« Turkey/GCC economic relations »

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Contents:

Executive summary

Developing economic relations with GCC countries has become a consistent objective of the Turkish government since the coming in power of AKP. They have been successful in rallying part of the Turkish business community to this objective, thus building an internal social consensus towards opening to the Gulf.

Being aware of the economic successes of GCC countries and of its own economic weaknesses, Turkey has thus persistently worked on developing exchanges with over the last decade – starting with the signing of an Economic Cooperation Framework Agreement in 2005. Bilateral and multilateral meetings are being regularly held in order to foster rapprochement and sustain the momentum.

As a result, Turkey / GCC exchanges have steadily increased in a win-win dynamic:

- Turkey crucially depends on the GCC to provide energy and foreign investment. The so-called "Turkish model", combining social Muslim values, democracy and market economy, has gained attention in the region, attracting more and more tourists from the Gulf.
- GCC countries, experiencing the global economic crisis and a food crisis in 2007-2008, have been drawn to invest in several agricultural projects in Turkey, to reach for arable land and ensure new food supply. Some also consider investing in the energy sector, one with a strong growth in Turkey.
- For Turkey, economic relations are also a tool to achieve the "zero-problem with neighbours" foreign policy objective.

Yet several variables cast a shadow on future cooperation between Turkey and GCC countries. Negotiation for a FTA started in 2005. They have been lagging behind and appear difficult to finalize in the current environment.

- At domestic level, Turkey's economic environment is becoming shaky (impact of recession in the EU and conflicts in the Middle East, strong depreciation of the lira, corruption scandals affecting the government's credibility, protests against Prime Minister Recep Tayyip *Erdoğan*).
- At regional level, some of Turkey's recent foreign policy stances have negatively impacted relations with the GCC. The corruption scandals also revealed Turkey's ambiguous treatment of Iran, who seems to have become a major economic target for AKP.
- Under such circumstances, Turkey's constant efforts to position itself as a pivot between energy producing and consuming countries notably depend on the upgrading of its relations with GCC countries.

Introduction

Over the last decade, Turkey has decisively worked on reviving and improving relations with its Arab partners.

The links, somewhat neglected before the arrival of the AKP (*Adalet ve Kalkınma Partisi, Justice and Development Party)* in power, have gained relevance both from a diplomatic and an economic point of view. Turkey indeed now seems to consider again the Middle East as an area of natural influence, pursuing what some analysts have labelled a neo-Ottoman vision. The main difference with the Ottoman past imperialistic designs may be that modern Turkey asserts its presence more through a rational usage of soft power more than aggressive conquest. It is notably becoming aware of the economic potential of the region, both in terms of trade and to attract capital inflows sustaining its own thriving growth.

Although not immediate neighbours to the Republic of Turkey, GCC countries were included into the "zero problems with neighbours" perimeter designed by the current Turkish Prime minister, ex-Foreign Minister, Ahmet Davutoğlu. Relations with the GCC were from the outset considered as strategically important essentially because of their economic potential. Thus, the development of Turkey's economic links with Gulf monarchies was both a motivation and a driving force for the rapprochement. Multilateral as well as bilateral meetings have multiplied over the last years, allowing a rapid development of trade as well as political consultations about several regional issues. Diplomatic initiatives and economic expansion have been considered complementary and business circles have joined the momentum, under the guidance of the Turkish state.

The FTA talks being currently suspended in a context of growing strain, there is an obvious need to assess the real nature and intensity of the economic interdependence between Turkey and the GCC. This paper will thus examine the drivers of the relationship and evaluate their actual strength, especially as seen from the Turkish side – some sectors still appearing as very promising for future cooperation, assuming that some perturbing diplomatic variables could be neutralized in the medium-long term.

I. Emergence of a new economic relationship between Turkey and the GCC over the AKP decade

The Turkish government has set the target of US$ 100bn for its global trade envelope with GCC countries by 2023. The figure does not look unrealistic considering on the one hand that Turkey is the largest manufacturing base in the Middle East, and on the other that its industry products are progressively reaching the upmarket standards. Turkey then seems to be in a position to meet the future economic demand originating from affluent societies of the Gulf countries, whose imports are 90% composed of manufactured goods. Although the Turkish economy is still having difficulty to maintain its market shares in the Gulf against India and China, it has become a formidable rival to its European counterparts in terms of price and quality.

a. The formal framework: an improvement of economic ties primarily resulting from collective political will

1- Government's strategies

In order to tap into this market, the Turkish government has signed several bilateral investment and trade treaties with Gulf monarchies[1] over the past few years, the most emblematic being the Economic Cooperation Framework Agreement signed with the GCC in 2005. It was designed to pave the way for other treaties and to encourage further negotiations on a Free Trade Agreement. The general purpose of such framework treaties is to set up provisions for foreign investors trading in Turkey and Turkish investors operating abroad. They provide for a competitive regime to be applied to trade relations, the elimination of double taxation and the prevention of tax evasion. More recently, they have added free transfer of profits and terms and conditions for expropriation in the host country. In other words, they aim at ensuring the enforcement of WTO principles such as the national treatment clause and most-favoured nation trading status.

To this end, governments on both sides, supported by private sector companies, have worked on boosting cooperation through a multi-pronged strategy. Bilateral joint Economic Committee and Sub-Committee meetings are being held regularly (annual or biennial) within the framework of several "Agreements on Enhancing Economic and Technical Cooperation"[2] signed by Turkey and all GCC countries between 1974 and 2004, in order to spur economic activity. They consist in high-level meetings between ministries and powerful confederations of businessmen and industrialists, leading to a series of Memoranda of Understanding (which have been implemented since 2005). The main goal of these gatherings is to outline the desired path for the bilateral economic relation to gain momentum. In addition, the High

[1] Agreement on Enhancing Economic and Technical Cooperation signed with: Kingdom of Saudi Arabia (1974), Kuwait (1982), Oman (2004), Bahrain (1990), United Arab Emirates (1984) and Qatar (1985).
Bilateral Investment Promotion and Protection Agreement signed with: Kingdom of Saudi Arabia (2006), Kuwait (2010), Oman (2007), Bahrain (2006), United Arab Emirates (2006) and Qatar (2008).
Double Taxation Prevention Treatment signed with: Kingdom of Saudi Arabia (2007), Kuwait (1999), Oman (2006), Bahrain (2005), United Arab Emirates (2007) and Qatar (2008).

[2] Turkish ministry of economy official website, English version (http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions&country=KW&region=4)

Level Strategic Dialogue [3] has facilitated a multilateral cooperation on economic considerations since 2008.

Business councils are to some extent the linchpins of these committees. Established between 2000 and 2006 by the Foreign Relations Board of Turkey and the Federation of Gulf countries Chambers of commerce and industry, they are meant to enhance dialogue and cooperation among business circles on both sides[4].

This rapprochement admittedly started before the coming to power of the AKP administration in Turkey, but it did not look as promising in the past. The cooperation between AKP officials and some federations of Turkish businessmen like TUSKON, which already had vested interests in Gulf market, proved assuredly fruitful and helped foster the global economic relationship. It is indeed obvious that the "Anatolian Tigers" went where the Turkish diplomacy headed to and vice versa[5]. They do influence each other (via joint working groups for instance[6]) in shaping strategies to strengthen their respective relations with GCC countries.

2- *Private sector's role in framing the Turkish diplomacy towards the GCC*

In order to better understand the role of private sector players in the rapprochement with Gulf countries, it may be relevant to try to define their respective positions and interests within the cluster of actors contributing to Turkey's foreign policy.

The Turkish Industry and Business Association (TÜSİAD: Turgutlu Sanayici ve İş Adamları Dernegi) is the oldest-established employers' organization in Turkey. It brings together the biggest industrial ventures in the country and its members mainly originate from the Kemalist elite. Their business is largely EU-oriented and they have sometimes been very critical of the government in the past, probably explaining why they were somewhat kept apart from the rapprochement with the GCC.

As a result, it is primarily the new business elites known as the "Anatolian Tigers" who have been most instrumental in the process. These rather conservative-minded entrepreneurs representing the new Anatolian business set up a number of associations aimed at promoting their own interests from the beginning of the 2000s on. Best-known among them are MÜSIAD (Müstakil Sanayici ve İş Adamları Derneği: Association of Independent Industrialists and Businessmen) considered as closely related to the AKP, and TUSKON (Türkiye İşadamları ve Sanayiciler Konfederasyonu: Turkish Confederation of Businessmen

[3] According to Valeria Talbot, « since then periodic intergovernmental meetings have taken place. Gulf security, including food security, the Arab-Israeli conflict, Iraq and the fight against terrorism has been identified as the most important strategic cooperation sectors ». However, meetings of the Sub-Committees are also held periodically in the areas of trade, investment, Financial and Monetary issues, energy, tourism, health, electricity, water and environment.
Read more: Talbot Valeria, *Turkey-GCC relations in a transforming Middle East*, Analysis No. 178, ISPI, June 2013.
[4] Except for Kuwait according to the Turkish ministry.
[5] *'Anatolian Tigers' go where Turkey's diplomacy leads,* REUTERS, The Peninsula Qatar English online, (available at : http://thepeninsulaqatar.com/news/views-in-news/120193/anatolian-tigers-go-where-turkeys-diplomacy-leads), July 13, 2010.
[6] *A win-win relationship: Recent years have seen a jump in trade with Gulf states*, The Report: Turkey 2012, Oxford Business Group (available at: http://www.oxfordbusinessgroup.com/news/win-win-relationship-recent-years-have-seen-jump-trade-gulf-states)

and Industrialists), strongly linked to the movement of Imam Fethullah Gülen[7] - instigator of the Gülen movement, also known as the Hizmet ("Service") movement - who was also favoured for some time by the government.

