

TURKEY-GCC TRADE AND BUSINESS RELATIONS



2017



OXFORD
GULF & ARABIAN
PENINSULA STUDIES
FORUM



Boğaziçi Zirvesi Bosphorus Summit

The following report is produced by the Oxford Gulf & Arabian Peninsula Studies Forum in partnership with the International Cooperation Platform and its Founding President, Mr. Cengiz Özgencil, for release at the 8th Bosphorus Summit, Istanbul, under the auspices of the Presidency of the Republic of Turkey.



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Cover Photo: GCC Foreign Affairs Ministers pose with Turkey's Foreign Minister Mevlut Cavusoglu (5th L) and Economy Minister Nihat Zeybekci (3rd L) at the 5th Turkey-GCC High-Level Strategic Dialogue on 13 October 2016 in Riyadh, Saudi Arabia. Photo by Fatih Aktas/Anadolu Agency/Getty Images.

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Acknowledgements:

The report benefited from insights and support from the following experts: Ilke Denizli; Jessica Obeid; Nabil Al-Khowaiter; Meliksah Utku; Mejdi Sahraoui; Mohammed Al-Dubayan; Muhammed Emin Torunoglu; and Riyadh Hammad.

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Contents

Executive Summary	v
Part I. Energy Sector Engagement.....	1
1 Overview	2
2 Drivers and emerging trends.....	3
<i>Hydrocarbons</i>	<i>4</i>
<i>Renewable energy.....</i>	<i>6</i>
<i>Infrastructure development</i>	<i>7</i>
3 Policy discussion.....	8
 Part II. Banking and Finance Sector Engagement	 11
1 Overview	12
<i>The global financial environment</i>	<i>12</i>
<i>Turkey-GCC banking and finance.....</i>	<i>13</i>
2 Drivers and emerging trends.....	15
<i>Niche markets</i>	<i>17</i>
<i>Regional political barriers</i>	<i>19</i>
3 Policy discussion.....	19
 Part III. Construction and Real Estate Sector Engagement	 21
1 Overview.....	22
2 Drivers and emerging trends.....	22
<i>Turkey's participation in GCC project markets</i>	<i>24</i>
<i>Turkey's real estate market.....</i>	<i>26</i>
<i>Gulf engagement in Turkey's real estate.....</i>	<i>27</i>
3 Policy discussion.....	28
 Part IV. Tourism Sector Engagement	 31
1 Overview.....	32
2 Drivers and emerging trends.....	33
<i>Gulf tourism in Turkey</i>	<i>33</i>
<i>Health tourism development.....</i>	<i>34</i>
<i>Role of the private sector in health tourism</i>	<i>36</i>
<i>Other factors driving health tourism</i>	<i>36</i>
3 Policy discussion.....	37

References	41
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Figures

Figure 0.1: Turkey-GCC gross domestic product	ii
Figure 0.2: Houses in Turkey sold to foreigners, 2017	iii
Figure 0.3: FDI inflows from GCC countries to Turkey, 2009–2016	iv
Figure 0.4: Number of GCC citizens arriving in Turkey, 2001–2017.....	v
Figure 1.1: Percentage of Turkey’s crude oil imports by country, 2015	2
Figure 1.2: Turkey’s composition of imports from Saudi Arabia, 2016	3
Figure 1.3: Turkey’s liquefied natural gas imports, 2015	6
Figure 2.1: Turkey’s foreign investor deal volume by region	15
Figure 2.2: Foreign investor deal number by region	16
Figure 2.3: Shares in the Islamic banking market in Turkey	18
Figure 4.1: GCC visitors to Turkey, 2017	32

Tables

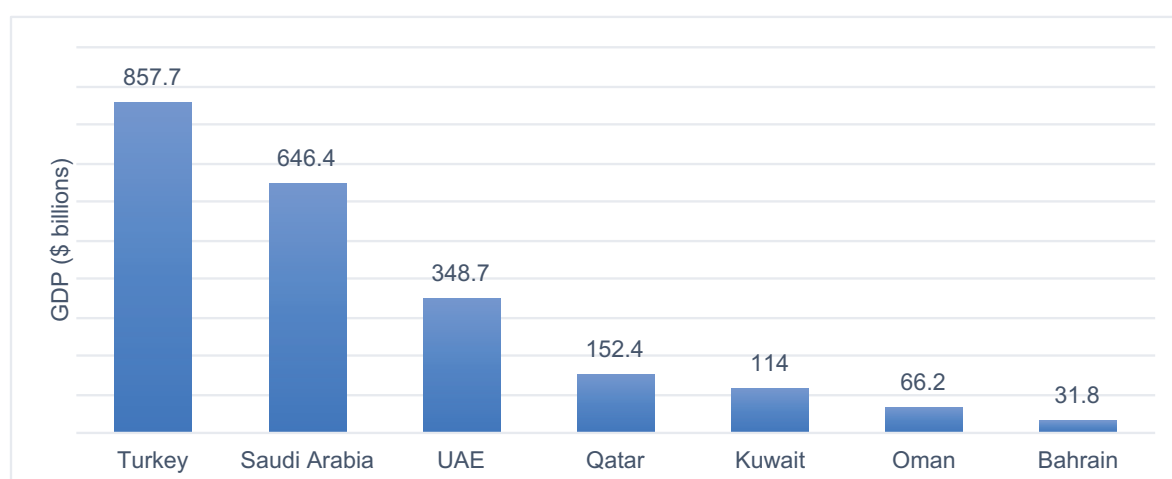
Table 0.1: Turkey-GCC bilateral trade	ii
Table 0.2: GCC companies in Turkey, 2017	iv
Table 2.1: Inward and outward foreign direct investment in Turkey.....	15
Table 3.1: Select recent construction projects in GCC countries involving Turkish companies	25
Table 3.2: Number of houses sold in Turkey to GCC citizens	27
Table 4.1: GCC visitors to Turkey by nationality, 2008–2017.....	34
Table 4.2: Turkey’s multiple entry visa conditions for GCC citizens.....	35
Table 4.3: Turkey’s state mechanisms involved in health tourism.....	38

