern Cyprus Minister of Foreign Affairs, February 24, 2015.
9 Liel 2001, 118.
10 Ibid., 107.
11 Ibid., 111.
12 Ibid., 114.
13 Ibid., 111-5.
14 Ibid., fn. 8, 115.
15 European International Contractors, 1 March 2012.
17 Ibid.
18 Liel 2001, 118.
22 Laciner, 9 March 2009.
24 It was reported that on the Turkish prime ministers’ visit to Saudi Arabia in 1986, the Saudis tried to convince Özal to impose a trade embargo on Iran and that the Saudis would compensate them for any financial losses (Hunter 1987, 89).
25 Liel 2001, 121.
26 Brown 2007, 86.
30 Aykan 1996, 354.
31 Ibid, 345.
33 Nachmani 1999.
34 Brown 2007, 96.
35 Ibid.
36 BusinessWeek, April 21, 1991.
37 Berelovich, 1 November 2014; Liel 2001, 211–212.
38 UAE Interact, 4 December 1997.
40 Ibid. For more on Anatolian Tigers see Demir et al. 2004, 166–188.
42 Brown 2007, 97.
43 Ibid., 110.
44 Saudi Arabia was also among countries that participated in meetings organized by Turkey and aimed at preventing an US invasion of Iraq: BBC News, 22 January 2003; Steele and MacAskill, 17 January 2003.
45 Foley, June 2003.
48 Fakhr, 31 May 2005.
49 Republic of Turkey Ministry of Foreign Affairs.
50 Republic of Turkey Ministry of Foreign Affairs, 8 July 2009.
51 Ibid.
52 Turkey’s robust denunciation of Israel had some of the biggest impact on Arab audiences and their belief that Turkey should play an intermediary role in the conflict. These include the Davos incident in 2009 when Turkish Prime Minister Recep Tayyip Erdoğan stormed off the stage at Davos after a heated debate with Israel’s president over the war on Gaza. Another notable stance was Turkey’s high pitched criticism of Israel after the May 2010 raid of the Turkish aid flotilla bound for Gaza after which it expelled Israel’s ambassador and suspended all military agreements over Israel’s refusal to apologize for the incident.
54 Altunışık, June 2011, 2.
55 Tamimi, April 1, 2012.
56 It should be noted that Syrian and Egyptian soap operas, which also have a sizeable audience in the GCC, have also traditionally been more daring in presenting topics such as alcohol, secret marriages, pre-material sex, abortion, etc.
57 AlRai Medialogroup, September 1, 2013.
58 Interestingly some Syrian productions sought to emulate Turkish soap operas to appeal to the GCC audience. An example is the series Al-Ikhwa (The Brothers) first broadcast in 2014, portraying a drama of excessive wealth, love affairs, and betrayal set in the UAE.
59 It should be noted that soap operas also caused controversy among the more conservative segments of society. Several religious edicts were issued condemning them as immoral. None of these edicts have affected the popularity of the soap operas, however.
60 Salem, May 2011, 6.
63 Ibid.
64 For example, the three lead actresses from The Magnificent Century were paid a handsome sum to visit Kuwait for a promotional event.
PART II:
SECURITY AND POLITICAL RELATIONS IN THE MIDDLE EAST
INTRODUCTION

Political changes in Turkey and the rest of the Middle East over the past decade have paved the way for strengthening ties between Ankara and the Gulf states. A pivotal turning point was Turkey’s parliamentary decision in 2003 to refuse access of US troops in its territory to invade Iraq from the north. From this point on, Gulf states reconsidered their views of Turkey as well as its potential role in the region. In addition, Turkey’s policy towards the Middle East was also shaped by the outcome of the US presence in Iraq, with ensuing instability providing common security interests with the GCC in maintaining the territorial integrity of Iraq. Indeed, immediately after the US invasion, Ankara realized that its interests do not always converge with those of Washington. As a result, Turkey developed a new approach towards the Middle East in which the GCC occupied a special consideration in its foreign policy orientation.

Since the AKP came to power in 2002, Ankara’s foreign policy has been characterized by pro-activism and an orientation towards its regional neighbors. By lifting visa restrictions, establishing strategic cooperation councils and signing free trade agreements with countries in the Middle East, the AKP strengthened the basis for cooperation with its Arab neighbors.

Turkey’s foreign policy towards the Middle East centered primarily on two goals. First, Ankara was determined to participate in finding solutions to regional problems and to build stronger relations with its immediate neighbors (i.e., Syria, Iraq, and Iran). In a bid to achieve this goal, Ankara held high-level strategic cooperation meetings with neighboring countries to discuss various bilateral issues. Second, Turkey has tried to mediate and reduce tensions in complex conflicts in the region such as in Syria, Israel, Iraq, Iran, and various Lebanese factions and their external backers, as well as the divided Palestinian movements of Hamas and Fatah.

Under the AKP rule, Turkey has managed to rapidly increase its economic turnover with Middle Eastern partners. For instance, while in 2000 Turkey’s trade with the whole Arab world amounted to just $5.9 billion, roughly 7% of Turkey’s total trade volume, by 2012 it reached 16.4% ($63.9 billion). Increased economic cooperation has therefore contributed to regional stability and the development of closer relations between Turkey and its Arab partners.
In addition, Turkey’s political relations with the GCC region intensified during the last decade. In 2008 Turkey became the first country to have a strategic dialogue with the GCC with the launch of a High-Level Strategic Dialogue. Accordingly, Turkey and the GCC discussed and tried to maintain a similar approach in a range of different issues including security, the Arab-Israel conflict, Iraq, and Syria.

The Arab uprisings which erupted in late 2010 brought new challenges and opportunities for Turkey-GCC relations. In fact, when the uprisings broke out, the two sides had different positions. The fall of the Mubarak and Ben Ali regimes of Egypt and Tunisia threatened to destabilize an economic order that spelled trouble for the UAE and Saudi Arabia. GCC governments were also concerned that their citizens would voice demands for political reforms. On the other side, Ankara in general supported regime change and Arab public demands for political reforms. Turkey’s then Prime Minister Recep Tayyip Erdoğan was the first world leader to explicitly call for Egyptian president Hosni Mubarak to “step down” and “take steps that will satisfy his people.” Ankara also portrayed Turkey as a model country in the region, signifying reconciliation between Islam and democracy, which can serve as an example for regional transformation.

SECTION 1: THE POLITICAL ISLAM NEXUS

Following the start of the Arab Spring, the strategic cards were reshuffled in the Middle East, pitting Turkey and Qatar on one side and other Gulf countries on the other. Turkey and Qatar have been supporting Islamist groups, including the Muslim Brotherhood in Egypt, Hamas in Gaza, and, according to some sources, armed Islamist militants in Libya. In contrast, Saudi Arabia, the UAE, and other GCC states have supported other political factions in these countries. They saw the upswing in Islamist movements gaining control by democratic means over revolutionary countries as a model posing an existential threat to their own monarchical regimes.
Turkey and Qatar have supported Islamist and other opposition groups in the Misrata region, while Saudi Arabia and the UAE have backed the Tobruk parliament.

Turkey and the GCC states agree on a future Syria without Bashar al-Assad in power. They have not always been united on which rebel factions to support. To this end, recent reports suggest that Saudi Arabia, Qatar and Turkey are closely coordinating efforts.

Qatar and Turkey have been the chief backers of former Muslim Brotherhood president Mohammed Morsi. Morsi’s overthrow by al-Sissi was openly supported diplomatically and financially by the other Gulf states. Under pressure from GCC states, Qatar declared its support for President al-Sissi in late 2014.

Turkey and the GCC states support a two state-solution based on the 1967 borders. Since an Israeli raid on an aid ship that killed 9 Turkish activists in 2010, Turkey has taken a very vocal stance against Israel, increasing the country’s popularity in the Gulf states and Arab world more generally.
Turkey and the GCC states have given their “full commitment to the sovereignty, independence and territorial integrity of Iraq.” Ankara has cultivated close ties with the Kurdistan Regional Government, which administers Kirkuk-based oil being exported to Turkey.

The GCC states, Saudi Arabia in particular, have been vocal in opposing what they see as Iranian interference in Arab affairs and are facing off in a proxy war in Syria. Turkey also has deep reservations about further Iranian influence in the region, but is nevertheless expanding its trade with Iran.

Saudi Arabia, supported by the GCC, is leading a military intervention to defeat the Iranian-backed Houthis. Turkey supports this diplomatically, but has said that it will not commit militarily.
Egypt

Qatar and Turkey have been the chief backers of the Egyptian Muslim Brotherhood’s democratically-elected president Mohammed Morsi who was later overthrown by the military. However, Morsi’s fall was openly supported by the other Gulf states that considered the Muslim Brotherhood a threat. In November 2013, Turkey and Egypt reciprocally downgraded their diplomatic relations and recalled their ambassadors from each other’s capitals. Meanwhile Egyptian President Abdel Fattah al-Sisi accused Qatar and Turkey of spreading chaos in his country and the region. Egypt later unilaterally canceled the free trade agreement and the Ro-Ro transit-trade agreement signed with Turkey. The transit route not only allowed Turkish exporters to reach Gulf countries in three-and-a-half days, but it was also crucial for easy access to the African market through Egypt.

Egyptian-Qatari relations soured following the removal of former President Morsi by the military. Later, Saudi Arabia sponsored a reconciliation initiative between Egypt and Qatar. By December 2014, Qatar joined the GCC countries in supporting Egyptian President al-Sisi and reportedly called on Ankara to take steps towards normalizing its relations with Egypt—claiming that it is inevitable that relations with al-Sisi will improve.

With the rise of the the Islamic State of Iraq and Syria (ISIS) phenomenon in the Middle East, Qatar and Turkey came under further pressure from the other GCC states to fully normalize their relations with Egypt which is also combating ISIS affiliates in the Sinai peninsula and in Libya. However, Qatar and Turkey still remain largely at odds with Cairo despite modest improvements.

Libya

Contrary to other developments during the Arab uprisings, Gulf monarchies supported regime change in Libya. Qatar and the UAE even contributed their air forces to patrol the no-fly zone. Turkey was initially reluctant about the removal of Colonel Muammar Qaddafi by force. This attitude was driven mostly by pragmatic considerations—more than 20,000 Turks were working in Libya and Turkey had around $15 billion worth of outstanding contracts. However, Turkey did call on Qaddafi to step down and helped to implement a naval blockade of Libya. The fall of the regime in Libya sparked a civil war in which Turkey and Qatar supported Islamist and other opposition groups in the Misrata region, while Egypt and the UAE backed internationally recognized Prime Minister Abdullah al-Thinn in Tobruk. The civil war got more complicated with the rise of ISIS in Libya. In a response to the beheading of 21 Egyptian Christians by ISIS in Libya, Egypt bombed Islamist groups in Libya. Cairo went further and accused Qatar of supporting terrorism in Libya,
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prompting Doha to recall its ambassador from Cairo in protest. The other Gulf states supported Egyptian President al-Sisi in his crackdown on Islamists in his country and neighboring Libya. Turkey’s relations with Libya also worsened. The al-Thinn government asked Turkish citizens to leave the country and later ended all contracts with Turkey. Ankara also had to close down its embassy in Libya. Meanwhile, Egypt’s political and military influence in Libya is growing. Algeria and Egypt, which are backed by Saudi Arabia and the UAE, are acting jointly against the Islamists.