The other key player in the rapprochement with GCC is DEIK (Dış Ekonomik İlişkiler Kurulu: Foreign Economic Relations Board of Turkey). In terms of legal status, DEIK is not a purely private entity. It is indeed recognized as a holder of private rights, but it is also the upshot of a government initiative pursued in partnership with the business circles in order to coordinate the economic relations of Turkish business ventures with foreign countries. DEIK is thus closely related to both the public administrations and employers' organizations. It is in a position to provide state agencies with the necessary information to improve the efficiency of Turkey's economic diplomacy, while being in return more directly influenced by the government.

In spite of the "quasi-public governmental status" enjoyed by DEIK, it now appears that the government has let TUSKON take over a part of its remit, firstly because it wouldn't want to be dependent upon a single organization, and secondly in order to benefit from the distinctive feature of TUSKON as an efficient arena of discussion able to promote private interests ahead of state agents. This situation is nonetheless quickly evolving as will be explained later on.

Clearly enough, DEIK, TUSKON and MÜSIAD, being favorably inclined towards Turkey's new foreign policy doctrine, have been critically influential in the process of defining strategies aimed at developing economic relations with the GCC. However, the traditional hierarchy between state and private interests has so far been preserved. The government is still formally committed to consulting businesses through relevant employers' organizations, thus theoretically allowing them to influence Turkey's national choices. The state nevertheless counts on its own forces when it comes to defining the rules of this consulting process, thus asserting its central position as an arbiter and using the contractors' organizations to promote its interests abroad - in the GCC in this context[8].

3- Towards a Free Trade Agreement between Turkey and the GCC?

These dynamics may have accelerated the Free Trade Agreement (FTA) talks with the Gulf Cooperation Council started in 2005[9]. However, negotiations were stopped later on, officially because of the economic crisis[10]. In the 2008-2009 period, the GCC had indeed slowed down negotiations with all its commercial partners, and not only with Turkey, because of potential risks for the Gulf market stability. According to some Turkish observers[11], the FTA could in fact have been crippled by Gulf industry interests, with some

[7] Fethullah Gülen was born on April 27, 1941 at Korucuk, Erzurum, Turkey. He is a Turkish Muslim scholar. He has been living in Pennsylvania, USA, since 1999. Gülen teaches a version of Islam that is rooted in the teachings of the Islamic thinker Said Nursi (1878-1960). Gülen expressed his belief in science, interfaith dialogue and democracy. Gülen is also actively involved in the societal debate about spirituality, modernity, tradition, secularism, and Islamic thought. He has been repoted in English media as being "one of the most influential Muslim personalities".

[8] ALTAY ATLI, *Businessmen as Diplomats: The Role of Business Associations in Turkey's Foreign Economic Policy, Insight Turkey Vol. 13 / No. 1 / 2011, pp. 109-128*

[9] *Crisis pushed GCC to slow down Turkey FTA talks,* Today's Zaman, December 26, 2010, Sunday (available at: http://www.todayszaman.com/news-230708-crisis-pushed-gcc-to-slow-down-turkey-fta-talks.html)

[10] *Ibid.*

[11] *Free trade with GCC falls victim to local industry interests,* Today's Zaman Business, 2010-12-07 (available at: http://www.todayszaman.com/newsDetail_openPrintPage.action?newsId=228925)

Gulf industrials accusing Turkish exporters of “dumping cheap iron and steel products into the GCC market”.

Since 2010, officials on both sides have been claiming that the relationship would predictably warm up again soon. The Turkish Ministry of Economy[12] claims indeed that "negotiations for the conclusion of a free trade agreement between Turkey and the GCC states, suspended in 2009 because of the crisis, are being revived." In early 2012, a major gathering of officials and industrials in Istanbul was a strong signal in this direction. Participants committed then to doubling the volume of trade registered in 2011[13]. This objective was confirmed by the latest meeting of the Sub-Committee on economic strategic partnership, taking place in April 2013 within the framework of Turkey-GCC High Level dialogue. Another forum to boost trade between the GCC and Turkey was hosted in Bahrain in June 2014, gathering top officials and businessmen under the patronage of His Royal Highness Prime Minister Khalifa bin Salman Al Khalifa[14].

Although negotiations for a FTA seem to be close to revival[15], some indications suggest that the outcome of the talks may not be that close[16]. Tensions arising within the GCC itself might be one important reason for a probable postponement of the agreement[17]. Competition for leadership inside the GCC may indeed negatively impact its integration process, clearly distracting the decision makers’ attention from the perspective of a common FTA with Turkey.

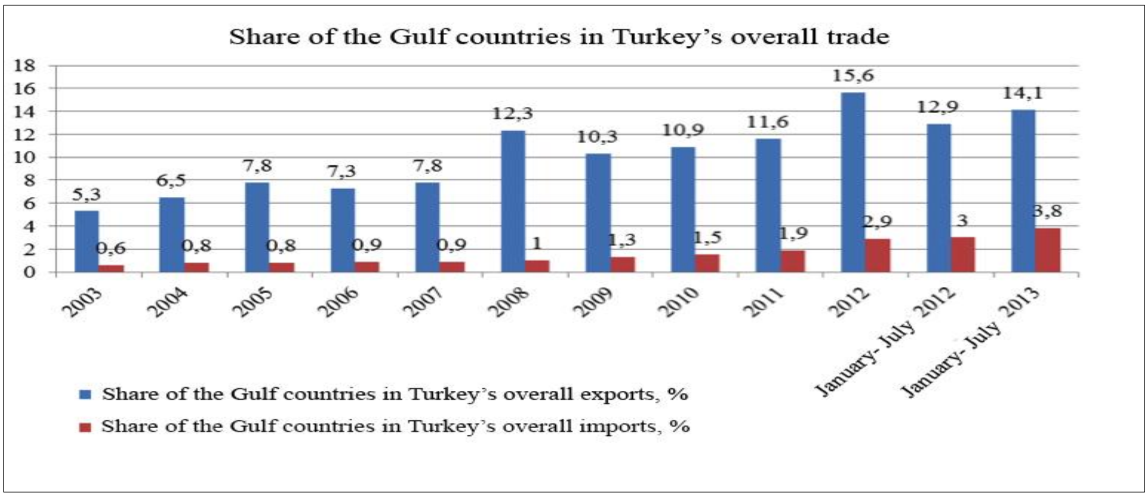
b. An effective strategy in view of the rapid development of trade, flows of persons and FDI between Turkey and GCC members since 2003

1- Trade

As of now, the stalemate in the FTA negotiations has not prevented the Turkey-GCC trade from increasing steadily. Indeed, the initial political will, backed by businessmen on both parts, has allowed a strong growth of exchanges.

[12] Interview with Turkish officials from the Ministry of Economy.
[13] Report: Turkey 2012, Oxford Business Group.
[14] *Forum to boost Turkey trade*, Gulf Daily News Monday, 26th May 2014.
Read more on: http://www.gulf-daily-news.com/source/XXXVII/067/pdf/page19.pdf
[15] Negotiations are still under way. For instance, on March 2013, H E Kerem A Kiratli, the Ambassador of Turkey to Oman has said that “Most of the legal framework of the FTA has been completed by the concerned governments. The free trade agreement between Turkey and GCC countries would significantly contribute to the volume of trade and investments.” Extraxt from: Zain al Tauqi, FREE TRADE PACTS WITH GCC ON TRACK: TURKEY, Muscat Daily, March 16, 2013.
[16] DİRİÖZ Ali Oğuz, *Turkey and the Gulf Cooperation Council (GCC) Strategic Partnership after 5 years*, Middle Eastern Analysis / Ortadogu Analiz ; July 2013, Vol. 5 Issue 55, p71
[17] *Bridging the Gulf: what is there to gain from a GCC Union?* By Naser al-Tamimi, Al Arabya English, Sunday, 5 May 2013 (available at: http://english.alarabiya.net/en/special-reports/bridging-the-gulf/2013/05/05/Bridging-the-Gulf-what-is-there-to-gain-from-a-GCC-Union-.html)

Figure 1:

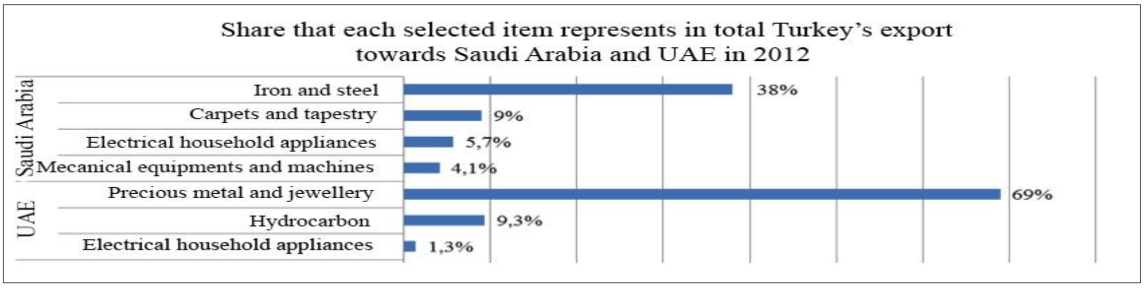


Source: TUIK

The share of Gulf countries as a destination for Turkish exports reached 15.6% in 2012, against 5.3% in 2003. While the region accounted for 0.6% of Turkish purchases in 2003, the figure grew to 2.9% in 2012. The relative decline observed in 2009 was mainly due to the effects of the global financial crisis[18].