Executive Summary

Executive Summary

Turkey and the Gulf Cooperation Council (GCC) countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—have sizeable GDPs, which, combined, total more than \$2 trillion (figure 0.1). Over the past decade, Turkey and the GCC states have actively pursued closer economic ties that has taken their trade volume from \$4.8 billion in 2006 to around \$16 billion in 2016, a more than threefold increase (table 0.1). These relations have seen a proliferation of bilateral treaties and memorandums of understanding (MoUs) across the economic and political spectrum. They stem from an increasing institutionalization of the relation starting with the landmark Economic Cooperation Framework Agreement penned in 2005, and the subsequent High-Level Strategic Dialogue (HLSD) in 2008. The HLSD facilitated economic cooperation across several sectors including energy, investments, health, and tourism.

Figure 0.1: Turkey-GCC gross domestic product



Source: Adapted from World Bank, 2016.

Table 0.1: Turkey-GCC bilateral trade

Country	2006			2016		
	Export	Import	Trade volume	Export	Import	Trade volume
UAE	1,986	352	2,338	5,406	3,701	9,107
Saudi Arabia	983	623	1,606	3,175	1,835	5,010
Qatar	342	66	409	439	271	710
Kuwait	219	56	275	431	111	542
Bahrain	35	45	80	193	128	321
Oman	71	2	73	244	49	293
Total	3,636	1,144	4,781	9,888	6,095	15,983

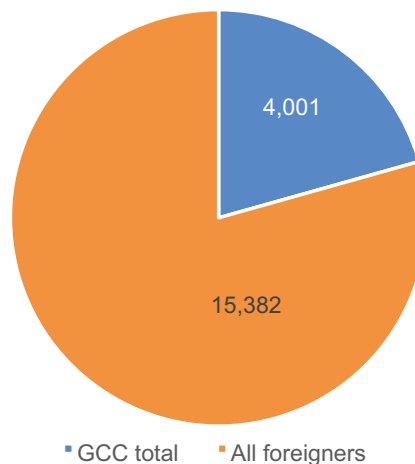
Source: Based on data from the Turkish Statistical Institute, November 2017.

In terms of relations in the energy sector, Saudi Arabia supplied around 10% of Turkey's crude oil, while Qatar supplied a quarter of its liquified natural gas. But energy relations have showed signs of broadening further beyond hydrocarbon supplies. For example, in 2016, an MoU was signed between Qatar Solar Technologies and Turkey's state energy company for the purpose of cooperating on solar energy. Other GCC countries have also made substantial energy investments in Turkey, including in renewable energy.

While the energy relationship has predominantly been based on GCC exports to Turkey, in contrast, Turkish construction firms have long played a critical role in projects across the GCC. This trend remains solid with several megaprojects in GCC countries involving Turkish construction firms, such as recent contracts for building new terminals at both Kuwait's and Bahrain's International airports. The upcoming World Cup 2022 in Qatar and Dubai's Expo2020 require substantial infrastructure development to accommodate them. Firms in Turkey have been well positioned to bid for such projects and are developing and upgrading transportation systems—as with the Dubai Metro line extension and the Gold Line of Doha Metro.

Gulf countries have been active in Turkey's real estate boom. Over the past two years, GCC citizens have been among the most active in Turkey's real estate market, with Saudis and Kuwaitis ranked 2nd and 3rd in houses sold to foreigners in Turkey in both 2016 and 2017. In fact, GCC citizens have purchased over one-fourth of all properties sold to foreigners in 2017 (figure 0.2)

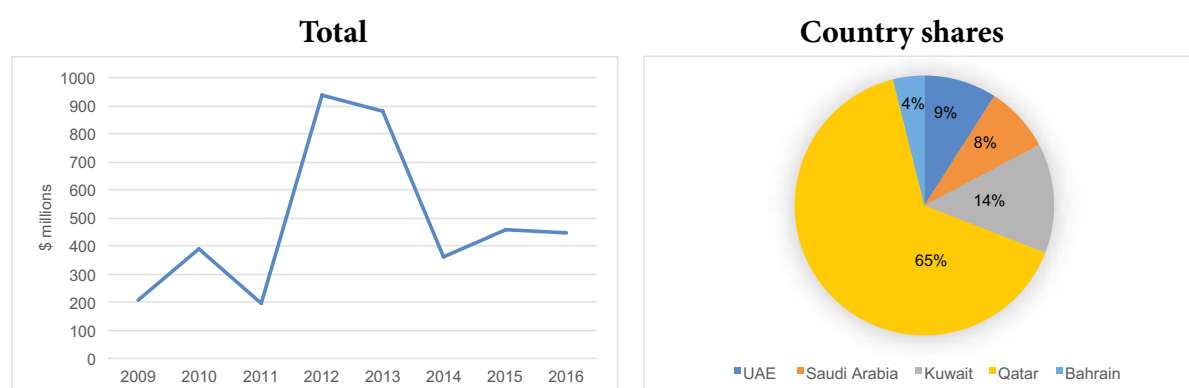
Figure 0.2: Houses in Turkey sold to foreigners, 2017



Note: 2017 is up to September only. The figure excludes Oman given the lack of data.
Source: Based on data from the Turkish Statistical Institute, November 2017.