Israel–Palestine

In spite of these different stances and approaches, Turkey and the GCC states found themselves almost on the same side in the Israel-Palestine conflict. Both sides supported the establishment of the Palestinian state on the basis of the 1967 lines and with East Jerusalem as its capital. The GCC states also backed Turkey in its dispute with Israel over the killing of nine Turkish citizens on the Mavi Marmara flotilla by Israeli soldiers in 2010. Both parties also support the establishment of a dialogue process between the rival Palestinian groups, Fatah and Hamas, as well as the end of the Palestinian-Israeli conflict by peaceful means.

Similar to the Libyan and Egyptian cases, Turkey and Qatar are locked into rivalry with the rest of the GCC states about their relations with Hamas—although all parties support the Fatah dominated Palestinian Authority. In 2014, Saudi Arabia even put the Muslim Brotherhood, the parent-movement of Hamas, on a list of terrorist organizations for which membership or support is prohibited. However, with the ascent of King Salman, Saudi Arabia has met with Hamas leaders and is improving its relations with the group. Turkey and Qatar, however, enjoyed good relations with Hamas. Qatar currently hosts the political leader of Hamas, Khaled Meshal who moved to Doha after the outbreak of the Syrian civil war. Reportedly, Meshal was previously in Turkey.

Conclusion

Qatar’s support for the Muslim Brotherhood caused problems with its neighbors. Tensions finally boiled over at a GCC summit in March 2014, which led Saudi Arabia, the UAE, and Bahrain to withdraw their ambassadors from Doha. Recently, Qatar and other GCC countries took steps to ease the tensions, and by December 2014, diplomatic staff returned to Qatar—though the rivalry has not been completely overcome. Under the new King Salman, Saudi Arabia and the UAE appear to be moving towards improved relations with Turkey and Qatar, a development that could lead to the bridging of policy differences between the two sides. The possible rapprochement has the potential to realign the views of Turkey and the GCC states on these crisis-hit countries for more effective measures.
SECTION 2: BALANCING IRANIAN INFLUENCE

While trade has brought Turkey and the GCC closer, the tacit agreement that Iran should not dominate the region has further come to define developments over the past few years. Turkey-GCC relations with other regional actors are important, and those with Iran represent possibly the most contentious. The state of post-invasion Iraq, Iran’s nuclear program, the war in Syria and its numerous spillovers are all related here—perhaps further complicated by the importance of Iran as a trade partner to Turkey.

Iran

The most pressing and enduring issue over the past few years has been Iran’s nuclear program. While Iran argues that its program is for purely peaceful purposes; the GCC states are less convinced. Turkey, on the other hand, has worked to lobby the international community for a peaceful solution to the issue. The 2010 nuclear deal brokered by Turkey and Brazil is noteworthy. It was ultimately rejected by the United States, triggering new rounds of sanctions on Iran the following month. Talks in Geneva throughout 2015 led to a deal in July that would see sanctions on Iran eased. This has caused profound anxiety, particularly in Riyadh. Most recently, King Salman has signaled his annoyance at US overtures to Iran by

Box 4: VARIATIONS IN GCC-IRANIAN TENSIONS

Several GCC states have taken a more cautious approach however, partly because of Iran’s bid to deal with them bilaterally rather than as a bloc. Because of financial considerations, the UAE in particular has a keen desire to see trade levels between the two return to pre-sanctions level, with Dubai set to become the main transit point for Iranian goods. Blocking full resumption of normal relations however is the UAE’s noteworthy territorial agitation with Iran over the status of the Abu Musa and the Greater and Lesser Tunbs islands in the Gulf (which Iran seized as the British withdrew from the region in 1971). Even so, a more positive rhetoric has been promoted with Rouhani’s ascent to the Iranian presidency. Of the GCC states, Oman has traditionally had the warmest ties to Iran and has often worked to bring warring parties together, as during the Iran-Iraq War. Oman also facilitated secret US-Iran talks, which ultimately led to the successful meetings in Geneva over the past two years. Qatar’s often opaque foreign policy is also in keeping with its desire to maintain friendly diplomatic relations with Iran—even if on a number of major international issues they often lock horns. Qatar continues however to remain cautious about antagonizing Iran, since unlike Saudi Arabia, all of its main export items—for example, liquefied natural gas (LNG)—must pass through the Strait of Hormuz, the 4-mile (6.4 km) wide shipping channel between Oman and Iran and the gateway to international markets. Iran threatened to close the Strait in late 2011, causing widespread panic in the region and around the world. Bahrain, like Saudi Arabia, has deep suspicions of Iran as senior Iranian figures have frequently referred to the tiny island-country as their 14th province—a claim officially relinquished by the Shah of Iran in 1970.
refusing to join other Gulf leaders at a Camp David summit. Prior to this, however, the GCC states were more closely aligned to US policy on the nuclear issue, while Turkey took a more nuanced approach.

Tensions between Saudi Arabia and Iran are the most fraught within the GCC camp and deep suspicions remain between the two—the level of acrimony between Iran and each GCC state varies (Box 4). These usually center on Saudi fears of an Iranian attempt to dominate the region, an idea that Turkey has also been known to share, although the latter is tied to Iran and reliant on Iranian energy imports (providing for around one-fifth of its energy consumption needs). Trade between Turkey and Iran also stands at $14 billion—which the two countries aim to raise to $30 billion in the coming years.\(^2^3\) Since the Iranian Revolution in 1979, however, Turkey—like the GCC states—has been wary of Iran exporting its revolutionary zeal abroad. This fear was offset as Iran’s revolutionary fervor eventually calmed, and both countries sought close cooperation to placate separatist Kurdish nationalist movements active in both countries.\(^2^2\)

**Syria**

Nonetheless, Qatar and the GCC have not taken a back seat to the greatest catastrophe to wreck the region in a generation—the Syrian civil war. The war has contributed to ensuring that the Middle East remains the most militarized in the world according to the Global Militarization Index by the Bonn International Centre for Conversion, with the GCC featuring prominently (of these, Kuwait is the most militarized, followed by Oman and Bahrain).\(^2^3\) The war in Syria also remains the most poignant example of the limits of any GCC-Iran rapprochement. The Syrian civil war, sparked by a violent crackdown by the Assad regime against what was initially peaceful protests in the context of the developing Arab Spring movement, has brought all the Middle East fault lines to the fore. GCC states have not been united on which of the factions fighting Assad to support—however, together with Turkey, they all favor an end to the Assad regime. Reports in the region also suggest that since 2013 Turkey, Qatar, and Saudi Arabia have been working even more closely to topple Bashar al-Assad. This is seen by many in the GCC, as well as in Turkey, as an opportunity to further erode the strategic Iran-Syria-Hezbollah axis in the region.

On Syria, Turkey has favored an alliance with Qatar, and relations between the two have flourished in the process. A comprehensive security agreement was reached in March 2015 encompassing joint military training and exercises, defense industry cooperation, and a mechanism for the deployment of joint forces (see Case Study 2 for more details).\(^2^4\) The ratification of the deal came on the back of a Turkey-Saudi rapprochement following King Salman’s ascent to the throne in Saudi Arabia. The previous Saudi monarch, Abdullah, presided over much cooler relations with Turkey as they clashed over Turkey’s staunch support for Mohammad Morsi, the now-imprisoned former Egyptian president. Warmer relations among Saudi Arabia, Qatar, and Turkey since King Salman’s ascent have led to a more coordinated effort to topple Assad in Syria, with the first positive sign of this being the Syrian rebel takeover of a major city, Idlib, in March 2015.
Turkey and the GCC also have very special interests in Iraq. It remains the only country to border the Persian Gulf to not be part of the GCC. For centuries, events in Iraq have had major ramifications for the region and the entire world. The special status Iraq enjoyed within the GCC structure was rescinded in 1990 when it invaded Kuwait. The invasion of Iraq in 2003 was no less important and led to deep, global cleavages. It allowed Iran to further its influence in Arab affairs by developing profound networks—political, social, and economic—inside Iraq, giving rise to a new Shia elite at the expense of the Sunnis. Developments in Iraq greatly alarmed not just the GCC states but also Turkey. The latter was further fueled by its desire to keep Iraq together for fear of the emergence of an independent Kurdish state that would antagonize its own internal discontents. To this end, it can be said that when it comes to Iraq, the GCC states and Turkey are largely in favor of a strong and unified state, even if for different reasons.

The war in Iraq has also led to the rise of the militant group ISIS—once thought to have been relegated to the annals of history but re-emerged in 2014 to pose a global threat. The US invasion and occupation of Iraq in 2003 was the impetus for the founding of the group that burst onto the world stage in 2014 with the spectacular takeover of Mosul. Since then, it has expanded to Syria, breaking through national borders that have held in one form or another for one hundred years. Both Turkey and GCC states, Saudi Arabia and Kuwait in particular, have suffered deadly attacks from ISIS.

Turkey continues to argue against Iraq’s permanent fragmentation, particularly fearing that the Kurdistan Regional Government of Iraq (KRG) could serve as a model for its own Kurdish population, which could further incite separatist activity within its territory. It also has substantial economic interests in the Kurdish-administered region in northern Iraq. The growth in importance of Turkey’s marine oil terminal at Ceyhan, which brings in oil from Kirkuk (a KRG-administered area), has also increased the need for closer cooperation with the GCC to protect Iraq’s security and territorial integrity. Since 2014, exports from the Kirkuk-Ceyhan pipeline (see Map 1) have been frequently disrupted, but still continue at more than 500,000 barrels a day.25 Saudi Arabia has also worked hard to maintain Iraq’s borders to deny Iran unfettered influence in Iraq and has supported a plethora of groups to achieve this. Kuwait remains suspicious of Iraq, and the Gulf War in 1990-91 remains a fresh memory—territorial disputes and reparations for the invasion remain thorny issues. With this in mind, Turkey and the GCC have given their “full commitment to the sovereignty, independence and territorial integrity of Iraq”26 and consistently reaffirm this in joint summits organized as part of the Turkey-GCC High-Level Strategic Dialogue since 2008.
Turkey-GCC policies in Yemen are also worth mentioning. Turkey has supported Saudi-led operations there as of March 2015, which seek to overthrow the Houthi-led militias that ousted President Hadi. A strongly worded statement from Turkey’s President Recep Tayyip Erdoğan targeting Iran goes a long way in showing that Yemen has emerged as the latest bloody theatre in a Turkey-GCC alliance to curb Iranian influence. “Iran is trying to dominate the region,” Erdoğan told reporters before adding “could this be allowed? This has begun annoying us, Saudi Arabia and the Gulf countries. This is really not tolerable and Iran has to see this.”27 He also called on Iran to “withdraw any forces whatsoever it has in Yemen, as well as in Syria and Iraq, and respect their territorial integrity”28 in a show of support to Saudi Arabia. However, with Pakistan, Turkey’s initially strong statements did not translate into concrete action, and it rejected plans to take part in assaults inside Yemen, limiting itself instead to supporting the bombing campaign diplomatically and otherwise. For Saudi Arabia, the Houthi armies allied with former President Abdullah Salih pose a grave threat to its own security along its porous border with Yemen. The GCC has framed events there as inexorably linked to its own security and stability.