These commercial exchanges are being dominated by Saudi Arabia and the United Arab Emirates, accounting for 86 % of GCC imports from and exports to Turkey in 2010[19]. They are mainly focused on construction goods, iron, steel and precious metals. Apart from the specific case of Turkish defence industry's growing exports to the Gulf[20], these exchanges are relatively poor in terms of high added value.

Figure 2:



Source: TUIK

[18] Indeed, there was a general decline in Turkish exports towards the rest of the World. This phenomenon did not concern the Gulf exclusively.

[19] *Saudi Arabia, UAE dominate Turkish-GCC trade*, ARAB NEWS, Sunday 1 January 2012, (available at: http://www.arabnews.com/node/402648)

[20] *Turkey to boost defense ties with Oman, UAE,* Hürriyet Daily News, March/26/2012, (Available at: http://www.hurriyetdailynews.com/turkey-to-boost-defense-ties-with-oman-uae.aspx?pageID=238&nID=16822&NewsCatID=344); *GCC states in military contract talks with Turkish government backed company*, By Alexander Cornwell, Gulf News, April 12, 2014 (Available at: http://gulfnews.com/business/aviation/gcc-states-in-military-contract-talks-with-turkish-government-backed-company-1.1318390)

The number of service contracts awarded to Turkish companies in the Gulf has also experienced significant growth over the past decade to reach a value of US$ 52.6 billion on March 31, 2013[21]. About 1000 Turkish entrepreneurs initiated large-scale projects and participated in the construction of new airports, subways, refineries and other infrastructures for petrochemical industries in the region. One of the best examples is the US$ 2.94bn contract for the Abu Dhabi's new airport terminal signed by a joint venture company, initiated by the TAV construction group in 2012.

Table 1: Service contracts awarded to Turkish companies in the Gulf, the 31th March 2013

Countries	Number of projects	Value (Bn USD)
Saudi Arabia	192	12,2
Qatar	108	12,2
EAU	99	8,4
Oman	43	5,5
Kuwait	21	1,2
Bahrain	4	0,3
Total	1.093	52,6

Source: Republic of Turkey Ministry of Economy

2- *Flows of persons*

In addition, human flows have spectacularly grown between Turkey and the Gulf, tourism and economic migrations thus becoming major aspects of their economic relation. According to some estimates[22], an important Turkish diaspora presently lives in the various countries of the GCC. About 200,000 Turks are residents in Saudi Arabia. On the flip side, while very few Gulf citizens have moved to Turkey, approximately 158,000 of them visited the country in 2010 and 409,742 in 2013 according to the Turkish Ministry of Culture and Tourism (they were only 43,000 in 2002).

The growing influence of Turkish social culture via the circulation of audio-visual products in the Arab world coincides with this phenomenon. Despite a different approach to religion and its role in society, large numbers of Turkish TV series are very popular in the Gulf countries, including Saudi Arabia and Qatar[23]. These TV serials advocate the "Turkish model" in which Islam and market economy coexist harmoniously. This creates cultural bridges, not affecting directly the balance of trade but possibly easing the future economic developments between Turkey and the Gulf.

[21] « In 2012, Turkish firms have won $2.4bn in contract awards. If TAV's $2.9bn deal for the midfield terminal is added to that, the number reaches $5.3bn, just $700m off 2011's total », To read the article, see : *Turkish contractors focus on GCC market,* By Colin Foreman, MEED, 2 July 2012, (Available at : http://www.meed.com/supplements/2012/turkey-and-the-middle-east/turkish-contractors-focus-on-gcc-market/3143333.article)

[22] Karpat, Kemal H. (2004), Studies on Turkish Politics and Society: Selected Articles and Essays : Volume 94 of Social, economic, and political studies of the Middle East, BRILL, ISBN 90-04-13322-4.

[23] « The Turkish soap opera titled "Noor" has attracted over 85 million Arab viewers over the age of 15 years, consisting of nearly 50 million women, the equivalent of more than half of the adult Arab female viewers of any TV drama in the Arab world in recent years. As for the second most popular Turkish dramatic series in the Arab world, the show "Years Gone Past" has totalled 67 million viewers, including nearly 39 million women ». Read more on: THE PENINSULA, *Turkish soap operas influencing Arab culture and politics,* by Khalid Al Jaber, *July 20, 2010.*

In contrast, the level of student exchanges remains very low. According to the Ankara-based USAK research centre[24], only 20 students from the Gulf received residence permits to study in Turkey in 2011. There may lie a promising field for further cooperation in the future.

3- FDI

Several Gulf companies have launched long-term investment projects in Turkey. In 2012, GCC's total investments in Turkey stood at around US$ 10 bn and the figure has been constantly increasing ever since. This is the logical consequence of the liberalization of the Turkish economy started in the 1980's by Turgut Özal and largely completed under the AKP rule[25]. Indeed, revisions of FDI regulations, coupled with the privatization of large state-owned companies, have largely encouraged foreign investments in Turkey over the last years. The main source of external financial flows for Turkey is currently the EU, which is currently experiencing financial difficulties. Thus Ankara favourably eyes Gulf stakeholders to invest in its privatization plans and support the Turkish economy, which might experience a lack of FDI resources in the coming years[26].

Several announcements have been made and reforms implemented in order to attract capital. Turkey's current ambition is to be deemed a safe place to invest in the Middle East. As the real estate market started declining in Arab countries following political developments in the region, GCC investors started to look for alternative places to invest in[27]. In 2013, the Turkish Consul-General in Saudi Arabia announced that his government was preparing a law to exempt some GCC investors from various taxes in several economic sectors[28]. Almost one year after, President Gül delivered a speech at a Kuwaiti-Turkish business forum insisting that "there are few risks and big profits in Turkey"[29].

Ten years ago, FDI originating from GCC countries was virtually nonexistent in Turkey. It then stayed at a relatively high, even if not constant level since 2005. The Turkish Ministry of Economy explains these variations by the nature of the FDI. Exceptional purchases of large Turkish companies amounting to hundreds of millions of dollars have taken place. For instance, The National Commercial Bank of Saudi Arabia acquired a 60% stake in the Turkish bank Türkiye Finans Katilim Bankasi AS in April 2008 and the Kuwait Investment Authority similarly bought a 50% stake in the Turkish shopping centre Cevahir in Istanbul (worth 750 million USD) the same year. The Turkish Ministry of Economy considers that this upward trend of the GCC investment should not be reversed in the coming years. The Turkish-Arab Economic Forum, which took place in Mersin on September 25th, 2013, highlighted the efforts by the Turkish diplomacy to attract new Arab investors, starting with the Gulf States.

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[24] Osman Bahadir Dinçer and Mustafa Kutlay, *Turkey's power capacity in the Middle East : limits of the possible*, USAK center for Middle Eastern and African Studies, june 2012.

[25] Nermina Biberovic, *Turkey and the GCC States: A New Era of Bilateral Economic Relations*, Gulf Monitor Issue 11 P15 - P21, Gulf Research Center, Dubai, 2011.

[26] Turkey received foreign direct investment (FDI) of $12.6 billion in 2013, a drop of 4.1 percent compared to 2012, according to data released by the Turkish Ministry of Economy.

[27] *Economic ties: Turkey turns to the Gulf for funding,* By Camilla Hall, Financial Times, November 21, 2012 (Available at : http://www.ft.com/cms/s/0/841452d2-17b0-11e2-8cbe-00144feabdc0.html#axzz369ql31ny)

[28] *Saudi Investors Exempt from Turkish Taxes* by Sophie Al-Faisal, English Nuqudy, 28/07/2013, (Available at : http://english.nuqudy.com/Levant/Saudi_Investors_Exe-6119)

[29] Daily News Egypt, *Turkey president, officials urge more Gulf investments, April 2, 2014.*

Table 2: Foreign direct investment from Gulf countries (million USD)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Jan-Jun 2012	Jan-Jun 2013
Bahrain	4	0	0	24	89	36	47	96	0	5	23	15	9
EAU	1	0	0	1625	1548	183	148	6	104	89	52	20	13
Qatar	0	0	0	0	0	0	126	0	52	50	46	0	4
Kuwait	0	0	38	20	123	77	330	73	193	43	245	25	181
Saudi Arabia	0	0	5	2	22	10	1312	34	39	8	152	6	16
Total	**5**	**0**	43	**1675**	**1783**	311	**1963**	209	388	195	519	67	223

Source: Central Bank of the Republic of Turkey

To a lesser extent, the Turkish private sector is getting gradually involved in investment plans in the Gulf. In early 2013, GCC states took a number of measures to remove investment barriers obsting to the further development of their financial relations with Turkey. This dynamics should positively impact Turkish investment flows to Gulf countries. Projects are currently being run by expatriate Turkish entrepreneurs but also by "Anatolian tigers" supported by corporate syndicates such as TUSKON, the already-mentioned leading lobbying agency working to facilitate the establishment of Turkish companies abroad.