GCC investments in Turkey, however, have not been limited to real estate. Foreign direct investment (FDI) has been high, with a GCC total of nearly \$4 billion between 2009 and 2016, a massive increase considering that the figure was around \$10 million in 2002. More than two-thirds of the investments came from Qatar (figure 0.3). While FDI into Turkey has been heavily state-sponsored, private businesses have been active in Turkey's banking sector since the 1980s, when Al Baraka Turk and Kuveyt Turk were set up with Saudi and Kuwaiti capital to become Turkey's first participation banks (Islamic banks). Bahrain has been a key GCC hub supporting the growth of Turkey's Islamic banking market in the region, hosting several branches.

Figure 0.3: FDI inflows from GCC countries to Turkey, 2009–2016



Note: Equity capital inflows, excluding real estate and other capital. The figures here exclude Oman given the lack of data.

Source: Based on data from the Central Bank of the Republic of Turkey.

These figures clearly indicate a surge of investment interest from the GCC region, increasing the number of companies established in Turkey. As of 2017, there are almost 2,000 GCC companies in Turkey (table 0.2). These opportunities have been supported by a number of burgeoning bilateral business councils between Turkey and the GCC states.

Table 0.2: GCC companies in Turkey, 2017

Country	Companies
Saudi Arabia	1,036
UAE	445
Kuwait	291
Qatar	117
Bahrain	63
Oman	21
Total	1,973

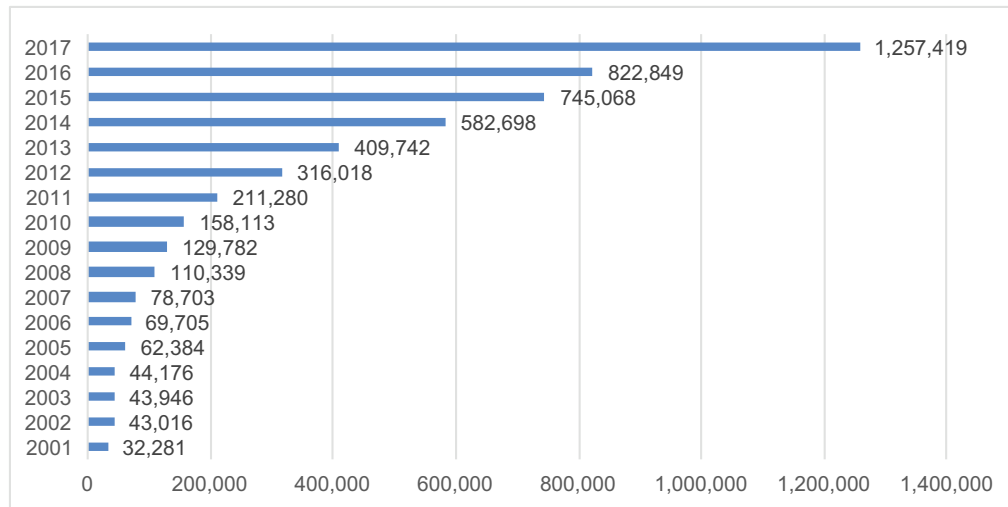
Note: Data as of June 2017.

Source: Republic of Turkey Ministry of Economy.

Supporting the exceptional growth of economic ties between Turkey and GCC countries over the past decade is people-to-people contact. GCC countries have more than 26 million nationals and they are travelling to Turkey more than ever. As early as the third quarter of 2017, they set an all-time record, reaching more than one million visitors for the first time (figure 0.4).

A confluence of factors including Turkey's soft power—as with the highly popular Turkish TV series in the Gulf—and political instability in other once popular tourism destinations throughout the Arab world help explain the growing popularity of Turkey as a tourism destination for GCC citizens. This intertwines with other economic activities, as with Gulf citizens buying houses for both investment and vacation purposes. This report defines and explains some of the drivers and emerging trends in the key sectors.

Figure 0.4: Number of GCC citizens arriving in Turkey, 2001–2017



Note: 2017 is up to September only. The figure excludes Oman given the lack of data.

Source: Based on data from the Republic of Turkey Ministry of Culture and Tourism.

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PART I.

Energy Sector Engagement

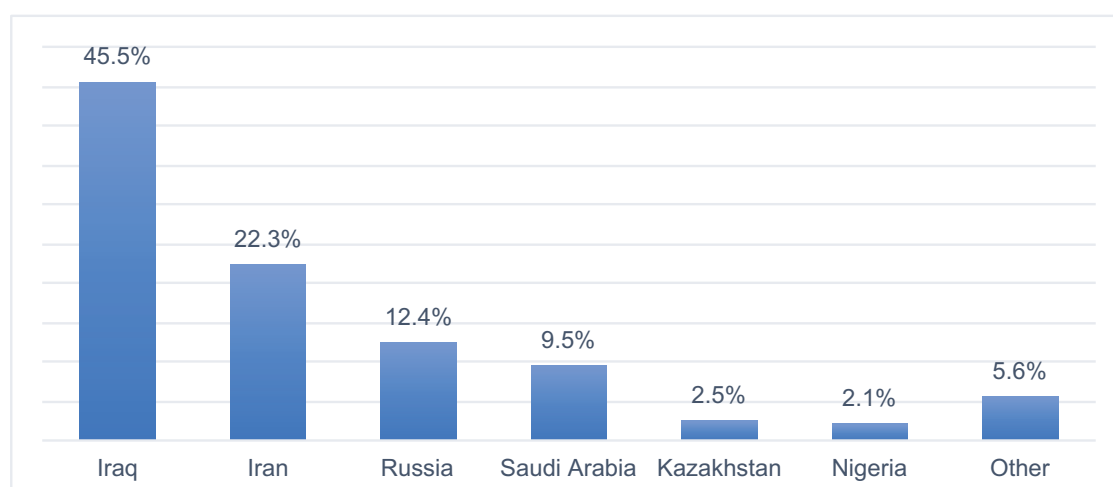
Part I. Energy Sector Engagement

1 Overview

With more than 39% of their collective gross domestic product (GDP) coming from energy exports, energy trade is the lifeblood of member countries of the Gulf Cooperation Council (GCC).¹ Historically, countries in western Europe and North America have led GCC's energy trade partnerships. In 1980, countries in the Organisation for Economic Co-operation and Development (OECD), dominated by these countries, accounted for 85% of the region's energy exports.² That influence has slowly and steadily shifted towards Eastern and Middle Eastern economies. By 2009, the share of emerging markets in GCC trade had reached 45%.