Conclusion

Iran, Syria, Iraq, and, to a growing extent, Yemen have emerged as a main geopolitical sphere that has come to define Turkey-GCC relations since 2011. Turkey’s rising influence in the region, while perhaps perturbing to some in the Arab and mainly Gulf world, has been largely overshadowed by their deep mistrust of Iran’s intentions. Of the core issues, Iran’s nuclear program and perceived propensity to galvanize certain religious groups in the region have been most worrying. Iran, however, remains crucial to Turkey’s economic and security well-being. Turkey remains reliant on energy imports from Iran, as well as on cooperation with other security issues. Growing anxiety towards Iran has nonetheless led many in the Gulf to view Turkey as a strategic partner.

Qatar in particular has forged close relations with Turkey, including closer alignment in international organizations such as the United Nations and the OIC.29 The warm relations culminated in a comprehensive military agreement that has provided Qatar with an additional security guarantee outside the traditional US security umbrella (see Case Study 2). This is fueled, in part, by growing unease in the Gulf over US policies in the Middle East, which are seen to be increasingly reconciliatory towards Iran and which may alter the balance of power in the region further in its direction.
Turkey-Qatari relations entered a new phase with the comprehensive military and defense industry agreement reached in March 2014. With this agreement, both countries would be able to use each other’s ports, airports, airspace, and military facilities, as well to deploy forces on each other’s territory. The two countries also agreed to exchange operational training experiences, cooperate in the defense industry, carry out joint military exercises, and share intelligence.30

This military agreement has special meaning for both Qatar and Turkey, who share concerns and similar positions on the ongoing conflicts in Iraq, Syria, Libya, and Yemen, as well as towards ISIS. From Qatar’s perspective, the military agreement serves several interests—it allows it to boost its defense industry capacity, enhance its military experience, and diversify its military partners in the region. Furthermore, by having Turkey deploy forces on its soil, Qatar—whose army is the second-smallest in the region and who lacks significant military capabilities—also hopes to further secure its borders through this military alliance. It is noteworthy that the deal also came at a low point in Qatar’s relations with other GCC states particularly over the former’s support of the Muslim Brotherhood in Egypt. Hence the military agreement was reached in the same month that Saudi Arabia, Bahrain, and the UAE withdrew their ambassadors from Qatar.31

From Turkey’s perspective, deployment of forces in Qatari territory is a groundbreaking event because many viewed it as the return of its hegemony over the small territory which the Ottomans evacuated in 1915. This led to a heated debate among the opposition parties in Turkey about whether the ruling party had a hidden agenda in sending troops to Qatar. According to opposition party officials, Qatar—where US soldiers are already based—does not need to have Turkey’s boots on its own
Instead, they alleged that Turkey’s forces would join an international task force to train and equip the Syrian opposition in Qatar. Others have also raised concerns that Turkey’s cooperation with Qatar in supporting different Islamic factions in the Syrian conflict would lead to Turkey’s further isolation at a time when it has no ambassadors in Egypt, Israel, Libya, Syria, or Yemen.

When looked at closely, however, the real interests behind Turkey’s enthusiasm to enter into such an agreement with Qatar are manifold. The primary reasons behind the military alliance are to provide Turkey’s Defense Ministry with an opportunity to access a lucrative market—exporting arms to the Gulf—and to counterbalance the rise of Iranian influence in military as well as in energy security. Furthermore, Turkey’s military presence will carry forward the emerging Sunni alliance between Turkey, Saudi Arabia, and Qatar at a time when Turkey feels increasingly encircled by non-state armed groups such as ISIS and the PYD (Democratic Union Party) and while it simultaneously battles against PKK (Kurdistan Workers’ Party) militants.

Another angle to this agreement comes in light of recent Russian assertiveness in the Syrian crisis. At a time when Ankara finds itself faced with Russian jets occasionally violating its airspace and turning the Syrian crisis into a Cold War-like scenario, the military agreement between Turkey and Qatar has also gained a different dimension. While in May 2015 reports emerged that Qatar, Saudi Arabia, and Turkey were coordinating efforts to help opposition rebels fighting against embattled Syrian President Bashar al-Assad—a move which strained Turkey’s relations with the United States to some extent—Qatar is now an important member of the US-led coalition combating ISIS and a partner in Turkey-US efforts resisting Putin’s renewed assertiveness in supporting the Syrian regime.

The military agreement between Turkey and Qatar crystallizes the changing dynamics in the region. Turkey’s diversified relations with Qatar, which now extend to the military domain, will prove to be a litmus test for the sustainability of Turkey’s policies in the Gulf and the Middle East where regional and global actors alike have started to become increasingly more assertive.

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Notes
5. Turkish Statistical Institute 2015.
14. Dogan, 6 January 2015
15. Republic of Turkey Ministry of Foreign Affairs, 28 January 2012.
17. CNN, 6 January 2015.
18. Al Jazeera, 6 March 2014.
23. Global Militarisation Index 2014. The report is compiled by the Bonn International Centre for Conversion, which uses a range of indicators to assess the militarisation of a state by looking at “the relative weight and importance of the military apparatus of one state in relation to its society as a whole.” See Grebe 2014.
29. Republic of Turkey Ministry of Foreign Affairs.
33. Erdemir and Çalışkan, 3 August 2015.
PART III: ECONOMIC AND TRADE RELATIONS
INTRODUCTION

The AKP-led government of Turkey has actively engaged the GCC states in trade and investment since the 2002 establishment of its first majority government. This engagement contributed to both Turkey’s and GCC member states’ international trade and investment growth as well as diversification. This contribution is exemplified by their shared trade volume of approximately $16 billion in 2014, up from $1.49 billion in 2002 (see Annex 2 for bilateral trade statistics between Turkey and GCC states),¹ as well as approximately $2.8 billion in GCC foreign direct investment (FDI) flows to Turkey between 2010 and 2014 (see Annexes 3 and 4 for FDI statistics).² Drivers facilitating the increasing breadth and depth of Turkey-GCC economic engagement include political relations and national growth strategies, growing domestic economies with complementary resources and demands, and supportive institutional platforms for negotiation and coordination.

SECTION 1: TURKEY-GCC ECONOMIC ENGAGEMENT DRIVERS

Driver 1: Political Relations and National Growth Strategies

Turkey’s increased post-2002 trade and investment engagement with Gulf states reflects a component of its foreign policy concept of “Zero Problems with Neighbors” and includes its highly ambitious Vision 2023 Centennial development goals on which it based its current development plans. Turkey’s achievement of these Centennial goals requires engagement of new market opportunity space, including those of GCC states, to support its SMEs and access affordable and reliable hydrocarbons to stabilize energy-related import costs that contribute to its high current account deficit. Also important is the contribution of GCC states in Turkey’s response to the stalled EU accession process and the decreased opportunity space of European crisis-hit markets. GCC engagement of Turkey’s market is relevant to the Gulf states’ political priorities of market diversification and food security. This engagement is also relevant to the historical trajectory of the Gulf states’ engagement with Turkey as described in previous sections.

Driver 2: Institutional Platforms

Post-2002 Turkey-GCC engagement has produced several institutional platforms facilitating broader and deeper trade and investment. The four primary institutions are:

1. Non-governmental business councils between Turkey’s Foreign Economic Relations Board (DEIK) and relevant GCC business associations.³
2. Ad-hoc GCC state-specific and sector-specific committees such as the 2012 Abu Dhabi TAQA-Turkey Committee for Joint Energy Investments.⁴
4. GCC-Turkish Joint Committee for Economic Cooperation (JCEC) and specialized sub-committees in the areas of: agriculture and food security, electricity and water, energy, environment, financial and monetary issues, health, investment, tourism, and trade.

These and other relevant institutions are yielding results as suggested by the Turkey-GCC High-Level Strategic Dialogue’s recognition of a fivefold increase in their respective trade between the Dialogue’s 2008 initiation and 2012.5

**Driver 3: Complementarity**

Neither Turkey’s nor the GCC’s trade predominates in the other’s, even in the case of hydrocarbons. For the most part, the Asian region represents GCC states’ primary export partners and Western states, along with the Asian region, their primary import partners. In terms of shared trade, Saudi Arabia and the UAE alone compose 86% of Turkey-GCC trade volume.6 Saudi Arabia and the UAE are also the only two GCC members to represent more than 0.5% of Turkey’s export or import volumes as shown in Tables 1 and 2.

**Table 1:**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>YEAR</th>
<th>% OF TURKEY’S TOTAL EXPORTS</th>
<th>VALUE OF EXPORTS (US$ MILLIONS)</th>
<th>PRODUCT</th>
<th>VALUE OF TOP TRADED GOODS (US$ MILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>2014</td>
<td>3.27</td>
<td>4,663</td>
<td>Consumer Goods</td>
<td>2,733</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Stone &amp; Glass</td>
<td>2,015</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Intermediate Goods</td>
<td>1,406</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2014</td>
<td>2.10</td>
<td>3,048</td>
<td>Consumer Goods</td>
<td>1,773</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Textiles &amp; Clothing</td>
<td>729</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Capital Goods</td>
<td>615</td>
</tr>
</tbody>
</table>

Source: WB WITS Database.

**Table 2:**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>YEAR</th>
<th>% OF TURKEY’S TOTAL IMPORTS</th>
<th>VALUE OF IMPORTS (US$ MILLIONS)</th>
<th>PRODUCT</th>
<th>VALUE OF TOP TRADED GOODS (US$ MILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>2014</td>
<td>2.24</td>
<td>3,253</td>
<td>Intermediate Goods</td>
<td>2,886</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Stone &amp; Glass</td>
<td>2,755</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Consumer goods</td>
<td>330</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2014</td>
<td>0.80</td>
<td>2,343</td>
<td>Intermediate Goods</td>
<td>2,249</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Plastic or Rubber</td>
<td>1,723</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chemicals</td>
<td>445</td>
</tr>
</tbody>
</table>

Source: WB WITS Database.
Demand, resource, and specialization complementarity underlies the figures in Table 1 and 2, denoting Turkey-GCC trade potential. This complementarity is generally premised on commodities or lower value-added manufactured products, including steel, iron, precious metals, hydrocarbons, and other construction materials. The primary commodities or products include GCC's hydrocarbon and foreign exchange surpluses and Turkey's agricultural, processed food, and arable land surpluses. This commodity-oriented complementarity has gradually evolved to include trade and investment in the higher value-added sectors of construction, manufacturing, transport, and other services. Most important are Turkey's contracting services for Gulf states, given the contractor firms' internationally comparative quality, cost advantages, and proximity to the GCC region.