In addition, the Turkish government is working closely with its counterparts in the Gulf to organize economic forums enabling Turkish investors to seize economic opportunities in the GCC. A dedicated Economic Forum is being held annually in Saudi Arabia and every 2 years in the United Arab Emirates in the framework of the High Level Strategic Dialogue. The AKP government has also sponsored the Turkish-Arab Economic Forums as an effective tool for the promotion of economic ties with the Arab world[30]. These forums began in 2005 and are held annually since then. As a result, Turkish investments in the Gulf have increased from US$ 7 million in 2004 to US$ 145 million in 2012.

Table 3: Foreign direct investment from Turkey (million USD)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Jan-Jul 2013
Bahrain	0	0	0	0	16	5	0	0	116	35	7	0
EAU	0	0	1	1	2	14	29	18	11	4	34	20
Qatar	0	0	0	3	0	0	0	1	0	7	3	0
Kuwait	0	0	6	0	0	0	0	0	0	2	1	2
Saudi Arabia	0	0	0	1	0	6	3	8	2	15	6	3
Oman	NA	NA	NA	NA	NA	NA	NA	3	17	3	74	0
Total	0	0	**7**	5	18	34	32	65	157	94	**145**	37

NA: non available

Source: Central Bank of the Republic of Turkey

[30] Prof. Nader Habibi and Dr. Joshua W. Walker, What is driving Turkey's reengagement with the Arab world ?, Middle East Brief No.49, Crown Center for Middle East Studies, Brandeis University, April 2011, p.6 and 7.

c. Agricultural projects in Turkey as a case study

1- The strategic importance of agriculture in the Turkey-GCC relation

Agriculture has acquired a strategic dimension as the water and food sectors are becoming central elements of the Turkey-GCC economic and political relationship. A dedicated sub-committee has been established to manage all related affairs at the highest level.

Gulf countries see Turkey as a key partner in the region to ensure their food security. On the 22th July 2009, former U.S. Ambassador to Qatar wrote that the GCC "saw great benefits to enhance the efforts of states to states in a multilateral approach to address the problem of food security". Former Turkish Ambassador to Qatar, Mithat Rende said to his American counterpart that the GCC members perceive Turkey as a key supplier to diversify their supplies of agricultural products. He added to this that Gulf investors consider renting arable land in Turkey, but also taking shares in Turkish companies producing wheat and other cereals[31].

This dynamics started in 2008-2009, following the 2007-2008 food crisis that raised awareness in some states of the need and the strategic importance of a sustainable supply of agricultural products. Countries such as the United Arab Emirates whose food intake is 90% dependent on imports have naturally looked to states with arable land. Turkey, whose land is almost 40% fertile and whose economy is quickly liberalizing is definitely attractive for Gulf investors interested in the agricultural sector. The purchase of land through long-term leases is now being authorized and regulated by the Turkish authorities with a view to encouraging the development of such business.

GCC States actually did not experience food supply disruptions in recent years, but that was at a huge cost, as their import bill almost tripled between 2000 and 2010[32]. Some of the world most important suppliers of agricultural commodities restricted their exports during food crises to protect their respective domestic markets. These changes in the balance of the market and the evolution of international food prices introduce new risks that the GCC countries cannot afford to take. That is precisely why they need reliable partners in order to preserve a relative immunity from high price volatility and from changing export strategies of the World's main producers. Strategic dialogue with Turkey on agriculture is thus also seen as a way to secure food supplies in the long run.

2- Potential for the development of trade and FDI flows in the agricultural sector

In October 2008, the Bahrain-based Alliance Vision 3 composed of 3 Gulf companies[33] (Abu Dhabi Investment House - ADIH, Ithmaar Bank BSC and Gulf Finance House) signed an agreement with the Investment Support and Promotion Agency of Turkey and Turkey's

[31] wiki leaks source: U.S. Cable reference id: # 09DOHA464.

[32] BRUN Matthieu, *Agriculture et Alimentation : des priorités pour une péninsule sans ressources*, N°22 Magazine « Moyen-Orient », April-June 2014.

[33] *3 Gulf firms sign major farm deal with Turkey,* ARAB NEWS, 02 Nov 2008 (Available at: http://farmlandgrab.org/2552#sthash.SjtCxnAF.dpuf)

General Directorate of Agricultural Enterprises to launch the Agricap project[34]. The total capacity of the fund was US$ 6 billion. In the longer run, investors present at the opening ceremony of the project claimed that more than US$ 9 billion could be invested in the Turkish agricultural sector. Saudi Arabia[35] has also shown a strong interest in Turkish agriculture. In 2009, the Saudi Planet Food World Company announced its intention to invest more than US$ 3 billion in Turkish agriculture before 2014[36]. Mete Mutluoğlu, the official in charge for PFWC Turkey explained that the company he represents had started 20,000 farming operations on Turkish soil, each farm covering an area of 10000 m². These facilities are intended to export most of their production to the Arabian Peninsula and especially to Saudi Arabia.

According to the Turkish Ministry of economy, the attractiveness of Turkish agriculture is a priority to mobilize FDI resources from Gulf countries. In this context, the Turkish Economic Council in Dubai welcomed the UAE-Turkey Partnership for Food Security forum on February 24, 2013. The sector was also central to the Turkish-Arab forum held in Mersin on September 25th.

These developments could negatively affect Turkish balance of trade, since the output of those farms counts as imports even though they are re-exported to the Gulf. In return, the Turkish Ministry of Economy claims that Turkey will benefit from consistent transfers of technology that will help modernizing its agriculture. Thus far, Turkish agricultural exports to the Gulf have been growing strongly since 2004.

Table 4: Turkish agricultural exports to the Gulf countries (in million euros)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Saudi Arabia	**126,6**	137,7	168,4	169,7	173,5	227,9	285,3	267,0	**282,5**
UAE	**35,9**	40,0	49,4	50,5	70,0	74,0	83,2	95,5	**133,7**
Kuwait	**17,6**	19,5	21,1	22,4	38.7	32,4	36,0	38,0	**46,2**
Qatar	**2,4**	2,6	3,0	4,0	7,1	8,5	9,6	9,3	**16,4**

Source: TUIK

[34] "The goal of AgriCap is to foster projects that offer solutions to the problems faced in global food production. It will also seek to expand the existing role of agriculture through the development of new agricultural and bio-technologies » extract from : MAHMOOD RAFIQUE, Vision3 seals deal with Turkey, Arab News, Manama, 16 April 2009.

[35] Qatar is also interested in Turkish agriculture: "Qatar aims to meet 70% of its food needs domestically by converting semi-desert areas into agricultural land and boosting crop yields, according to the Qatar National Food Security Programme. But the bulk of the remainder will come from land purchases or rentals in Sudan, Australia, Ukraine and Turkey. Hassad Food, part of the sovereign wealth fund Qatar Investment Authority, wants to buy hundreds of thousands of hectares of land in Turkey for crops and livestock grazing." "Such a large purchase would require the sale of at least some Treasury-owned land, which is not legally possible, local press reported. Hassad may have to form joint ventures with local firms to get around restrictions on foreign ownership of large tracts of land." Extracts from: *Out in the country: Gulf states look to acquire farmland to meet growing demand at home*, The Report: Turkey 2012 | Agriculture, Oxford Business group.

[36] *Saudi Arabia plans to invest $600 billion in Turkey*, By DINA AL-SHIBEEB, Al Arabia News, Friday, 29 April 2011 (Available at: http://english.alarabiya.net/articles/2011/04/29/147216.html)

II. Turkish dilemmas in the Middle East and possible developments

Economic relations and business links have so far been allowed to expand and deepen thanks to the common will expressed by the GCC governments and Turkey in the framework of a strategic dialogue. But progress in these areas nonetheless depends on highly sensitive, essentially political developments. External and/or domestic political concerns may now either destabilize the relationship, or encourage it on the contrary.

a. The vicissitudes of Turkey's political climate and their potential consequences on relations with GCC countries

1- Some elements of political instability in Turkey

Tayyip Erdoğan's last year in office as a Prime minister was a tough one. He first had to cope with unrest provoked by the Gezi movement started in June 2013. He was later strongly criticized while violent protests erupted again in various Turkish cities after the Soma coalmine tragedy in March 2014. Some observers indeed sustain that AKP bears a heavy responsibility in this drama, and the PM appeared too distant and arrogant as confronted to contestation of the regime. This issue erupted on top of a corruption scandal exposed by the supporters of imam Fethullah Gülen in December 2013. This scandal is still damaging Erdoğan's electoral base by separating him from some of his political allies. The Soma tragedy and the bribery scandal, added to the open conflict that is opposing the Gülen movement to AKP have seriously affected the government credibility, thereby undermining the perspectives of the Turkish economy.