Since the mid-2000s, trade has surged between the Gulf states and Turkey, from \$5 billion in 2006 to \$16 billion in 2016, according to the Turkish Statistical Institute.³ Saudi Arabia and Qatar remained the two biggest hydrocarbons exporters to Turkey, with Saudi Arabia supplying around 10% of Turkey's crude oil (figure 1.1), while Qatar supplied 25% of Turkey's liquefied natural gas (LNG) imports.

Figure 1.1: Percentage of Turkey's crude oil imports by country, 2015



Source: IEA, 2016.

There has also been a notable shift in the energy trade mix, with more GCC exports coming from downstream petrochemical industries, LNG, and renewable energy sectors. The non-oil exports of the GCC region increased from 8% to 23% of non-oil GDP from 2000 to 2013, largely reflecting long-range economic strategies in GCC countries.⁴

The evolving energy mix provides major opportunities for energy trade between the GCC countries and Turkey, especially in non-oil energy sectors: the memorandum of understanding (MoU) signed by Qatar Solar Technologies and Turkey's state energy company, Elektrik Uretim Anonim Sirketi, in March 2016, to cooperate on solar energy investments, bears witness to this.⁵ All other GCC countries—Saudi Arabia, United

Arab Emirates (UAE), Kuwait, Bahrain, and Oman—have also made substantial energy investments in Turkey and continue to build trade relations with the country. The energy sector has the potential to be the driving force of Turkey–GCC economic relations. Given Turkey’s economic objectives as encapsulated in its Vision 2023 and the energy needed to meet these objectives, Turkey lays stress on investments in its energy sector.

2 Drivers and emerging trends

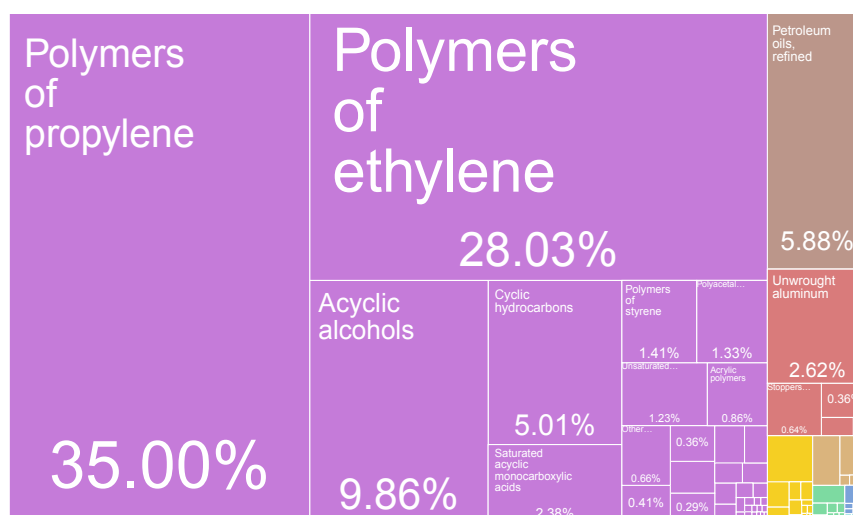
The interest of GCC countries to build relations with Turkey’s energy sector will only grow in the coming years. The key drivers are the strong potential in Turkey’s energy consumption, Turkey’s reliance on energy imports, a focus on both sides on diversifying the energy mix, and Turkey’s strategic location as an energy hub.

Turkey has seen a sharp increase in energy use per capita in recent years, from around 1,100 kg of oil equivalent in 2001 to around 1,550 in 2014, largely reflecting strong economic growth. Turkey’s total electricity (power) demand reached 264 terawatt-hours (TWh) in 2015, according to the 2015 Energy Market Report by the Energy Market Regulatory Authority (EMRA), and per the Ministry of Energy and Natural Resources is expected to reach 416 TWh by 2023.

In order to meet this projected demand growth, Turkey has continued to liberalize its energy market and introduced policies aimed at attracting foreign investors, such as Inter RAO (a diversified energy holding firm from Russia) and 7C Solarparken (a German solar power plant operator).

Due to its lack of resources and increasing energy demand, Turkey is expected to seek a wider range of trade partners to meet its energy requirements. It is already meeting some of its increasing energy demand by natural gas, which in 2015 accounted for nearly two-fifths of its electricity generation.⁶ Turkey imports nearly 99% of the natural gas it requires to generate electricity, in 2015 importing around 51 billion cubic meters (bcm), with 58% coming from Russia, 18% from Iran, and 12% from Azerbaijan.⁷ Turkey’s primary energy trade partner in the GCC region was Saudi Arabia (figure 1.2), followed by Qatar and the UAE.⁸

Figure 1.2: Turkey’s composition of imports from Saudi Arabia, 2016



Source: Harvard Atlas of Economic Complexity.⁹

In 2016, Turkey's foreign trade deficit declined by 11.7%, while its total imports fell by 4.2%, as a result of lower oil prices, despite growing energy demand. This illustrates the significance of energy in Turkey's trade balance and economic relations, and its need to diversify its energy partners, to improve its energy security, and to source cheaper energy imports.¹⁰

Based on the 2023 national energy objectives as expressed in its Vision 2023, Turkey has five main aims in the energy field: diversify its energy supply routes and source countries; increase the share of renewables; add nuclear power to its energy mix (which is developing); increase energy efficiency; and contribute to Europe's energy security as a regional hub. Likewise, GCC countries since the early 2000s have made efforts to diversify their electricity generation sources.