Unique Turkey-GCC Investment Patterns

Generally, developed states remain the primary originating source of global FDI; however, Turkey and the UAE represent increasingly strong global FDI sources. Among all West Asian states, Turkey and the UAE represent the primary attractants for FDI inflows (more than $10 billion in 2013). Kuwait and Qatar represent the primary sources of outflows (more than $5-$9.9 billion in 2013).

Since the first AKP government, Turkey has emerged as a leading destination for all forms of GCC investment. During that first government, Gulf investment increased from $43 million in 2004 to $1.78 billion in 2006. By the second AKP government, 2,430 Gulf firms were managing investments in Turkey—more than double the number of firms in 2003. The timing of these Gulf investments around 2008–09 compensated for declining investment from the European Union, which is Turkey's dominant trade and investment partner as well as its recognized economic anchor. Turkey's dominant Gulf investors in 2010 are shown in Table 3.

In terms of inward FDI (IFDI), Gulf investment helped cushion the 2011–12 sharp decline of EU FDI inflow into Turkey with a notable increase from $195 million in 2011 to $940 million in 2012 (see Table 4).

Despite these important and well-timed gains, the Gulf reversed its contribution to Turkey's IFDI flows in 2013 and 2014 to $880 million and $425 million, respectively.

Factors supporting GCC investment in Turkey include the following qualities of the latter:

- Ideal geostrategic placement with the second fastest growing EMEA (Europe, Middle Eastern, and African) logistics and industrial market after Russia.
• Large domestic market coupled with a young population and the 4th largest European labor force.

• Leading recent OECD average GDP growth rates, ranging from 9.2% in 2010 to 2.9% in 2014.\textsuperscript{12}

• Increasing density, depth, and breadth of transnational networks with Gulf states (see Case Study 3 for more details).\textsuperscript{13}

• The 2012 introduction of a new investment incentive scheme including advantageous allowances of land purchases\textsuperscript{14} coupled with a reduction of reciprocation-related and other constraints to foreigners’ real estate investments.

Table 3: EXAMPLES OF DOMINANT GULF INVESTORS IN TURKEY IN 2010

<table>
<thead>
<tr>
<th>BAHRAIN</th>
<th>KUWAIT</th>
<th>QATAR</th>
<th>SAUDI ARABIA</th>
<th>UAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unicom Investment Bank</td>
<td>NBK Capital</td>
<td>Doha Bank</td>
<td>Oger Telecom</td>
<td>Abraaj Capital</td>
</tr>
<tr>
<td>TAIB</td>
<td>Kuwait Financial House</td>
<td>Almana Group</td>
<td>Swicorp</td>
<td>Emaar</td>
</tr>
<tr>
<td></td>
<td>Al Shaya</td>
<td></td>
<td>NCB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NBK</td>
<td></td>
<td>Saudi Cable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>St Martins</td>
<td></td>
<td></td>
<td>Gultainer Co. Ltd.</td>
</tr>
<tr>
<td></td>
<td>Alghanim Industries</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4: TURKEY IFDI (GROSS EQUITY) ORIGINATING FROM GCC VERSUS EUROPEAN STATES 2009–2014 (US$ MILLIONS)*

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL ANNUAL IFDI</th>
<th>GCC VALUE</th>
<th>EUROPEAN VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>6,266</td>
<td>209</td>
<td>5,248</td>
</tr>
<tr>
<td>2010</td>
<td>6256</td>
<td>388</td>
<td>4,939</td>
</tr>
<tr>
<td>2011</td>
<td>16,137</td>
<td>195</td>
<td>12,588</td>
</tr>
<tr>
<td>2012</td>
<td>10,759</td>
<td>940</td>
<td>7,925</td>
</tr>
<tr>
<td>2013*</td>
<td>9,866</td>
<td>880</td>
<td>6,400</td>
</tr>
<tr>
<td>2014*</td>
<td>8,699</td>
<td>425</td>
<td>6,566</td>
</tr>
</tbody>
</table>

* Excludes Oman. \*Provisional data. Source: Based on data provided by ISPAT from the Central Bank of Turkey.
Turkey has also established both bilateral Reciprocal Investment Promotion and Protection agreements and Avoidance of Double Taxation treaties with GCC states to further facilitate investment flows (see Annex 1 for bilateral agreements).

GCC investment frequently enters Turkey through private equity firms (dominated by the UAE) and sovereign wealth funds (dominated by Saudi Arabia). Global top ten GCC private equity firms operating in Turkey include Abraaj Capital (Dubai), an investment company, and Investcorp Bank (Bahrain), an investment bank. Investcorp has made approximately four investments in Turkey worth an estimated total of $500 million. Abraaj Capital, managing approximately $7.5 billion in private equity, established its local presence in 2007 and thereafter purchased approximately ten companies in sectors ranging from healthcare to hydrocarbons. Abraaj is currently deepening its Turkish presence by means of a specific Turkey fund. Other GCC ventures have established Turkey-specific funds. In 2011, the Abu Dhabi Invest AD of the Abu Dhabi Investment Council established a Turkey-oriented private equity fund with Japan’s SBI Holdings. Several firms stated their intentions to establish Turkey-specific funds during Istanbul’s Second Investment Summit of April 2015; of these firms, Saudi Arabia’s Al-Bassam Group and Sumou Holding referenced a Turkey-focused fund potentially valued at $1 billion targeting the real estate market.

Gulf Sovereign Wealth Funds (SWFs) have also entered Turkey, especially in the finance and real estate markets. Exemplifying Gulf SWFs is the Kuwait Investment Authority (KIA), which manages Kuwait’s Reserve Fund for Future Generations and serves as the government’s national economic backstop. By 2010, KIA held approximately $1 billion in Turkish investments. SWFs’ investments are increasingly important given GCC states’ steeply declining oil income coupled with relatively high domestic public expenditures. Turkey’s relatively stable economy following the global financial crisis attracted SWFs, along with its booming real estate sector, strong financial sector, and dynamic agrifood and agribusiness opportunities (discussed in later sections).
SECTION 2: HYDROCARBONS

Turkey is heavily dependent on hydrocarbon imports to meet its energy consumption needs, suggesting a natural trade complementarity with the hydrocarbon-rich GCC states. Posting the highest OECD energy consumption rates for the past five years, Turkey’s petroleum and gas imports represented approximately 23% of its merchandise trade since 2012.20 Despite such consumption, hydrocarbon trade based on this complementarity has not yet been realized. In 2012, Turkey estimated its producible petroleum reserves as 43.2 million tons,21 or 18.5 years of consumption based on current consumption patterns. In that year, Turkey met only 9% of its petroleum and 1.6% of its natural gas consumption by means of domestic reserves.

Saudi Arabia and Qatar represent the two Gulf states with which Turkey maintained a trade deficit over the past five years because of hydrocarbon imports. This hydrocarbon-driven trade relationship does not hold for the other four GCC member states. Although primary crude oil imports originate from Iraq and Iran, Turkey does import approximately 10% of its supply from Saudi Arabia (Figure 2).22

Figure 2: TURKEY’S 2014 SOURCING OF CRUDE OIL

In 2010, Turkey imported approximately $1 billion in crude oil from the Kingdom, but in 2014, it imported only $40 million. Turkey did signal that it would increase its sourcing from Saudi Arabia in 2012 in place of its Iranian imports because the Kingdom was the only country with sufficient available volume to supplement the 30% of consumption Turkey sourced from Iran. Turkey, however, did not terminate its Iranian imports despite the European Union’s implementation of sanctions. As for GCC natural gas, Turkey sources a small percentage of LNG from Qatar.

In a related downstream sector, petrochemicals are growing in importance as the share of crude declines. Petrochemicals, facing declining prices in 2015, represent 60% of the Kingdom’s non-oil exports. Given concerns regarding domestic demands and other dynamics, emerging and developing market opportunities are increasingly important for Saudi Arabia in this product. Petrochemicals trade has also involved Turkish contractors, exemplified by the 2012 $122.5 million, 29-month contract awarded to Tekfen Holding’s Tekfen İnşaat for the construction of a petrochemical plant in Saudi Arabia.

Turkey’s hydrocarbon interests extend beyond its import dependence. The country’s pipeline development and related agreements, including the May 2014 completed transaction with the Kurdistan Regional Government of Iraq to store and ship products from the Ceyhan port, represent its strategic development as a regional energy transit hub. Interests associated with Eastern Mediterranean reserves are affecting regional hydrocarbon trade, investment, and more general geostrategic positions. These reserves raise questions regarding politically difficult exclusive economic zones and transnational infrastructure development involving Cyprus, Israel, and Turkey, as well as Lebanon and Syria. Turkey did establish a 2012 agreement with the Turkish Republic of Northern Cyprus for exploration and drilling, although it has not acted on that agreement. Such developments will affect Turkey’s relationship with Gulf hydrocarbon producers and regional political relations.

With its 2013 revision of the Turkish Petroleum Law, Turkey is also focusing on hydrocarbon exploration despite its small reserves. This law eased licensing and data-gathering regulations for exploration along with exploration itself and processing. Of equal or greater importance to Turkey in minimizing its hydrocarbon import dependence is its use of relatively large coal reserves. These reserves are primarily in the form of lignite, the production of which have involved Gulf contractors mentioned in the next section. In addition to its 2012 “Year of Coal,” Turkey includes this energy source in its Vision 2023 Centennial goals.

Gulf states are seeking to balance their energy export dependence, especially as declining oil prices are unable to support budgeted public expenditures. Their national strategies include market diversification and development of alternative energies, including solar and nuclear power. These projects are creating additional opportunities for Turkish contractors. Gulf states are also pursuing investment opportunities related to the general hydrocarbon sector. For Turkey, an example of this investment is the 2012 $200 million loan to Tüpraş, the state’s only refining entity, from nine Gulf banks under Qatar’s QInvest investment bank for undisclosed purposes.
SECTION 3: REAL ESTATE AND CONSTRUCTION

Real estate and construction represent dynamic, vital sectors in both Turkey and GCC states. GCC states are expanding their critical and long-term infrastructure. The Gulf states’ construction output grew in the years after the 2008 financial crisis as represented by the 5% growth in 2012.27 The total value of GCC projects in process or contracted for 2015 alone is estimated at $172 billion.28 Researchers suggest that transport infrastructure projects will reach an estimated value of $422 billion by 2020.29 This infrastructure expansion creates notable opportunity space for Turkish contractors. Two primary drivers underlie this infrastructure expansion, the first is large-scale event hosting—an example being the Abu Dhabi 2020 Trade Fair, which is backed by $8 billion in capital and requires road, rail, airport, and exhibit center expansion. Another example is the 2022 World Cup, which Qatar will host and is encouraging Turkish contractors’ participation in the related infrastructure development.