In terms of their religious credits and inspiration, the AKP and the Gülen brotherhood are two movements born within the Hanafi school of Islam, which includes the vast majority of Sunni Muslims in Turkey. Although they both defend a somewhat religious and conservative wa y of life in a society once dominated by secular authoritarianism, their early alliance to marginalize the old Kemalist elite and the military couldn't be taken for granted on the long run.

Indeed, Recep Tayyip Erdoğan is the political offspring of Necmettin Erbakan, who was briefly Prime minister in 1996-1997 and the founder of the Milli Goruş movement (National Vision), a Turkish version of political Islam mixing anti-Western nationalism and Islamic values. Fethullah Gülen, as a charismatic and somewhat westernized imam, advocates for a more cultural and societal than political vision of Islam. Claiming an Islam both democratic and open to modernity, he yet is, at the same time, engaged in highly political activities. Exiled in Pennsylvania, the 75-year-old religious leader is deemed close to the American government and supported the entry of Turkey into the European Union. Regarding the Middle East, Gülen always held a very moderate position on the Israeli-Palestinian conflict, in contrast with Erdoğan's stance.

Both movements have developed strategies to rally the economic, political and administrative elites of Turkey. The Fethullahci (members of the Gülen Brotherhood) have opened prep schools intended to help their young followers making their way into the most prestigious universities. Meanwhile, activists from early islamist parties and later from the AKP have managed to obtain positions of social responsibility through the ballot box, particularly at city level, since the mid-1990's. Once in government, they practiced active cooptation in order to consolidate their position within the State.

Both of these new bourgeoisies have thus gradually obtained access to the top of the pyramid of power, previously occupied for decades by national-Kemalist elites who still are at the head of some institutions such as the military. The alliance between Gülen and the AKP has been prompted by circumstances and materialized by the entry of some fehtullahci in the ranks of the party. The electoral victories of the AKP and the increased presence of gülenists in the administration, particularly in the police and the judiciary, have decisively helped carving their common victory against the old elite and advance the demilitarization of the Turkish regime.

The corruption scandal affecting the government at the end of 2013, triggered by prosecutor Zekerya Öz (considered close to the Gülen movement), is the result of a slow deterioration of the relationship between part of the AKP rulers and the fethullahci[37]. The scandal involved four ministers (3 of them had to resign), several top officials of the AKP and the CEO of the bank Halkbank. They are suspected of accepting bribes in a complex financial system enabling Turkey to buy Iranian gas and oil, bypassing American sanctions. Since these charges were emitted, the government has kept on denouncing the Hizmet (for "service", or the Gülen movement) as a "parallel state", a vassal of foreign powers who would allegedly be interfering with the Turkish democracy.

These tensions impact the functioning of AKP and the government, but also the administration and business circles. The government and the administration experience division and a high level of tension, at a time when economic and monetary policy measures are urgently needed. The violent rupture of alliance between Erdoğan and Gülen in fact coincided with the accelerated sliding of the Turkish Lira against the Dollar.

Political instability is coming in addition to an increasingly fragile economy. Indeed, the policy orientations of the Fed tightening its bond-purchasing programme comes at a time when Turkey's economy heavily depends on foreign funds holding the volatile and short-term assets issued to finance a long-term current account deficit. The activities of these funds are closely related to the Fed options. It is noticeable that, even though Turkey is not the only country facing such difficulties (Brazil, Indonesia, South Africa and India face similar conditions), the currency most affected by the Fed policy changes is the Turkish Lira. The political crisis in Turkey apparently sends worrying signals to foreign investors[38].

Investment in Turkey could be considered risky in the context of a sharp depreciation of the Turkish Lira, a high level of debt, and political uncertainty. But for now the government seems to have won the showdown with the Gülen Brotherhood. Indeed, in economic terms,

[37] Mustafa AKYOL, *What you should know about Turkey's AKP-Gulen conflict,* Al-Monitor, January 3, 2014.
Read more: http://www.al-monitor.com/pulse/fr/originals/2014/01/akp-gulen-conflict-guide.html##ixzz39cl0Zc2a

[38] UGRAS Ulku and LUBOMIR Mitov, *Turkey: Political Turmoil hurts more than FED tapering,* Institute of International Finance, January 2 2014.

monthly indices have shown that the impact of the political crisis on the Turkish stock market is less and less perceptible in 2014 [39]. In political terms, the victory of the Prime minister is now blatant as he will continue dominating Turkish politics after winning the presidential elections with flying colours in August.

Still tensions are prevailing within the party and the government, the Fethullahci apparently being in conflict with the dominant wing of the activists backing Erdoğan[40]. The party still suffers from internal strife and the new President may experience difficulties controlling his majority. Erdoğan risks losing votes and support, while he needs cohesion among his supporters to carry out his plans for regime "presidentialization"; the Brotherhood's support might be required again sooner or later to such an end. All these scenarios essentially highlight the current volatility of political alliances in Turkey, with looming political and institutional crises.

Investors will appreciate the context: in contrast, Tayyip Erdoğan's election as President may be viewed as an element of improved stability, and rating agencies and stock markets seem to underestimate the likelihood of downbeat scenarios. Moody's had in fact downgraded already the outlook on Turkish debt on April 11th, from "stable" to "negative." On the aftermath of the presidential election, Standard and Poor's announced that recent political changes would not affect its own rating. Notably however, Fitch has persisted on the gloomy side, declaring, [41] "Political risk will weigh on Turkey's ratings through its potential effects to discourage capital inflows and reduce policy predictability".

Foreign investors' worries over the situation in Turkey could in fact increase parallel to Tayyip Erdoğan own growing sense of confidence. The new president has been more and more prone to express his personal beliefs regarding the monetary policy of Turkey, calling into question the central bank's independence and credibility. Uncertainties also prevail over the line-up in the new government. The liberal wing of the AKP, following former president Abdullah Gül, has indeed been defeated in the battle against Gülen, and is progressively being replaced by a younger generation of populists and isolationists who are staunch supporters of Erdoğan's style. They are represented by figures such as AKP vice-chairman Numan Kurtulmus and columnist-turned Erdogan adviser Yigit Bulut [42]. Interestingly however, the worries expressed by Turkey's economic partners have been audible enough for Erdogan to preserve the bulk of the ministerial team responsible for Turkey's recent economic successes. The recent nomination of deputy Prime Minister Ali Babacan and

[39] « On Jan. 2, an ounce of gold traded for $1,224, while a dollar bought 2.17 Turkish lira and a euro 2.98 lira. As of July 30, an ounce of gold traded for $1,296, while a dollar was worth 2.13 lira and a euro 2.86 lira ». « On July 18, the foreign investors' portfolio at the lucrative Istanbul stock exchange reached $65.1 billion, the largest amount of the past 13 months ».
Extract from: Mehmet CETINGULEC, *Turkish stock market gains 40% in six months* , Al-Monitor, August 4, 2014
Read more: http://www.al-monitor.com/pulse/originals/2014/08/cetingulec-turkish-stock-market-40-gain-turkey-dollar.html#ixzz39WhYf23q

[40] Mustafa AKYOLl, *What you should know about Turkey's AKP-Gulen conflict,* Al-Monitor, January 3, 2014.

[41] Mehmet CETINGULEC, *Will Turkey face another credit rating downgrade*?, Al-Monitor, August 13, 2014.
Read more: http://www.al-monitor.com/pulse/originals/2014/08/cetingulec-credit-rating-fitch-downgrading-babacan-president.html#ixzz3ANALzzWI

[42] « But now, there is a growing line within the AKP that sees its longtime policy of integration with the global economy as servitude to the "interest-rate lobby" and the imperialist "neoliberal order". "This new ideological line calls for a "fully independent Turkey." As Turkish political and economic analyst Cenk Sidar noted, the tension is now between the "rational and globally compatible line of Babacan and Simsek, and the populist, isolationist line represented by Bulut and Kurtulmus.»
Extract from the article of Mustafa AKYOL, Turkey's AKP looks to the future, Al-Monitor, August 13, 2014.
Read more: http://www.al-monitor.com/pulse/originals/2014/08/akyol-erdogan-akp-soul-young-generations-president-erdogan.html#ixzz3ANEbxGwK

minister of finance Mehmet Simsek, both of them on the liberal side, has been a positive signal for the markets.

2- Rising concerns among Gulf investors could slow down the pace of Turkey-GCC relations

In such a short period and without reliable and accurate FDI flows and trade data over the last few months, it remains quite difficult to assess the impact of this sequence of events on the existing economic relations between Turkey and the Gulf. Yet these relations could actually be penalized by further unsettled issues.