GCC countries are also more urgently aiming to balance their energy export dependence owing to the recent sharp decline in oil prices, which has caused sharp falls in government revenues and a consequent inability to continue supporting budgeted public expenditures. They have therefore begun to diversify their energy export mix and sought alternative energy investments in other countries to reduce their reliance on hydrocarbon revenues. Turkey's huge clean energy resources—solar and wind—place the country in a solid position to benefit from these alternative energy investments, which will not only help it meet its increasing energy demand but also create opportunities for other business segments, such as infrastructure contractors and ancillary energy services companies.

The final driver is Turkey's strategic location between the major hydrocarbons-producing GCC countries and the large consumer markets in Europe, making it a natural energy hub. Turkey's neighboring regions including Russia account for more than 70% of the world's known oil and gas reserves.¹¹ This locational advantage is attracting investments from GCC countries, whose interests lie not only in European exports, but in energy infrastructure contracts such as pipeline development, which Turkey needs expertise in.

The above drivers suggest a convincing business case for stronger energy-based Turkey–GCC trade relations, in hydrocarbons, renewable energy, and energy infrastructure—as now reviewed.

Hydrocarbons

As the focus of the world shifts towards sustainable energy development, it is likely that, within the hydrocarbons realm, crude oil will represent a lower share of revenues for energy firms in the GCC region. But coal, natural gas, and LNG present opportunities for increasing hydrocarbons trade and investment between the two sides.

From Turkey's perspective for coal, the country's energy strategy aims to use all existing domestic lignite and hard coal potential for energy generation and to use thermal power plants based on imported coal, which has a high calorie value, to ensure supply. The government, which foresees that Turkey's energy demand will double by 2023, aims to meet most of its increased need by building new coal-fired power plants and by increasing coal-fired installed capacity from the current 15.9 GW to 30 GW.¹² The main regions of coal potential are in Thrace, Soma, and Karapınar Basins.

Large planned coal investments go back at the very least to 2012 when Turkey's state-owned Electricity Generation Co. Inc. (EUAS), and TAQA, a UAE public company, agreed to set up a joint venture to invest in the Afsin-Elbistan coal-fired power plant in Turkey. But the investment was postponed by the UAE in 2013, presumably because of policy differences between the two countries towards Egypt. Eventually, Qatar's NEbras, Qatar Holding, and three Japanese companies subsequently signed an agreement in February 2015 to evaluate the plant's economics. No agreements on investments have yet been reached after this evaluation.

European investors pay little attention to coal due to environmental concerns discussed at COP21 held in Paris in 2015, and at COP22 in Marrakesh in 2016. However, Saudi Arabia, Qatar, and China continue to express interest in investing in coal in Turkey.

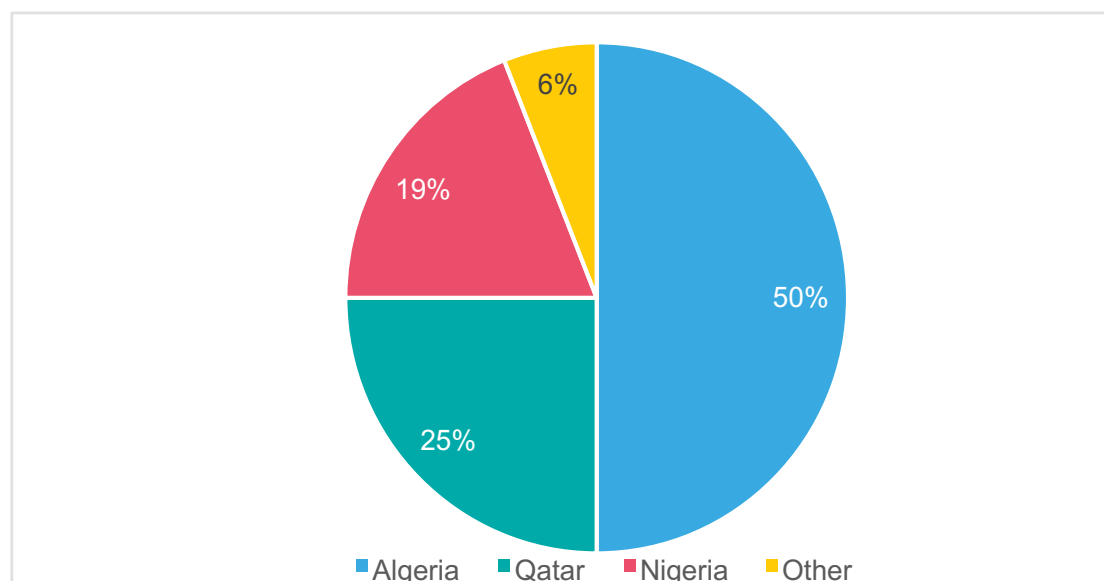
A cleaner fuel than coal, natural gas has remained at the forefront of Turkey's energy policy, but over the past couple of decades in Eurasia and the Middle East it has become increasingly difficult to separate any conversation about natural gas from geopolitical and foreign policy discussions. What makes matters worse from an energy security standpoint is Turkey's heavy reliance on Russia (nearly three-fifths) for supplies; Turkey's decades-long desire to become a regional energy hub depends on becoming a gas platform that can ensure diversified supply contracts and transit routes complemented by competitive supplies. Central to the energy plan is discovering significant amounts of natural gas in the Eastern Mediterranean, like other neighbors in the Mediterranean littoral.