The second driver of infrastructure expansion is the GCC’s increasing attention to long-term foundational and social infrastructure development to support market diversification as well as public goods distribution. The UAE exemplifies this long-term development focus with Abu Dhabi’s 2012 initiation of a new international airport and port, (the former valued at $32 billion and set to become the world’s largest airport), its 2011 construction of the Etihad rail network,127and its expanding social infrastructure as well as a green city.

Turkish contractors achieved, and continue to post, notable success in the Gulf despite the growing presence of rivals (Table 5). Examples of their past success include Turkey’s Tekfen Construction’s 50% completion of the Fahaheel Motorway in 1978–81. This project, with a value over $63 million, was Tekfen’s first international contract.

China, ranked first internationally in contracting services, maintains active Gulf portfolios, with approximately $30 billion worth of contracts between 2005 and 2014. Other competitors include leading Western contractors such as Atkins, Bechtel, and Vinci, involved in GCC flagship projects. Turkish contracting firms—ranked second internationally—compete with

Table 5: TOTAL AMOUNT OF PROJECTS UNDERTAKEN BY TURKISH CONTRACTORS IN GCC STATES AS OF MAY 2013

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th># OF PROJECTS</th>
<th>VALUE (USD BILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>NA</td>
<td>0.3</td>
</tr>
<tr>
<td>Kuwait</td>
<td>NA</td>
<td>1.2</td>
</tr>
<tr>
<td>Qatar</td>
<td>108</td>
<td>12.2</td>
</tr>
<tr>
<td>Oman</td>
<td>44</td>
<td>5.5</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>193</td>
<td>12.4</td>
</tr>
<tr>
<td>UAE</td>
<td>99</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Source: Based on data retrieved from the Ministry of Economy, Republic of Turkey.
These and other rivals using their international experience, institutionalized Middle East and North Africa (MENA) presence, geographic proximity, and sociocultural familiarity. Also, the comparative quality of their products to those of Chinese firms and comparative cost of their products to that of Western firms are essential in terms of market positioning. Oman is an important Gulf market for Turkish contractors because infrastructure represents the primary target for increased Omani investments as suggested by planned projects worth $56 billion to be completed between 2013 and 2017 and the same value of projects between 2017 and 2022.30

An example of a leading GCC-based contract held by Turkey’s contractors is TAV İnşaat’s consortium with two leading Arab contractors—Arabtec Holding and Consolidated Contractors—involving a $3 billion contract to build the Midfield Terminal at Abu Dhabi International Airport. As noted by MEED, this contract was the largest ever awarded in the UAE.31 In addition to the building and operation of the Abu Dhabi airport, TAV is also involved in the Doha International Airport project. For its part, TAV Construction was named the largest global company operating in the airports category in 2014 given such project work.32 Other important deals include Saudi Arabia’s $2.1 billion contract secured by Yapı Merkezi for work on the Haramain high-speed rail network.33

Although attention tends to fall on Turkey’s contractors when observing Turkey-Gulf engagement, Gulf contractors have been, and remain, active in Turkey. A prime example is Saudi Arabia’s ACWA Power, a private Saudi power project developer founded in 2004 during the Kingdom’s privatization of its water distillation processes. ACWA is developing a 950MW combined-cycle gas turbine power plant in Kirikkale, Turkey. This project has a value of $1 billion and is being executed under a long-term European Bank for Reconstruction and Development financing project.34 The plant’s investment represents one of Turkey’s largest single FDI inflows in recent years. Another example is the agreement signed in February 2015 between the relatively new (2014) Qatari firm Nebras, Qatar Holding, and three Japanese firms to evaluate the potential for a lignite power plant in Turkey’s Afsin-Elbistan.35

Linked to these contract services is the construction materials subsector, representing approximately 60% of construction project costs and more than 9% of the GCC’s industrial investment in 2013.36 Cement, among the most demanded materials, is regionally led by the UAE and Saudi Arabian producers; the UAE maintains at least 60% over-production capacity.37 Turkey, Europe’s leading cement producer38 and the fourth largest global producer, is attracting Gulf investment in this area. Even more important than cement, iron and steel represent primary exports from Turkey to Saudi Arabia and the UAE, with the latter representing 10% of Turkey’s steel exports alone by 2010. In light of notable quality...
improvements since 2000 that now rank Turkey among the countries with the highest growth in steel exports, its iron and steel are the primary structural components of skyscrapers and stadiums in Qatar, Saudi Arabia, and the UAE.³⁹ Turkey surpassed China as a source of steel for the entire Middle East region, with 34% of the region’s sources originating from Turkey compared to 21% from China.⁴⁰ Equipment, categorized as a construction material, is also gaining in Turkey’s Gulf exports.

Whereas Turkey’s contractors are major players in Gulf infrastructure development, Gulf investors—especially those from the UAE—represent ambitious entrants in Turkey’s real estate sector. These investors have had notable impact on Turkey’s economy because this sector comprises 4.6% of the country’s 2014 GDP, a 2.6% growth rate from the previous year.⁴¹ Facilitating Gulf investors’ entrance was Turkey’s 2012 passage of Law No. 6302 amending Article 35 of Land Registry Law No. 2644. This amendment cancelled Turkey’s reciprocity requirements for land ownership for foreign individuals or institutions from qualifying countries and allowed a ten-fold increase to the amount of land that can fall under such ownership. Given Gulf investors’ role in this sector, several of Turkey’s construction firms have opened Gulf offices.⁴²

Housing dominates Turkey’s real-estate sector with the total number of houses sold reaching 1,165,381 units in 2014.⁴³ The most significant Gulf investments include Emaar Properties, of which Turkish projects total $4.3 billion. Other UAE investors include Green Valley, which initiated a $60 million residence project in Trabzon province in 2014 and the PJSC Group, which maintains $400 million in projects.⁴⁴ Office, retail, and mixed-space real estate are increasing in volume. Turkey’s office space offers opportunities for firms’ regional hub development and is therefore attracting investment.⁴⁵ Among the most visible mixed-space projects with Gulf investors is Maslak 1453, which is expected to become Europe’s largest such development. Saudi Arabia’s notable real estate presence includes SAAR Foundation’s purchase of an entire Maslak 1453 tower; the Ağaoğlu group is further developing its relationship with the Foundation for other potential opportunities.⁴⁶ In retail, among the most visible investments is KIA’s development of Istanbul’s Cevahir Mall, a notable Gulf tourism attraction. Turkey’s booming tourism industry is also driving the development of hotel real estate, drawing an increasing share of GCC ownership (see Case Study 3 for more details on GCC tourism in Turkey).⁴⁷

SECTION 4: OTHER KEY SECTORS

Sector 1: Banking

Turkey’s banking sector, which underwent extensive reform following the last of the state’s cyclical economic crises (with the twin crises of 2000 and 2001), represents 70% of Turkey’s financial sector’s assets.⁴⁸ Gulf banks have been actively hiring experienced Turkish professionals from the republic’s highly institutionalized post-1999 banking sector. As demonstrated in Table 6, this sector has attracted notable GCC investment. In addition to its
post-2002 strength, Gulf investment is interested in the increased legal and market opportunity space for Sharia-compliant, or participatory, banking operations. The treasury offered Turkey’s first sovereign sukuk (Islamic bonds) in 2012, with a majority share (about 60%) of the $1.5 billion issued placed by Middle East investors.\textsuperscript{49}

Several of the banks in Table 6 are active in Turkey’s expanding Islamic banking sector. Two began complying with Islamic banking principles by 2005.\textsuperscript{50} Of the four banks offering Islamic banking services in Turkey, three are affiliates of Gulf-based banks: Albaraka Turk, Turkiye Finans, and Kuveyt Turk. In 2010 and 2011, Kuveyt Turk, 62% owned by Kuwait Finance House, was the first of Turkey’s Islamic banks to issue sukuk, raising a total of $450 million.\textsuperscript{51}

Turkey’s banks are also active in the Gulf. For example, Turkey’s Ziraat Bank was the 11\textsuperscript{th} foreign entrant into the Saudi Arabian banking sector when it began its Jeddah operations in 2011. Bahrain is of special importance to the expansion of Turkey’s banks into GCC states, with ten of Turkey’s largest banks offering corporate and investment banking from local headquarters in Manama.

**Sector 2: Retail**

Retailers from both Turkey and the Gulf are active in Turkey-GCC economic engagement given the success of their respective retail markets, with five of the seven countries included in this report ranked in the top 20 of A.T. Kearney’s annual Global Retail Development Index. For Turkey, the Vision 2023 Centennial goals include growth in foreign retail market entry, with a threshold target of 4,000 stores in the MENA region by 2023.\textsuperscript{52} Well-known retailers already contributing to this target are Koton, LCW, Mudo City (with local partner Asadel), Simit Sarayi, and Pasabahce. Recent global brands acquired by Turkey’s firms, such as Ulker Group’s Godiva, are also pursuing expansion in the Gulf.

<table>
<thead>
<tr>
<th>GCC SHAREHOLDER</th>
<th>SHAREHOLDER INVESTMENT</th>
<th>TURKISH BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burgan Bank Group</td>
<td>99.3%</td>
<td>Burgan Bank (Turkey)</td>
</tr>
<tr>
<td>Commercial Bank of Qatar</td>
<td>70.8%</td>
<td>Alternatif Bank (ABank)</td>
</tr>
<tr>
<td>Kuwait Finance House</td>
<td>62.0%</td>
<td>Kuveyt Turk Participation Bank</td>
</tr>
<tr>
<td>National Bank of Kuwait</td>
<td>40.0%</td>
<td>Turkish Bank Group</td>
</tr>
<tr>
<td>National Commercial Bank</td>
<td>NA</td>
<td>Turkiye Finans Participation Bank</td>
</tr>
</tbody>
</table>
Gulf investors and brands are also established in Turkey’s retail sector. Gulf investors are remaining in, or entering into, this sector despite its limitations that have driven other international investors to withdraw or downsize, as demonstrated by France’s Carrefour that had entered Turkey as a joint venture with Turkey’s Sabancı. These limitations include high competition, strict credit card regulatory controls, decreasing consumer confidence within Turkey, and a fragmented market dominated by local retailers. In 2012, Investcorp used its MENA-focused Gulf Opportunity Fund to make its third purchase in Turkey, a 30% stake in luxury menswear retailer Orka Group. The following year, UAE’s Landmark acquired a controlling stake of Turkey’s retailer Park Bravo Dis Ticaret. In April 2015, the Qatari Mayhoola investment fund announced it will purchase a 30.7% stake of $332 million in Boyner Perakende of the Boyner Group, which manages Turkey’s largest non-food retail chain.