Firstly, the above-mentioned corruption case at governmental level reminds us that Turkey is not ready to give up its current economic ties with Iran once and for all, to favour instead other untested partners in the area. The increase in the volume of trade between Iran and Turkey, which rose from US$ 1 billion in 2000 to US$ 16 billion in 2011, attests it. Even though the diplomatic rivalry between the two nations has continued to grow since the beginning of the "Arab spring", the public exposure of this "informal" economic partnership[43] (implicitly tolerated by the United States, seeking to settle their own relation with Iran) clearly reveals the interdependence between the two countries. Well integrated into the global economic system but deprived of fossil energy resources, Turkey needs Iran. In return, Turkey provides Iran, a major oil and gas producer currently confined to the fringes of the international market, a vital window to access the outside world in exchange for much needed oil supplies. This complicates the issuing of priorities for Ankara in defining its economic presence in the Middle East.

Secondly, these crises reveal that business circles are still deeply involved in politics and sometimes pursuing conflicting interests. Access to the arena of foreign policy making, and by extension to certain markets and especially foreign investment seems to be reserved for those who demonstrate loyalty to the government. The various employers' organizations and emerging Anatolian Tigers are now practically competing and the government overtly stands by its supporters. Some state interventions have affected the condition of Turkish companies close to Gülenist[44] and Kemalist circles in spite of the fact that, as explained in the first part, employers' organizations close to the Gülen brotherhood did largely contribute to strenghthening economic ties with the GCC. The important contribution of organizations like TUSKON to the elaboration of Turkey's foreign policy vis-à-vis the GCC is quickly fading by now [45].

Against this unfavourable background, the Turkish government is working hard to reassure investors from the Gulf, thus showing that it takes very seriously the threat to Turkey's image emanating from domestic instability. Last May Mehmet Şimşek, the Turkish minister

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[43] Jonathan SCHANZER, Mark DUBOWITZ, *Iran's Turkish Gold Rush,* Foreign Policy, *DECEMBER 26, 2013.*
Read more: http://www.foreignpolicy.com/articles/2013/12/26/irans_turkish_gold_rush#sthash.sAJqxp5h.dpbs

[44] "Bank Asya has found itself a casualty of the political conflict between Erdogan and the Gulenists". Extract from: Taylan BILGIC, *Bank Asya Penalized in Erdogan-Gulen Brawl Over Graft Probe,* bloomberg, Feb 5, 2014.
Read more on: http://www.bloomberg.com/news/2014-02-05/bank-asya-penalized-in-erdogan-gulen-brawl-over-graft-probe-1-.html

[45] « So much so that in February, Erdogan was quoted as saying they will wipe TUSKON "off the market," or any business that cooperates with the 'parallel' state forces. Gone are the days of government support and protection for TUSKON.»
Pinar TREMBLAY, *Clash of the Anatolian Tigers*, Al-Monitor, April 28, 2014.
Read more : http://www.al-monitor.com/pulse/originals/2014/04/turkey-business-clash-gulen-akp.html#

of finance, toured the Gulf monarchies accompanied by a business delegation to encourage companies from Qatar, Kuwait and the UAE to invest in Turkey. The government is also looking for new strategies to foster business-to-business cooperation in the notable absence of TUSKON, whose role has been taken over by DEIK and MÜSIAD under the auspices of the government.

Nevertheless, it remains difficult to argue that the AKP and the employers' organizations close to the Gülenist circles are once and for all disconnected. The public name-calling are indeed violent but in reality past record shows that islamist employers' organizations have always managed to cooperate with AKP and preserve their common interests, despite already existing fundamental disagreements[46].

b. Is Turkey able to make its different options in the Middle East consistent?

1- *Turkey's economic positioning in the Middle East*

The rapprochement between Turkey and Middle Eastern states was inspired by Davutoğlu's "zero-problem with neighbours" motto. The background and reasons for this new strategy are extensive. In the first place, there was a need to break with the tradition of the former Kemalist elites who were historically hostile to the Arab world and Iran, when foreign policy used to be in the hands of the military and the foreign ministry only following their orders. The Islamist orientation of AKP broadly changed Turkey's national vision of the Middle East. This area is no longer perceived as a threat but as an opportunity to win back lost ground in international relations, especially at a time when the failure of the EU integration process is becoming more obvious. In addition, the coming to power of AKP prompted various state bodies and civil society organizations, such as the business ones, to join the foreign policy arena. Finally, the Kurdish issue has played a significant role. Favoured by the American intervention in Iraq, the Kurds were in the process of obtaining more and more autonomy within the Iraqi federation. The AKP was inventive enough to overcome its past fears and come closer to the Kurdish Regional Government, thus securing a gate to further future important markets in the region – namely Iraq and Iran[47].

Economic relations have been envisaged as another tool to achieve the "zero-problem" objective, by multiplying and reinforcing exchanges with neighbouring states. All diplomatic visits to these countries in the past decade have been accompanied by delegations from the business community and representatives of employers' organizations. These efforts have been rewarded with very concrete results, as trade with Middle Eastern states now amounts to 25% of Turkey's foreign trade, compared to 11% in 1985. The Fitch rating agency quotes the following figures among others: the Turkish exports to the region grew from US$ 9bn in 2005 to US$ 23,1bn in 2010[48]; Turkey's FDI meanwhile increased from US$ 678m in 2001 to US$ 5.5bn in 2010.

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[46]ILHAN Ebru, *Turkey's State-Business Relations Revisited: Islamic Business Associations and Policymaking in the AKP era*, School of Social Sciences and Public Policy, King's College, London, Feb 2014, p.155

[47] Prof. Nader HABIBI and Dr. Joshua W. WALKER, *What is driving Turkey's reengagement with the Arab world ?*, Middle East Brief No.49, Crown Center for Middle East Studies, Brandeis University, April 2011, p.6 and 7.

[48] GAVIN James, *Policy in Turkey drives trade with Middle East,* MEED, 2 July 2012. Read more : http://www.meed.com/supplements/2012/turkey-and-the-middle-east/policy-in-turkey-drives-trade-with-middle-east/3143297.article

But the vortex of crises presently devastating the area seriously calls this recent trend into question, and has in some cases already reversed it. First, revolts and wars have seriously disrupted some trade relationships, as with Syria. The strong, personal stance of Tayyip Erdoğan against Bashar Al Assad should make trade and investment with Syria difficult to restore in a foreseeable future, although statistics sometimes record some unexpected movements and rebounds[49]. As for the relation with Iraq, it is especially complex. Turkish exports to Iraq reached US$ 11, 9bn (65% of these being directed to the Kurdistan Regional Government), while imports only notched up US$ 200 million last year. Political tensions between Baghdad and Ankara have been increasing lately, with the main current difficulty standing with the uncontrolled expansion of Islamic State of Iraq and the Levant (ISIS) on both the territories of Syria and Iraq[50].

Finally, the economic interdependence between Turkey and Iran has spectacularly reinforced in recent years, despite American sanctions (facts & figures already mentioned above, see para. II. A. 2). Rivalries are at the same time emerging between the two regional powers, which are directly competing for economic influence on the Iraqi market. Moreover, the two countries do not support the same sides in the Syrian conflict. Additional tensions might appear with the growing international pressure on Teheran over the nuclear issue, as Washington cannot ignore any longer the scale of the Turkish-Iranian economic exchanges.

It is becoming really difficult for Ankara to maintain all economic options open in such an unpredictable regional context. Turkey will inevitably have to make diplomatic choices favouring some trading partners at others' expense.

2- Turkish political options in a fragmented landscape

Time has now come for Turkey to face the consequences of growing instability in the Middle East. The range and intensity of crises in the region does actually jeopardize all economic activities and it could also spur political antagonism between Turkey and major GCC member states. In all likelihood, the political and economic challenges associated to various conflict situations in the region should prove too much for Turkey to pursue a coherent foreign policy while keeping its business links open with all Middle Eastern countries at the same time.

Under the AKP rule, Turkey has sought to export its model by supporting the Muslim Brotherhood in the area, particularly in Egypt and Syria. Yet this stance, which strengthened a political partnership with Qatar, contradicts the main options of Saudi Arabia's diplomacy. Reactions of the various regional powers to the political turmoil in Egypt have notably exposed a series of disagreements. While Tayyip Erdoğan strongly condemned the dismissal of Muhammad Morsi, Saudi Arabia and the UAE affirmed their support to Marshal Sisi. The reaction of the Turkish government should partially be explained by a parallel with past experience of the Turkish Islamists, who were ousted from power by a military coup in 1997.