The Ministry of Energy and Natural Resources, in its five-year strategic plan for 2015–2019, aims to raise natural gas storage capacity to more than 5 billion m³, and recognizes the country's considerable import dependency on oil and natural gas. It names diversification of import countries and routes as a major priority in ensuring security of energy supply. Externally, Turkey aims to limit dependency on a single country for natural gas imports to 50% by 2019. OMV, E.ON, GE, RWE, and American Edison Mission Energy are leading foreign investors for natural gas in Turkey.

Investments from GCC countries include Saudi Arabia's ACWA Power, which is developing a 950MW combined-cycle gas turbine power plant in Kirikkale. This project is worth \$1 billion and is being executed under a long-term financing project of the European Bank for Reconstruction and Development. The operator is NOMAC Turkey. The plant's investment represents one of Turkey's largest single foreign direct investment inflows in recent years.¹³

The diplomatic breakdown between Russia and Turkey in 2015–16 further reinforced Turkey's objective to reduce its dependency on Russian natural gas, with Gulf countries well placed to serve as an alternative source. Soon after the break in relations in December 2015, Turkey signed an MoU with Qatar to replace Russian gas with LNG—with the tiny state already representing a quarter of Turkey's LNG exports that year (figure 1.3). More recently, in September 2017, Qatargas—the world's largest producer of LNG—signed a medium-term sales and purchase agreement with Turkey's BOTAS to deliver 1.5 million tonnes of LNG, each year, for the next three years.¹⁴

Figure 1.3: Turkey's liquefied natural gas imports, 2015



Source: EIA, 2017.

Regasification and storage facilities are another area for cooperation and investment between Turkey and GCC countries, given that Turkey lacks the necessary infrastructure capacity for regasification or storage: Turkey's regasification capacity does not exceed 14 bcm a year, and the capacity of its LNG storage is limited to about 3 bcm. Turkey has only two plants to gasify LNG and pump it to the gas network—one in Silivri, near Istanbul, and the other at Aliaga, on the western coast.¹⁵

Renewable energy

As economies worldwide attempt to lower their share of oil in the energy mix and increasingly turn to renewable energy, a notable recent trend has been the speed of Gulf countries' firms in capitalizing on this market shift and establishing their expertise in the industry, in part because of the abundance of renewable resources—solar and wind—in the Middle East. Their celerity has enabled these companies to become key renewable energy producers in the region. One example: a solar photovoltaic tender in Dubai in 2015 resulted in Saudi Arabia's ACWA power quoting a world record low electricity price of US\$ 0.06 per kilowatt hour, which is cheaper than domestically produced power from gas-fired generation. As Turkey's energy needs increase and the country gears up for creating its sustainable energy infrastructure, GCC-based companies stand in prime position to win contracts, given their expertise and competitiveness.

Turkey needs these firms. Its government has realized the role that renewable energy can play in expanding power generation and diversifying the energy supply mix in an environmentally sustainable way. According to the Investment Support and Promotion Agency of Turkey (ISPAT), the government aims to increase the share of renewables in the country's installed power to 30% by 2023, while enacting laws that set principles for saving energy at individual and corporate levels, and that provide incentives for energy efficiency investments.

Turkey also aims to maximize the use of hydropower, increase the installed capacity based on wind power to 20,000 MW, and build power plants that will provide 5,000 MW of solar energy and 1,000 MW of geothermal power.¹⁶ Opportunities for these four renewable forms of energy are abundant in Turkey, and policies for favorable feed-in tariffs are expected to increase renewables' share in the national grid in the coming years.

In hydropower, the Euphrates and Tigris rivers with their far-ranging watershed area and higher elevation contribute heavily to the country's abundant potential. Small power plants on rivers with a lower elevation and drainage area, mainly in western areas, are also suitable to produce electricity. In September 2012, a consortium led by Kuwaiti Aswar Group and South Korean companies—CX Concentrix Solar Korea, KEPCO, and Kincoa—invested US\$450 million to develop solar energy in Turkey. Verbund from Austria and Czech based CEZ Group are other leading foreign investors for hydropower in Turkey according to ISPAT.

The main wind potential lies on the coasts of the Marmara and Aegean regions, and of the Black Sea. Denmark based Vestas, Germany's Evonik and Siemens are the leading foreign investors for wind energy in Turkey. For solar energy, the natural energy potential is scattered among different regions, but Central and Southeastern Anatolia, the Aegean Region, and the Mediterranean Region are good for producing electricity. Tekno Ray Solar (a joint venture between Turkey's Tekno and Italy's Enerray), Germany's Belectric, and USA's First Solar are leading foreign investors for solar energy in Turkey. First Solar signed a large sales collaboration agreement in early 2017 with Turkey's Zorlu Holding.¹⁷ Finally, most of the geothermal energy potential is in the Aegean and Central Anatolian regions. US based NGPI, Italy based Exergy and Netherland based Transmark are leading foreign investors in Turkey's energy sector.

Infrastructure development

The last strand in closer energy-based trade relations—energy infrastructure—which aims to exploit Turkey's strategic location as an “energy bridge,” means that energy infrastructure development will be a vital growth segment, mainly in oil and gas pipelines, “smart grids,” and traditional grid infrastructure.

Many joint-venture projects for oil and gas pipelines between GCC countries and Turkey are underway. An LNG terminal at Turkey's Gulf of Saros is set to be constructed by Turkey and Qatar, which will help the GCC country export LNG to Greece and Bulgaria, is a good case in point.¹⁸ Such large infrastructure projects in Turkey can also boost energy investors in the GCC as they venture into new markets in Europe, outside their traditional “comfort zone.”

Advances in smart grid technologies reflect GCC countries' commitment towards sustainable and efficient energy production, with Saudi Arabia leading among the GCC countries: it is ranked fourth among the 34 top international markets on smart grid growth potential.¹⁹ Investment in Saudi Arabia's distribution systems, including smart grid systems, is predicted to reach US\$24 billion over the next decade.