In new sectors, Abraaj Capital, Dubai-based private equity group, acquired 25% of Turkey’s largest online retailer, Hepsiburada, for $100 million in February 2015.

**Sector 3: Defense**

Defense represents one of the most promising high value-add drivers of Turkey-Gulf economic engagement. Turkey-GCC defense industry engagement represents market complementarity between Turkey’s innovative drive in the defense industry and Gulf states’ large defense budgets—particularly for arms imports. These budgets, only surpassed by those of the United States and China, are oriented towards counterbalancing Iran and responding to other regional threats. Turkish defense exports to Gulf states tend to focus on systems-level products. North American and European products traditionally dominate GCC defense procurements; however, Turkey’s firms have made gains given their increasing product sophistication and competitive pricing. Between 2004 and 2013, Saudi Arabia was Turkey’s top Gulf export market and ranked among the top five importers of Turkey’s defense products, alongside the United States and NATO, with an estimated import value of $406 million. Three Gulf states—Bahrain, Saudi Arabia, and the UAE—ranked among the top ten export markets of Turkey’s defense industry by 2011 and represented 25% of its defense exports by 2012.

The Republic has assisted its industry’s Gulf trade by political institutionalization with GCC member states. Institutionalization includes bilateral military and trade agreements, technology sharing schemes, and the physical regional presence of Turkey’s Undersecretariat of Defense (SSM) offices. For example, Turkey entered into two military-related cooperative agreements with Saudi Arabia linked to purchasing plans for Turkey’s Anka tanks and Atlay drones. Turkey deepened this relationship with the July 2015 MoU that increased defense-related technological cooperation by means of a tripartite agreement between the leading Turkish defense firm Aselsan with the Saudi institutions, King Abdulaziz City for Science and Technology, and TAQINIA Defense and Securities Technologies. Such agreements are supported by Turkey’s public sector, which encourages Turkey’s defense industry sales to Saudi Arabia and other Gulf states. Turkey’s government is also creating a physical presence in the region to support its industry’s sales, exemplified by the 2011 opening of an SSM office in Saudi Arabia.
Turkey’s defense industry is also pursuing increased presence in GCC defense sectors beyond Saudi Arabia, especially Kuwait and Qatar. President Erdoğan made explicit comments regarding defense-related cooperation during his April 2015 Kuwait visit. Turkey identifies Qatar, one of its closest regional allies, as a potential platform for further GCC defense market entry. It supports this platform option by means of various bilateral military agreements (see Case Study 2). Turkey signed approximately $120 million in Qatari defense contracts between 2011 and 2014. These contracts included maritime platforms and systems in addition to UAVs, jammer systems, and other training services.61 One such purchase was the 2014 Qatar Coast Guard Command contract for 17 patrol boats with Turkey’s Ares Shipyards.62

**Sector 4: Food Security and Agribusiness**

GCC national governments—many of which lack domestic resources to meet even a quarter of national demand—seek secure, stable agrifood sources to feed growing populations and control the increasing costs of food imports. Agrifood products and agribusiness are therefore central to Turkey-GCC economic engagement. This centrality reflects Turkey’s ranking among the highest global agricultural export growth markets alongside China, India, and Ukraine.65 Turkey’s agricultural exports, diversified since 2000, are ideally suited to Gulf consumption patterns; they included sunflower oil, tree nuts, poultry, pasta, and flour.64 Areas of export specialization are dried fruits and nuts, including dried figs and apricots, raisins, and hazelnuts.65

Agrifood and agribusiness represent a primary area of trade and investment complementarity that has yet to be extensively exploited. As stated by HSBC Group’s MENA Regional Head of Trade and Receivable Finance, Tim Evans:

> Turkey needs to import energy and has surplus food production. Many countries in MENA have an energy surplus and need to import food... The synergies are clear, and they extend far beyond this simple commodity play.66

Despite such comments, Turkey’s agricultural exports to the UAE and Saudi Arabia are substantial, represented by the €133.7 million and €282.5 million (respectively) worth of exports in 2012. In 2010, Turkey had targeted an export level of $250 million with the UAE.67 The Emirates are interested in Turkish products ranging from vegetables to livestock; the GCC region has not experienced food shortages because they have accepted massive increases in the cost of their food imports, which makes affordable and proximate agrifood sources such as Turkey desirable.68

In addition to agrifood imports, the Gulf is seeking further food securitization by means of agriculture investment. Specialized GCC agricultural investment bodies such as Hassan Food Co., the agricultural arm of Qatar’s SWF, plan to supplement innovative domestic production schemes with the purchase of foreign arable land in states including Turkey. In this example, Hassan publically discussed its plans to enter Turkey in 2011 and initiated
investment plans in 2014. Turkey represented one of the top Saudi Arabian investment targets by 2011, with an estimated return on its Turkish agricultural investment per one hectare at $1,200 per year. Turkish investment and property-related regulatory reforms makes such land investment possible. However, such investments have received increased criticism from Turkey’s citizens regarding trends in foreign land ownership, especially ownership tied to water access.

CONCLUSION: LIMITATIONS TO TURKEY-GCC TRADE AND INVESTMENT ENGAGEMENT

Turkey-GCC economic engagement presents several challenges related to logistics, political conditions, and market stability. Politically, Turkey’s regional policies have alienated certain GCC members with possible effects on trade relations. For example, amid opposing positions between Turkey and the UAE towards Egypt, the Abu Dhabi National Energy Company withdrew $12 billion of planned thermal power plant investment in Turkey’s southern Afşin-Elbistan region seven months after the agreement’s January 2013 signature. Turkey’s Iranian policy and its dependence on Iranian petroleum and natural gas complicate its GCC dialogue. This complication will only increase given expanding Turkey-Iran trade relations as suggested by Minister of Economy Nihat Zeybekci’s August 2014 statement that Turkey was targeting a 2015 Turkey-Iranian trade volume of $35 billion. Certain intergovernmental agreements have also proven difficult, especially the decade-long prospect of a Turkey-GCC free trade agreement (FTA) initiated in 2005. This agreement remains stalled following the GCC Ministerial Council’s 2009 cessation of all FTA negotiations. Resuming FTA negotiations in 2014, the GCC entered only its Singapore and European free trade agreements into force without reference to a timeline for completion of the Turkey FTA.

Logistics routinely challenge Turkey-GCC economic engagement, especially with transportation routes vis-à-vis Iraq and Syria. Turkey circumvented this instability in 2012 with an Egyptian transit MoU for a Ro-Ro line. This line enabled trucks from Turkey to reach Saudi Arabia’s Dhiba Port in a few days and minimized additional shipping costs. This memorandum, however, was cancelled in 2015. Its cancellation affects 8,000–10,000 trucks destined for Gulf markets annually. The Suez and other alternative routes are significantly longer and add at least an additional $1,000 per shipment.

Also at issue is the level of stability and diversification of Turkey’s and GCC states’ markets. Turkey’s economy exhibits ongoing problems, including a high current account deficit, a high inflation rate, a low domestic savings rate, and a depreciating lira. The GCC member states have been tracking these and related economic conditions for several years, exemplified by the UAE Central Bank’s 2013 assessment of domestic firms’ financial exposure in Turkey. Gulf economies are undergoing dynamic change given the post-June 2014 decline of crude oil prices. The resulting strategic changes address the GCC member states’ slowing growth rates and increasing fiscal deficits. Such limitations may therefore alter Turkey-GCC economic engagement trends highlighted in this report.
The increasing number of tourist flows from GCC countries to Turkey is an embodiment of the growing Turkey-GCC relationship. In 2014 alone, there was an estimated 582,698 visitors from the Gulf states to Turkey—a 42% rise from the previous year, with a similar growth rate expected by the end of 2015 (see Figure 3).75 Saudi figures were up 30% year on year, while Bahraini tourists visiting Turkey are estimated to have increased by more than 700% over the past ten years; the phenomenon of expanded GCC tourism to Turkey has been paralleled with an increase of regular and affordable direct flights from GCC capitals to Istanbul—a key enabler.76,77 Another elucidating statistic is the high passenger-load on Emirates flights between Dubai and Istanbul, which was at a high 95% by the end of 2014.78

The GCC region contributes to more than 5% of Turkey’s tourism revenue, despite being less than 1.5% of the global population. Tourists from the GCC are characterized by relatively high per capita expenditure, spending $5,000-6,000 per visit to Turkey, compared with European tourists who spend no more than $1,000 per visit on average.79

According to the world tourism rankings (compiled by UNWTO), Turkey is globally the sixth most popular destination, with an estimated 39.8 million international tourists per year.80 Selling points for all tourists include: a highly developed tourism and

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**Case Study 3: GCC TOURISM TO TURKEY**

**Figure 3: VISITORS TO TURKEY FROM GCC STATES IN 2014**

Source: Middle East Monitor
hospitality infrastructure, 7,200 km of coastline, a temperate climate, the cultural heritage, and a growing MICE segment (Meetings, Incentives, Conventions, and Events). In addition to the general attractions, there are GCC-specific selling points, which include: the relatively close proximity, luxury shopping outlets, Islamic sights and architecture (e.g., Topkapi Palace), a growing “Halal tourism” segment, the increased use of Arabic (e.g., on menus), an increase in GCC-Turkey political alignment, regular direct flights from each GCC member state, and convenient visa access.81

The world-class tourism infrastructure represents much of the stimulus for increased touristic flows and can be partly credited to the fact that four of the world’s six top-ranked airlines are from Turkey and the GCC: Qatar Airways (1st), Turkish Airlines (4th), Emirates (5th), and Etihad (6th). Turkish Airlines is also ranked the best in Europe.82

Advertising has also played a significant role in boosting tourism from the Gulf, with Turkish Airlines and Turkey’s Ministry of Culture and Tourism launching large advertising campaigns in the GCC member states, particularly for the summer season.83,84 Other factors have been cited, including the increased popularity of Turkish soap operas and sitcoms that are broadcast—and have been translated into Arabic—from several television channels in the GCC and the broader Middle East (see Case Study 1 for more details).

The spikes in arrivals from the GCC in recent years can also be partly attributed to Turkey’s steadfast security situation and the falling tourist numbers in Egypt, Lebanon, and other popular regional destinations that have experienced increased turmoil, conflict, and political instability since the 2011 Arab uprisings.