[49] « The biggest surprise of July was Syria. Exports to Syria that were down by 1.2% in June boomed by 64% in July. This most welcome increase revitalized the economy of Hatay province, which saw a 33% increase in exports. Exports to Palestine went up by 17% in July ». Extract from: CETINGULEC Mehmet, *Turkey's exports decrease amid regional tension,* Al-Monitor, August 10, 2014.
Read more: http://www.al-monitor.com/pulse/originals/2014/08/cetingulec-blows-turkey-exports-isis-iraq-syria-erbil.html#ixzz3ATSBnomx

[50] CETINGULEC Mehmet, *Iraq crisis hits Turkish economy,* Al-Monitor, June 18, 2014
Read more: http://www.al-monitor.com/pulse/originals/2014/06/cetingulec-isis-turkey-exports-mosul-consulate-iraq-baghdad.html

The impact of these divergences on economic relations between Turkey and the GCC is potentially heavy. As an example, the TAQA company (a state-owned firm registered in the United Arab Emirates) announced on August 26th, 2013 the suspension of a US$12 bn investment in the Turkish energy sector (Afsin- Elbistan region project).

3- Trade routes between Turkey and the Gulf becoming more and more sinuous

The succession of crises in Iraq and growing chaos in Syria has de facto blocked up the existing land trade routes between Turkey and the Gulf. Alternative itineraries have nonetheless quickly been set up, notably through Egypt at the time of M. Morsi's presidency. Despite the political strain developing between Cairo and Ankara, US$ 10bn of Turkish goods have already made their way unimpeded to the Gulf via the Egyptian route. The cost of transport has increased by 40% as compared to Syrian routes, transit time has jumped from 12 to 25 days[51], but Turkey has proved ready to make considerable logistical efforts to maintain the flow of goods to the Gulf States.

Apart from the sudden cancellation of some specific investment projects from the Gulf, political tensions have not really hindered trade and FDI flows with Turkey. All the efforts Ankara has made show that the economic ties with the GCC are still, and will remain a priority for Turkey. The goal is now to ensure their continued existence by sealing sustainable agreements in specific and strategic sectors that will impulse a new dynamics for further expansion of the relationship.

[51] *Turkish exports via Egypt continue after coup d'état*, Hürriyet Daily News, September 16, 2013.

III. Could the energy sector be the brand-new driving force of this economic partnership?

a. Dependence on imports is prompting Turkey to diversify its energy sources, to the benefit of GCC producers.

The two following graphs highlight Turkey's rapidly increasing energy consumption over the past decade. It has kept pace with its economic growth, while the domestic production of both natural gas and liquid fuels has remained negligible. In addition, half of the coal consumed in Turkey is still imported, at a time when the country's reserves have been evaluated at around 1.3 billion tonnes of hard coal and 11.5 billion tonnes of lignite. According to Rifat Hisarcıklıoğlu, President of the Union of Chambers of Commerce and Commodity Exchanges of Turkey (TOBB), "Turkey has the second-highest energy consumption growth after China"[52]. As a consequence, Turkey's dependence on imports is quickly growing. The first item on the agenda of the AKP-led government should be the diversification of Turkey's gas and oil supplies.

Figure 3:

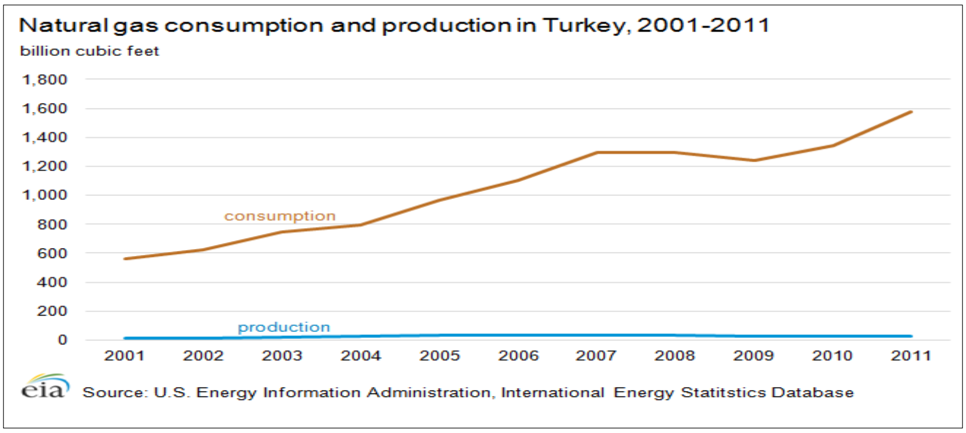
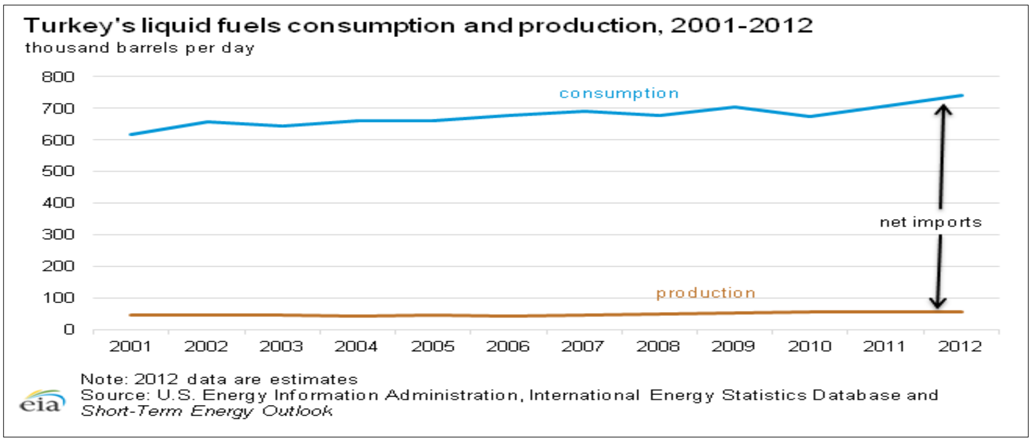


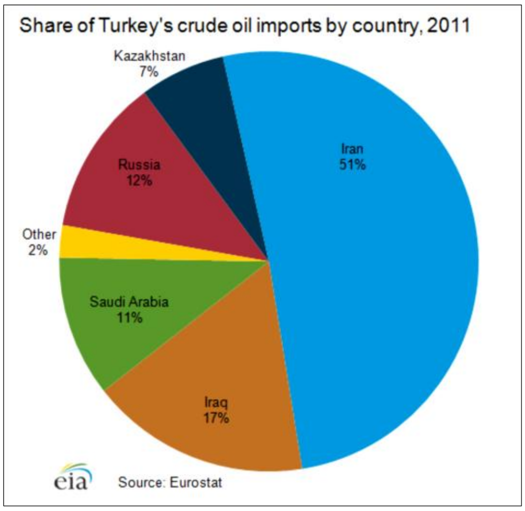
Figure 4:

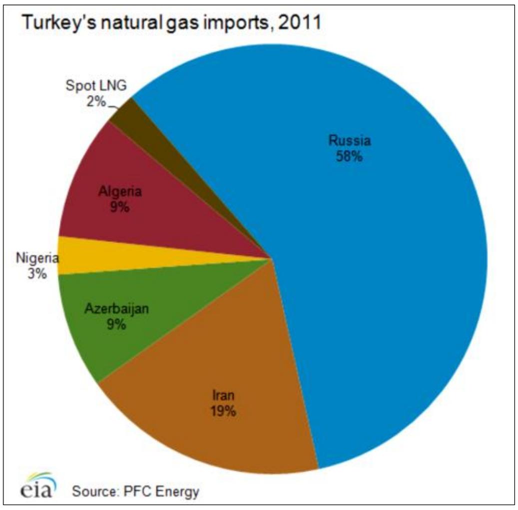


[52] HISARCIKLIOGLU Rifat, *THE GLOBAL ENERGY CHALLENGES AND TURKEY: PRIVATE SECTOR PERSPECTIVE,* Turkish Policy VOLUME 9 NUMBER 2,

Indeed, Turkey is very dependent on foreign sources of fossil energy. It has to import 98% of the gas and 91,6 % of the oil it consumes[53]. Furthermore, until 2011, Turkish imports of crude oil and natural gas mainly came from two countries: Iran and Russia. Inevitably, controversial issues have emerged, such as the level of prices charged by Gazprom and considered unfair by Turkey, while Iran's commercial constraints remain high due to the sanctions. Coming in addition to an unstable regional environment, dependence on a restricted number of suppliers implies a long-lasting tendency for prices to rise, and further pushes Turkey towards diversifying its supplies. In this regard, the most obvious potential partners appear to be the GCC countries. It is no surprise that Ankara wishes to get a share of their giant fossil energy reserves.