This also looks promising for Turkey's traditional grid infrastructure development, where around US\$9 billion in grid upgrades is expected over the next five years starting

2016.²⁰ Such growth also means that the national grid needs to be modernized with upgraded electric systems and to be integrated with new information and communication technologies, providing an opportunity for GCC-based companies on the technology and financial fronts.

Yet despite the enormous opportunities, political differences between GCC countries and Turkey, and divergent business policies, can derail large energy investments (and those in other sectors), as seen with the Afsin-Elbistan power plant. The visit by Saudi Arabia's King Salman to Turkey in April 2016 had marked a reset in relations. Since then, however, the 2017 GCC diplomatic crisis has engendered fissures in the Turkey–GCC relationship, with Turkey pushing for mediation among the parties, while viewed as siding with Qatar throughout the impasse with political, economic, and military support. In October 2017, Qatar authorities announced negotiations for a \$19 billion investment in Turkey, with \$15 billion to come through one of the world's largest sovereign wealth funds, Qatar Investment Authority (QIA). The remaining \$4 billion will be invested by Q Invest, another fund in the Gulf state. Energy is one of the sectors that will benefit from the investments, with a focus on thermal plants.²¹

Before the recent crisis, the relationship between Saudi Arabia and Turkey had improved in large part due to Turkey's security situation. On April 14, 2016, foreign ministers of Saudi Arabia and Turkey signed an agreement to create a bilateral strategic cooperation council in Istanbul. In the following weeks, Turkey's foreign minister, Mevlut Cavusoglu visited the UAE for the first time in three years for a series of talks with Sheikh Mohammed bin Zayed, Crown Prince of Abu Dhabi. Mevlut Cavusoglu's visit was succeeded by the UAE's re-installment of its ambassador in Ankara in May 2016.

The GCC's support of President Erdogan in the aftermath of the failed coup on July 15, 2016 further improved economic relations.

A free trade agreement was expected to be signed between Turkey and the GCC in late 2017 or early 2018, but the GCC crisis has resulted in the *de facto* suspension of talks and negotiations. Turkey will aim to support its Gulf neighbors in finding a resolution to the diplomatic stalemate.^{22,23}

3 Policy discussion

Bilateral business relations between Turkey and GCC countries in energy can bring considerable benefit to both parties, but they should consider several aspects concerning long-term, sustainable trade relations.

Rather than just seeing Turkey as a gateway to Europe, GCC countries should recognize the enormous opportunities in Turkey's domestic market, given its growing energy demand. Gulf states should focus efforts on building coalitions with companies in Turkey on large energy projects, including LNG and coal industries. Energy reforms and policies should go beyond cutting subsidies and should target wide diversification objectives, also planning to set export targets accordingly.

Turkey and GCC countries should explore investment opportunities in supporting sectors—such as plant construction, oil and gas pipeline projects, and smart grid infra-

structure projects—in Turkey and other countries. The countries should aim to develop an integrated strategy on improving energy security with shared economic interests given precedence. Another mutual area for cooperation includes renewables and broader energy efficiency projects across sectors, which the countries should aim to promote and increase investment in. However, political risk makes it difficult to get long term low interest international bank financing, which is critical to the economics of renewable energy projects. Therefore, one of the ways that Turkey’s government could vastly increase FDIs in the renewable sector would be to provide sovereign guarantees specifically targeted at loans for renewable energy projects.

Turkey and GCC countries may further explore more coordinated strategies to support energy-intensive industries through the gradual phasing out of energy subsidies. For example, Turkey and Saudi Arabia should develop a working group that looks at energy-related matters within the rubric of Turkey’s involvement in Saudi Arabia’s Vision 2030 (including megacity NEOM), possibly addressing energy efficiency in construction PPPs *inter alia*.

¹ Maamary, Kazem, and Chaichan, 2016.

² EIU, 2011.

³ Turkish Statistical Institute, November 2017

⁴ IMF, 2014.

⁵ Gulf Times, 2016.

⁶ Republic of Turkey Ministry of Energy and Natural Resources, 1 September 2016.

⁷ Republic of Turkey Ministry of Energy and Natural Resources, 1 September 2016.

⁸ Al-Atiqi et al., 2015.

⁹ CID, November 2017.

¹⁰ Gurtas, 31 January 2017.

¹¹ Coskun, 9 May 2010.

¹² Şahin et al., April 2016, 7.

¹³ ACWA Power, n.d.

¹⁴ Reuters, 20 September 2017.

¹⁵ IEA, 2013.

¹⁶ ISPAT, 1 September 2016.

¹⁷ First Solar, 15 February 2017.

¹⁸ Reuters, 6 January 2013.

¹⁹ Yeni Şafak, 17 October 2017.

²⁰ ITA, 2016b.

²¹ Alakent, 18 October 2017.

²² Cook and Ibish, 28 February 2017.

²³ Khan, 22 July 2017.

PART II.

Banking and Finance Sector Engagement

Part II. Banking and Finance Sector Engagement

1 Overview

Financial ties between Gulf Cooperation Council (GCC) countries and Turkey mutually support economic growth and diversification. Investment flows and banking sector ties have fluctuated since 2014, but over the last decade and a half the general trend has been an upsurge in shared investment opportunities. Turkey is a prime destination for foreign direct investment (FDI) from GCC countries, particularly in banking, and for investment by private equity firms based in GCC countries, especially the United Arab Emirates (UAE). The GCC countries have proven an important platform for business in Turkey, providing large contracts in infrastructure development for firms in Turkey.

Yet state-sponsored and private GCC investors remain among the smaller players in banking and finance in Turkey, and domestic actors are responsible for the majority of mergers and acquisitions and privatization deals in Turkey. While there is a growing trend of outward investment from Turkey to GCC countries, they are still minor recipients of these flows.