The growth in tourism between the GCC states and Turkey has also been closely aligned with heightened investment in real estate (i.e., holiday homes, pied-à-terres, and the like). Billions of dollars have been invested in both personal and commercial pursuits. One example, in early 2015, is the UAE-based hotel chain Rotana, which entered Turkey through the investment of two hotels in Istanbul, namely Burgu Rotana and Tango Arjaan Rotana, with further projects in the pipeline.85

Furthermore, Turkey and the Gulf states have emerged as hot destinations for the global contemporary arts market, which has resulted in the establishment of mutually beneficial cultural and economic linkages between the regions.86 Because of its reputation as a cosmopolitan city that is open to an international arts market from East and West, Istanbul and its image as an avant-garde, artistic location is positioned to attract new tourism in the region. Examples include Gulf Air’s promotion of modern art tours across the city, and more recently Qatar Museum named 2015 as the Qatar-Turkey Year of Culture, an initiative that works to “build bridges between nations.”87

The plethora of increasing political, economic, and cultural ties between Turkey and the countries of the Gulf is further developed and accelerated through Turkey’s GCC-specific tourism offerings, which serve to mutually reinforce myriad linkages between the regions.
Notes
2. IPSAT, 2015.
3. For a list of the seven DEIK Gulf Business Councils (the seventh being that of Yemen) see DEIK 2015.
5. Republic of Turkey Ministry of Foreign Affairs, 28 January 2012.
6. Schmidt and Subervie, September 2014. Also see Talbot, June 2013. For more information on Turkish trade values with different partners, see: http://wits.worldbank.org/CountryProfile/Country/TUR/Year/2014.
10. These figures originate from the Central Bank of Turkey Provisional Data. fDi Markets reported 2014 GCC FDI capital expenditures to Turkey as $384 million, including estimates, based on 11 identified projects. Reporting of these FDI Market Figures in Fingar, 30 June 2015.
11. IPSAT, August 2014.
16. Ibid.
20. IEA, 7 July 2015.
22. Ibid.
23. Pamuk, 14 February 2012.
25. REUTERS, 31 AUGUST 2012.
29. Rosenbaum, 23 August 2015.
32. Foreman, 27 June 2012.
33. TAV CONSTRUCTION, 22 DECEMBER 2014.
39. TIM and ISPAT, November-December 2013, 22.
41. Deloitte 2015, 58.
42. IPSAT 2015.
43. Turkish exhibits also held the largest space at the Dubai September 2015 property expo, Citiscape Global.
44. IPSAT.
47. Bayraktar, 11 September 2015.
48. IPSAT 2015.
50. Reuters, 26 April 2013.
52. Reuters, 19 September 2012.
55. Ibid, Turkish Statistical Institute, 29 September 2015.
56. Investcorp, 17 July 2012.
57. Sambidge, 17 April 2013.
60. Defence Turkey 2014, 15.
63. USDAFAS, 18 December 2014.
64. Ibid.
65. Ibid.
67. HSBC 2012.
68. TRADE ARABIA, 11 JULY 2011.
69. For further discussion, see Schmidt and Subervie, September 2014.
71. Ibid.
74. Albayrak, 23 April 2012.
75. Turkmen, 4 April 2014.
76. Middle East Monitor, 5 February 2015.
77. Touni, 26 May, 2015.
79. Tore, 18 November 2014.
80. Middle East Monitor, 5 February 2015.
82. Citizens of all GCC states are eligible for E-VISAS and VISA issuance at the airport.
83. Skytrax, 2015.
84. Middle East Monitor, 5 February 2015.
87. Adam, 30 November 2012.
ANNEXES
# ANNEX 1: BILATERAL AGREEMENTS BETWEEN TURKEY AND GCC STATES

## Turkey-Bahrain

<table>
<thead>
<tr>
<th>DATE</th>
<th>AGREEMENT</th>
<th>PURPOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>8-Jan-90</td>
<td>Agreement on Economic, Industrial, and Technical Cooperation</td>
<td>Promotes economic, industrial, and technical cooperation in fields that contribute to the development of their economies upon which a Joint Economic Committee is established</td>
</tr>
<tr>
<td>30-Jan-93</td>
<td>Cultural Agreement</td>
<td>Promotes cultural cooperation</td>
</tr>
<tr>
<td>16-Oct-98</td>
<td>Air Transport Agreement</td>
<td></td>
</tr>
<tr>
<td>30-Jul-02</td>
<td>MoU between the Bahrain Central Bank and Turkey’s Banking Regulation and Supervision Agency</td>
<td>Promotes technical cooperation and consistency of policies and regulations in the banking sector</td>
</tr>
<tr>
<td>14-Nov-05</td>
<td>Agreement on Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income</td>
<td>Enables offsetting tax paid in one of two countries against the tax payable in the other and the prevention of tax evasion with respect to income and capital tax</td>
</tr>
<tr>
<td>15-Feb-06</td>
<td>Agreement on Reciprocal Promotion and Protection of Investments</td>
<td>Promotes greater economic cooperation particularly with respect to investments; stimulates flow of capital, technology, and economic development; extends legal protection of investments and settlement of disputes framework</td>
</tr>
<tr>
<td>15-Feb-06</td>
<td>Customs Cooperation Agreement</td>
<td>Enables free flow of commodities, services and capital</td>
</tr>
<tr>
<td>2-May-06</td>
<td>Agreements on Maritime and International Road Transport</td>
<td>Facilitate transport of passengers and goods between the two countries as well as in transit through their territories</td>
</tr>
<tr>
<td>27-Mar-06</td>
<td>Agreement on Security Cooperation</td>
<td>Focuses on combating terrorism; includes combating arms and drug trafficking as well as curbing illegal immigration</td>
</tr>
<tr>
<td>23-May-07</td>
<td>Agreement on Military Cooperation</td>
<td>Provides framework for education and technical and scientific cooperation in the military field</td>
</tr>
<tr>
<td>4-Aug-08</td>
<td>MoU on Development</td>
<td>Upgrades cooperation in infrastructure projects and developing the construction industry</td>
</tr>
<tr>
<td>5-Aug-08</td>
<td>MoU on Commercial Cooperation</td>
<td>Facilitates cement and iron commerce; promotes cooperation in agricultural, financial, tourism, and exhibition sectors</td>
</tr>
<tr>
<td>18-Feb-10</td>
<td>MoU on Trade</td>
<td>Contributes to developing trade</td>
</tr>
</tbody>
</table>

## Turkey-Kuwait

<table>
<thead>
<tr>
<th>DATE</th>
<th>AGREEMENT</th>
<th>PURPOSE</th>
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</thead>
<tbody>
<tr>
<td>19-Jul-75</td>
<td>Cultural Agreement</td>
<td>Promotes cultural cooperation</td>
</tr>
<tr>
<td>22-Mar-82</td>
<td>Agreement on Economic, Industrial and Technical Cooperation</td>
<td>Promotes economic, industrial, and technical cooperation upon which a Joint Economic Committee is established</td>
</tr>
<tr>
<td>20-Feb-87</td>
<td>Agreement on Military Training and Technical Cooperation</td>
<td>Promotes military cooperation through scientific and technical training exchanges</td>
</tr>
<tr>
<td>27-Oct-88</td>
<td>Agreement on Reciprocal Promotion and Protection of Investments</td>
<td>Promotes greater economic cooperation particularly with respect to investments; stimulates flow of capital, technology, and economic development; extends legal protection of investments and settlement of disputes framework</td>
</tr>
<tr>
<td>14-Jun-09</td>
<td>Security Cooperation Agreement</td>
<td>Establishes a legal framework for the expansion of military cooperation</td>
</tr>
<tr>
<td>Date</td>
<td>Agreement</td>
<td>Purpose</td>
</tr>
<tr>
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</tr>
<tr>
<td>24-Mar-97</td>
<td>Agreement on Cooperation in the Legal and Judicial Fields</td>
<td>Basis for implementing previous agreements and improving cooperation in all fields</td>
</tr>
<tr>
<td>7-Oct-97</td>
<td>Agreement on Avoidance of Double Taxation</td>
<td>Enables offsetting tax paid in one of two countries against the tax payable in the other with respect to income and capital tax</td>
</tr>
<tr>
<td>3-Dec-97</td>
<td>Trade Agreement</td>
<td>Develops trade ties</td>
</tr>
<tr>
<td>2001</td>
<td>Agreement on Security Cooperation</td>
<td>Promotes security cooperation to fight against drug trafficking, terrorism, and organized crime</td>
</tr>
<tr>
<td>30-Mar-08</td>
<td>Agreements and MoUs in Various Fields</td>
<td>Promotes bilateral relations in several fields, including industrial exports, exchange of labor force, agriculture, protection of environment and preserving natural resources, economic and technical cooperation, and technology cooperation</td>
</tr>
<tr>
<td>23-Jan-09</td>
<td>Agreement on Military Cooperation</td>
<td>Promotes military cooperation through training and exchange of expertise</td>
</tr>
<tr>
<td>27-May-10</td>
<td>Agreement on Reciprocal Promotion and Protection of Investments (updated)</td>
<td>Promotes greater economic cooperation particularly with respect to investments; stimulates flow of capital, technology, and economic development; extends legal protection of investments and settlement of disputes framework</td>
</tr>
<tr>
<td>10-Mar-11</td>
<td>MoU in the Field of Industrial Cooperation</td>
<td>Increases efforts in management techniques and scientific and technological developments in the industrial sector</td>
</tr>
<tr>
<td>29-Apr-13</td>
<td>Agreements and MoUs in Various Fields</td>
<td>Promotes bilateral relations in several fields including aviation, higher education, livestock breeding, culture and arts, visa exemption, and defense</td>
</tr>
</tbody>
</table>

**Turkey-Oman**

<table>
<thead>
<tr>
<th>Date</th>
<th>Agreement</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>24-Jan-95</td>
<td>Agreement on Trade, Economic, Technical and Scientific Cooperation</td>
<td>Promotes economic and trade relations as well as scientific and technical cooperation; upon which Joint Committee is established</td>
</tr>
<tr>
<td>1997</td>
<td>Agreement on Cooperation and Mutual Assistance in Customs Matters</td>
<td>Facilitates cooperation for enhanced application and administration in customs matters</td>
</tr>
<tr>
<td>21-Sep-99</td>
<td>MoUs in Various Fields</td>
<td>Promotes cooperation in several fields including agriculture, education, culture, information, youth and sports</td>
</tr>
<tr>
<td>4-Jul-01</td>
<td>MoU on Military Cooperation</td>
<td>Promotes military cooperation with reference to training</td>
</tr>
<tr>
<td>13-Jan-04</td>
<td>Agreement on Trade, Economic, Technical and Scientific Cooperation (Revised)</td>
<td>Promotes economic and trade relations as well as scientific and technical cooperation; upon which Joint Committee is established</td>
</tr>
<tr>
<td>13-Jan-04</td>
<td>Agreements in Various Fields</td>
<td>Agreements on international road transport and environmental protection</td>
</tr>
<tr>
<td>13-Sep-05</td>
<td>MoU in the Field of Agriculture</td>
<td>Promotes cooperation in these fields</td>
</tr>
<tr>
<td>31-May-06</td>
<td>Agreement on Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income</td>
<td>Enables offsetting tax paid in one of two countries against the tax payable in the other and the prevention of tax evasion with respect to income and capital tax</td>
</tr>
<tr>
<td>4-Feb-07</td>
<td>Agreement on Reciprocal Promotion and Protection of Investments</td>
<td>Promotes greater economic cooperation particularly with respect to investments; stimulates flow of capital, technology, and economic development; extends legal protection of investments and settlement of disputes framework</td>
</tr>
<tr>
<td>6-Mar-10</td>
<td>MoU in the Field of Agriculture</td>
<td>Sets out a framework of cooperation in agriculture, food processing, animal husbandry, and rural affairs; facilitates exchange of technical information in related fields</td>
</tr>
<tr>
<td>6-Mar-10</td>
<td>MoU on Tourism</td>
<td>Promotes cooperation in the tourism sector</td>
</tr>
<tr>
<td>22-Jan-11</td>
<td>MoU on Military Cooperation (extended in 14-Feb-2013)</td>
<td>Promotes military cooperation</td>
</tr>
<tr>
<td>2-Oct-12</td>
<td>MoU for Enhanced Cooperation</td>
<td>Promotes cooperation in economics, energy, transport, agriculture, livestock, education, and technology</td>
</tr>
<tr>
<td>24-Oct-13</td>
<td>MoU in Education</td>
<td>Facilitates exchange visits of educational officials; enhances academic and research cooperation</td>
</tr>
</tbody>
</table>
### Turkey-Qatar