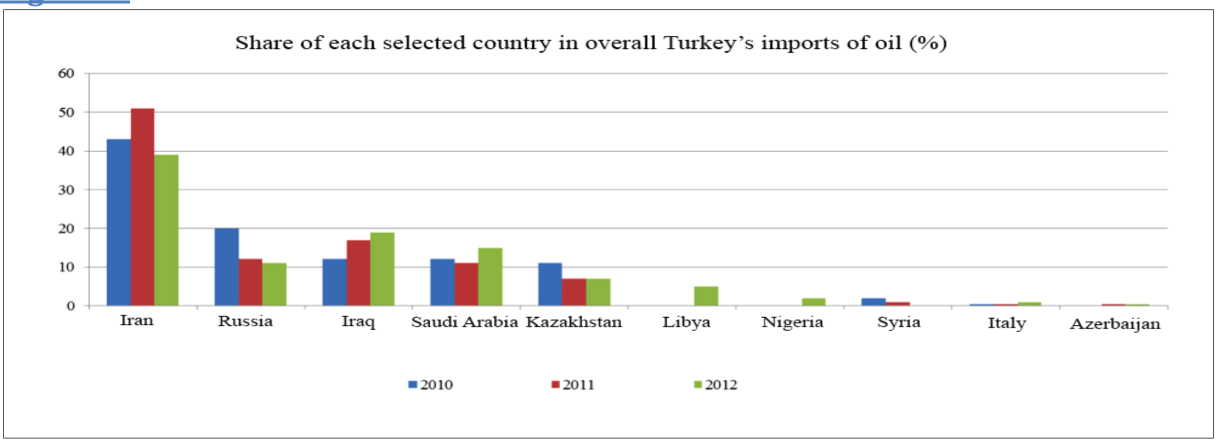
Figure 5:





According to the Turkish Ministry of Economy[54], most Gulf countries should benefit from this transition in the years to come. The chart below already confirms the increase of oil imports into Turkey from Saudi Arabia.

Figure 6:



Source: EMRA

[53] PAILLARD Christophe-Alexandre, *Où en est la Turquie dans sa volonté de devenir un Hub énergétique ?* , IRIS, Observatoire de la Turquie et de son développement géopolitique, 20 juin 2012, p.6.
[54] Interview with top officials from the Turkish Ministry of Economy.

In 2011, 11 % of the oil consumed on Turkish soil came from Saudi Arabia, a share that has risen to 14% in less than two years. There is little doubt that this trend is partly the result of the sanctions imposed on Iran, but the move has anyway been encouraged by the Turkish government. As early as June, 2012, Taner Yıldız, the Turkish Energy Minister, stated that Turkey would increase the number of its oil and gas suppliers, and that Saudi Arabia was the first natural provider to be promoted in the process. The Minister was notably quoted saying: "Talks with Saudi Arabia on long-term crude oil purchases have started. This doesn't concern only Tupras but also concerns Saudi Arabia's Aramco. Talks are still going on; they will discuss the quantities between them"[55]. Qatar is also concerned in its own sector, as a purchase by Turkey of 3 billion cubic meters of natural gas is currently being negotiated.

b. Ankara wants to capitalize on its geographical position as a hub between energy-producing and consuming countries.

Turkey has taken advantage over the last decade of a volatile political environment (instability in the Caucasus, a strong American stance against Iran, unrest in Iraq and war in Syria) to assert its reputation for stability[56]. Turkey's geographical situation as a pivot between Europe, the Caucasus and the Middle East is used as an argument to impose the country as a secure hub, or "corridor" for transit and re-export of energy commodities. While satisfying its own energy transportation requirements, Turkey could implement a strategy[57] of providing the GCC countries - ideal partners in such a project, with the logistical assets (pipe-lines etc…) required to reach the Mediterranean and European Union markets[58].

Yet political parameters evolve quickly, seriously jeopardizing prospects for cooperation. The Turkey/Qatar cooperation scheme is a case in point. Qatar long stood to be the most promising partner for Turkey's energy projects. In 2009, R.T. Erdoğan said that Turkey wanted to establish with Qatar "a long-term and stable partnership in the energy field." He added: "to this end, I think a pipeline from Qatar to Turkey would resolve the issue once and for all." The challenge would consist in connecting the Qatar – Turkey pipeline (via Syria) to the Nabucco pipeline in order to convey natural gas from Central Asia and the Middle East to Europe[59]. However, the situation in Syria and the collapse of the Nabucco project have definitively put an end to this ambitious scheme, as confirmed by recent interviews with officials from Turkey's ministry of Economy. The same sources nonetheless acknowledge that similar projects will certainly be re-envisaged with GCC states as soon as the regional situation allows it, but it is difficult to obtain more information in the current state of affairs.

[55] OZBILGIN Ozge, *Turkey starts talks to buy Saudi oil –minister*, Reuters, ANKARA June 12, 2012.
[56] PAILLARD Christophe-Alexandre, *Où en est la Turquie dans sa volonté de devenir un Hub énergétique ?* , Iris, Observatoire de la Turquie et de son développement géopolitique, 20 juin 2012.
[57] CHAUVIN Pierre, *La Turquie : futur Hub énergétique de l'europe ?*, Revue Tiers Monde, 2008/2 n° 194, p. 359-370.
[58] TALBOT Valeria, *GCC ECONOMIC PRESENCE IN THE MEDITERRANEAN AND THE OUTLOOK FOR EU-GCC COOPERATION,* Mediterranean Paper Series 2010
[59] *Is the Qatar-Iraq-Turkey-Europe Natural Gas Pipeline Project feasible?*, Today's Zaman, January 28, 2011.

c. The possibility of FDI from the GCC to finance a new Turkish-based energy production scheme

The Turkish government is presently striving to gain leeway for its economic strategy through the production of energy on its own soil. Future prospects for the Turkish sector of power generation are excellent and represent massive opportunities for Gulf companies, thanks to both their huge financing capacities and know-how in the field. In addition, the strategic dialogue between the GCC and Turkey could be an ideal framework to consider cooperation projects in such critical areas of activity.

Projects in the nuclear sector are currently under discussion at technical level, and it seems that the Turkey-GCC strategic dialogue has already put these questions on its agenda. *Today's Zaman* revealed that some discussion has been envisaged concerning sharing experiences and good practices. The *Hürriyet Daily News* also reported in 2012 that the UAE could position itself as a partner or observer in the construction of nuclear power plants in Turkey.

Other projects in the renewable energy sector have also attracted Gulf investors on Turkish soil. In September 2012, a consortium led by Kuwait (Yatırım, founded by Kuwaiti Aswar Group and South Korean companies; CX Concentrix Solar Korea, KEPCO and Kincoa) invested US$ 450m to develop solar energy in Turkey.

But the leading project at the forefront of the Gulf-Turkey relation concerned until recently the Afsin-Elbistan coal seam. As mentioned earlier, US$ 12 bn were to be invested by the UAE in a consortium in which EUAS, a dependent entity of the Turkish ministry of Energy, was to obtain a 35% stake and TAQA, a UAE-registered public company, 65% of the shares. However, this project was adversely affected by the Turkish government's policies towards Egypt. According to Reuters, TAQA would not merely suspend but rather cancel the project altogether.

The collapse of one of the largest energy projects in Turkey would be a bad omen for Turkey-GCC cooperation on energy. But Turkey seems to be looking for other GCC partners. It has indeed been in talks with Qatar since December 2013. Qatar Holding, a subsidiary to Qatar Investment Authority, should replace the TAQA[60] Company.

In the Konya region, a similar project is also expected to be implemented by the Saudi Arabia-based ACWA Company, in partnership with Singh group of Thailand. An investment of US$7-8 billion would be required to exploit this coal basin. For the moment, Turkey has signed a memorandum with ACWA for a coalfield in the town of Karapinar-Konya, news that bodes well for the future of this investment.

[60] « The Afsin-Elbistan site is estimated to hold 4 billion tons of lignite, nearly half of Turkey's total reserves. The project involves adding at least 7,000 megawatts (MW) of power to Turkey's total installed capacity by building new thermal power plants in the region. » Extract from: *Energy: Turkey working on projects with Qatar e Abu Dhabi*, ANSAmed, ANKARA, MARCH 24th.

Conclusion

The dramatic development of trade, flows of persons and FDI between Turkey and the GCC reveal the efficiency of the political will converging from both sides over several years. The evolution of economic ties in the agricultural sector is just an excellent example of the importance of the high level strategic dialogue aimed at developing one of the many economic prospects of this relation.

The quickly changing regional landscape nonetheless immediately impacts the relation and casts a shadow over its future development. In addition, the political tensions lurking beneath the surface in Turkey could prompt a reshuffle of cards within the political and economic establishment, also damaging the efficiency of the nexus of actors involved in the GCC-Turkey cooperation. The AKP government is facing internal tensions that adversely affect the commitments of the Turkish business community. The balance between the Foreign Ministry and some of the main business associations is quickly evolving, threatening to undermine the very basis of economic relations with Gulf countries. Also, growing cooperation between Turkey and Iran somehow call into question Turkey's priorities in the Middle East.

Despite Tayyip *Erdoğan*'s inflamed public speeches, past record nonetheless shows that the Turkish government is normally aware of the mood of the market and takes rational economic options when deemed necessary. Davutoğlu's cabinet choices, ensuring continuity in a rather troubled context, provide more evidence of this background wisdom[61]. Businesswise again, one should note that the Turks have so far succeeded to maintain flows of goods, services, persons and capital to reach the Gulf, amidst rapidly growing strategic difficulties. The rapprochement with Iran also barely hides huge disagreements and rivalries between the two countries. Turkey indeed aims at progressively distancing itself from Iran in the energy sector, and GCC countries have a major role to play in that grand design. Energy could thus appear as a newly-found driving force of the relation.

[61]Cengiz Çandar, *What do Davutoglu's Cabinet choices indicate?* , Al-Monitor, August 31, 2014
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