<table>
<thead>
<tr>
<th>Date</th>
<th>Agreement</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>11-Mar-85</td>
<td>Economic and Technical Cooperation Agreement</td>
<td>Promotes economic, industrial, and technical cooperation upon which a Joint Economic Committee is established</td>
</tr>
<tr>
<td>11-Mar-85</td>
<td>Cultural Cooperation Agreement</td>
<td>Promotes cultural cooperation</td>
</tr>
<tr>
<td>25-Dec-01</td>
<td>Reciprocal Promotion and Protection of Investments Agreement</td>
<td>Promotes greater economic cooperation particularly with respect to investments; stimulates flow of capital, technology, and economic development; extends legal protection of investments and settlement of disputes framework</td>
</tr>
<tr>
<td>25-Dec-01</td>
<td>Agreement on Avoidance of Double Taxation</td>
<td>Enables offsetting tax paid in one of two countries against the tax payable in the other with respect to income and capital tax</td>
</tr>
<tr>
<td>23-May-07</td>
<td>Agreement on Military Cooperation</td>
<td>Provides framework for education, technical, and scientific cooperation in the military filed</td>
</tr>
<tr>
<td>11-Jun-08</td>
<td>MoU between Qatar Investment Authority and Turkey Investment Support and Promotion Agency</td>
<td>Promotes comprehensive cooperation on investing</td>
</tr>
<tr>
<td>14-Mar-11</td>
<td>MoU on Joint Economic Commission Meetings</td>
<td>Promotes free trade regions and economic zones; carries out joint works in both countries and in third countries, boosts joint gas prospecting and production in Qatar; boosts cooperation to protect intellectual property rights; boosts private sector relations between both countries</td>
</tr>
<tr>
<td>14-Aug-11</td>
<td>MoU Between Qatar Financial Center Regulatory Authority and the Banking Regulation &amp; Supervision Agency of Turkey</td>
<td>Promotes stronger cross-border regulatory oversight and supervisory information sharing</td>
</tr>
<tr>
<td>2-Jul-12</td>
<td>Agreement on Military Training Cooperation</td>
<td>Establishes cooperation mechanisms in military training; promotes cooperation in defense industry by using their scientific and technical capabilities for military equipment and weapons</td>
</tr>
<tr>
<td>19-Dec-14</td>
<td>MoU to Establish a Supreme Strategic Committee</td>
<td>Oversees cooperation in politics, commerce, investment, education, culture, science and technology, energy, agriculture, and communications</td>
</tr>
<tr>
<td>27-Mar-15</td>
<td>Defense Cooperation Agreement</td>
<td>Promotes military cooperation including on military training, defense-industrial projects, and deployment of Turkish troops in Qatar if necessary</td>
</tr>
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### Turkey-Saudi Arabia

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<tr>
<th>Date</th>
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<th>Purpose</th>
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</thead>
<tbody>
<tr>
<td>1-May-74</td>
<td>Agreement on Economic and Technical Cooperation</td>
<td>Promotes trade and economic cooperation upon which Joint Economic Committee is established</td>
</tr>
<tr>
<td>1-May-74</td>
<td>Trade Agreement</td>
<td>Promotes trade</td>
</tr>
<tr>
<td>1-May-74</td>
<td>Cultural Agreement</td>
<td>Promotes cultural cooperation</td>
</tr>
<tr>
<td>19-Mar-86</td>
<td>Agreements on Maritime and Road Transport</td>
<td>Coordinate regulation on maritime and road transports</td>
</tr>
<tr>
<td>11-Jan-89</td>
<td>Air Transport Tax Agreement</td>
<td>Reciprocal exemption of taxes on the activities of air transport enterprises</td>
</tr>
<tr>
<td>8-Aug-06</td>
<td>Agreement on Reciprocal Promotion and Protection of Investments</td>
<td>Promotes greater economic cooperation particularly with respect to investments; stimulates flow of capital, technology, and economic development; extends legal protection of investments and settlement of disputes framework</td>
</tr>
<tr>
<td>8-Aug-06</td>
<td>Agreements in Various Fields</td>
<td>Agreements in the fields of road transport, health, and tourism</td>
</tr>
<tr>
<td>9-Nov-07</td>
<td>Agreement on the Avoidance of Double Taxation and the Prevention of Tax Evasion</td>
<td>Enables offsetting tax paid in one of two countries against the tax payable in the other and the prevention of tax evasion with respect to income and capital tax</td>
</tr>
<tr>
<td>3-Feb-09</td>
<td>Agreements in Various Fields</td>
<td>Agreements on maritime transport and cooperation on youth and sports</td>
</tr>
</tbody>
</table>
### Turkey–GCC

<table>
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<th>Date</th>
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<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>24-May-10</td>
<td>Military Cooperation Agreement</td>
<td>Promotes training and scientific and technical cooperation in the military field</td>
</tr>
<tr>
<td>25-Dec-11</td>
<td>MoU for Cooperation in the Construction Sector</td>
<td>Encourages closer ties in this field</td>
</tr>
<tr>
<td>29-May-12</td>
<td>Agreement on Military Training Cooperation</td>
<td>Promotes military cooperation</td>
</tr>
<tr>
<td>21-May-13</td>
<td>Agreement on Defense Industry Cooperation</td>
<td>Improves defense industry capabilities through more effective collaboration on the development, production, and procurement of goods and services in the defense industry and related technical and logistical support fields</td>
</tr>
</tbody>
</table>

### Turkey–UAE

<table>
<thead>
<tr>
<th>Date</th>
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<th>Purpose</th>
</tr>
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<tbody>
<tr>
<td>09-Aug-84</td>
<td>Agreement on Economic and Technical Cooperation</td>
<td>Promotes trade and economic cooperation upon which Joint Economic Committee established</td>
</tr>
<tr>
<td>09-Aug-84</td>
<td>Cultural Cooperation Agreement</td>
<td>Promotes cultural cooperation</td>
</tr>
<tr>
<td>16-Oct-86</td>
<td>Air Transport Agreement</td>
<td></td>
</tr>
<tr>
<td>29-Jan-93</td>
<td>Agreement on the Avoidance of Double Taxation</td>
<td>Enables offsetting tax paid in one of two countries against the tax payable in the other with respect to income and capital tax</td>
</tr>
<tr>
<td>28-Sep-05</td>
<td>Agreement on Reciprocal Promotion and Protection of Investments</td>
<td>Promotes greater economic cooperation particularly with respect to investments; Stimulates flow of capital, technology and economic development; extends legal protection of investments and settlement of disputes framework</td>
</tr>
<tr>
<td>26-Nov-07</td>
<td>Air Service MoU</td>
<td>Extends cooperation in areas related to all aviation issues such as training, maintenance, ground handling, airport operations; increases traffic rights to the routes Abu Dhabi – Turkey – Abu Dhabi</td>
</tr>
<tr>
<td>17-Feb-09</td>
<td>MoU Between the UAE Central Bank and Turkey's Banking Regulation and Supervision Agency</td>
<td>Promotes technical cooperation and consistency of policies and regulations in the banking sector</td>
</tr>
<tr>
<td>24-Mar-09</td>
<td>Agreement on Military Cooperation</td>
<td>Bolsters joint cooperation in military fields that advance plans and strategies for defense modernization</td>
</tr>
<tr>
<td>26-Dec-10</td>
<td>MoU for Establishing a Joint Committee</td>
<td>Contribute to promoting political, economic, trade, cultural, consular and security relations</td>
</tr>
<tr>
<td>03-Jan-13</td>
<td>Agreement on Cooperation for Lignite Extraction and the Electricity Production in the Afsin-Elbistan Region of Turkey</td>
<td>Develop Turkey's indigenous lignite resources to reduce country's dependence on imported natural gas; grow power generation capacity to meet expected electricity demand; enhance Turkey's energy security</td>
</tr>
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</table>
## ANNEX 2: BILATERAL TRADE STATISTICS BETWEEN TURKEY AND GCC STATES

### Turkey-Bahrain

<table>
<thead>
<tr>
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### Turkey-Qatar

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Turkey–GCC Relations: Trends and Outlook

### ANNEX 3: FDI INFLOWS (EQUITY) FROM GULF COUNTRIES TO TURKEY (US$ MILLIONS)

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<td>185</td>
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<td>880</td>
<td>425</td>
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Source: Central Bank of the Republic of Turkey.

### ANNEX 4: GCC COUNTRIES’ FDI STOCK IN TURKEY AT THE END OF 2014 (US$ MILLIONS)

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<td>Qatar</td>
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<tr>
<td>Total</td>
<td>12,117</td>
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Source: Central Bank of the Republic of Turkey.
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Dr. Catherine Long is the Public Policy faculty member of Kadir Has University, Department of Political Science and Public Policy and the Africa lead of the University’s MARC. Catherine holds a PhD in Political Science focusing on IPE, Public Policy, and Comparative Politics as well as an MPH in pharmaceutical innovation and trade policy and African Studies Certification. Dr. Long was a US government FLAS Fellow, an Alan Rosenfield ASPH/CDC International Fellow, and a member of PEPFAR among other international organizations. She has served as a consultant for various African projects and has an upcoming article on TTIP and Turkey.

Behar Sadriu is a PhD candidate at SOAS, University of London and a member of the International Studies Association. His main research focus is on International Relations theory, Network Analysis and Turkey’s foreign policy orientation, particularly from the 1990s onward. Behar is particularly interested in Turkey’s engagement with “post-Ottoman” spaces in the Western Balkans, the MENA region and Central Asia. The role of Islam and Islamic networks is also an important aspect of his research.