In the background, shifting geopolitics, including uncertainty across the European Union over Brexit and instability in Turkey's relations with Russia through 2015, make GCC countries an increasingly important alternative source of funding and partnership. Global financial patterns that have taken shape since the global financial crisis in 2008–2009 benefit increasing ties between developing economies. Financial flows between Turkey and GCC countries are one prime example.

As of mid-2017, Turkey has had to recognize the importance of diversity of sources of financial ties within the GCC and to reconcile how disputes within the regional organization might affect financial flows. Turkey's domestic political environment has also affected its economic growth, particularly since the attempted coup in 2016 and subsequent state of emergency. Exchange rate volatility has been one effect, and general economic growth rates were lower in 2016 than expected.¹ Geographically, Turkey's growth is tied to emerging markets and commodity price shifts, economic developments in Russia and China, and the outcomes of major elections in European economies. Turkey's cooperation on refugee policy has been an important relief to European governments which could be threatened by victories of nationalist, anti-immigrant, and populist parties in Europe that choose a harder line on refugee financial support.

The global financial environment

Trends in international financial flows have shifted the landscape for Turkey and GCC countries since the global financial crisis of 2008–2009. According to a study by the McKinsey Global Institute, gross cross-border capital flows—annual flows of FDI, purchases of bonds and equities, and lending and other investment—have shrunk by 65% in absolute terms, returning to the level of global flows as a share of gross domestic product (GDP) at the start of the 2000s.²

The retreat in finance has occurred mostly from developed economies. Eurozone banks have severely curtailed cross-border lending, with total foreign loans and other claims down by \$7.3 trillion (45%), since 2007.⁴ In 2005, the United States was the leading net receiver of global capital, absorbing 67% of the total; by 2016, that share had fallen by half.⁴ Developing countries have become net recipients of global capital for the first time in a decade.

Replacing traditional lenders, investors, and centers of global finance are new actors and routes of finance and capital flows. Brazil, Malaysia, Mexico, Russia, Saudi Arabia, and South Africa all have stocks of foreign investment assets and liabilities greater than 100% of GDP. Together, developing countries now account for 14% of global financial assets and liabilities, up from 8% and 9%, respectively, in 2007. These countries are projected to generate the majority of the world's long-term economic growth.

The global stock of FDI has increased from 46% of world GDP in 2007 to 57% in 2016 (\$25 trillion to \$41 trillion).⁵ The trend in flows of FDI is increasingly towards financial centers, rather than in greenfield investments, or mergers and acquisitions. Emerging international financial centers include those of the GCC. While Dubai remains a center for wealth management and private equity, Bahrain remains an important center for financial flows.

With this new multi-polarity has come volatility. Since 2010, in any given year one-third of developing economies experience a large decline or surge in their capital inflows: the median change is equivalent to 6.7% of GDP.⁶ Volatility has also come to the banking sector, in that the global financial crisis and the policy remedies have largely discouraged risk-taking by large banks in developed economies, creating opportunities for new banks and banks in new financial centers and developing markets to expand regionally.

Turkey-GCC banking and finance

Turkey's government has been bullish on increasing trade and investment ties with GCC countries notably since the first AKP government came to power in 2002. This interest from Turkey coincided with some important changes in political and economic circumstance in the Gulf region, which further enabled mutual investment. As Robert Olson argues, the geopolitical projection of Gulf power after the US invasion of Iraq in 2003, combined with a new period of high oil prices, instigated a flow of investment and political engagement from GCC countries that had been absent in the previous decade.⁷ Likewise, Turkey's twin shifts in foreign and economic policy after 2002 to more engagement with regional partners (rather than focusing on Europe) encouraged stronger business and financial ties with GCC countries.⁸

In the years since 2002, the increase in economic engagement has been notable. As reported in the previous OxGAPS publication, *Turkey-GCC Relations: Trends and Outlook*,⁹ the period 2002–2014 saw a series of government-led initiatives, including the creation of four primary institutions to facilitate deeper trade and investment ties between Turkey and the GCC:

1. Non-governmental business councils between Turkey's Foreign Economic Relations Board (DEIK) and GCC business associations.

2. One-off, GCC state-specific and sector-specific committees, such as the 2012 Abu Dhabi TAQA–Turkey Committee for Joint Energy Investments.
3. The Turkey–GCC High Level Strategic Dialogue, initiated in 2008, and the related 2010 Joint Action Plan.
4. The GCC–Turkish Joint Committee for Economic Cooperation and specialized sub-committees in agriculture and food security, electricity and water, energy, environment, financial and monetary issues, health, investment, tourism, and trade.

The policy aim of Turkey’s government is very clear: a \$100 billion target of trade with GCC countries by 2023, part of its “Centennial” goals. In investment, efforts have been directed at attracting the private sector through FDI, as supported by a series of bilateral agreements with GCC countries signed over the last decade, and a newer effort to secure a Turkey-GCC free trade deal.

These agreements on technical cooperation, investment promotion, and tax point to increasing political cooperation and the institutionalization of the Turkey–GCC relation that puts policy priorities of economic development into practice.¹⁰ One example is the 2012 investment incentive program to encourage real estate investment. Law No. 6302, amending Article 35 of Land Registry Law No. 2644, cancelled Turkey’s reciprocity requirements for land ownership for foreign individuals or institutions from qualifying countries and allowed a 10-fold increase in the amount of land that can fall under such ownership. Real estate has been a popular investment vehicle among GCC investors, particularly as the tax burdens on property investments are low (2% transfer fees, and usually less than 1% property tax).¹¹

The private sector in Turkey has been outwardly focused, with investment of firms in Turkey flowing mainly towards developed countries, especially the United States and Europe, but also towards the Middle East and North Africa. The weakening of Turkey’s lira since 2016 has prompted many firms, even state-related entities, to seek opportunities abroad. Investments in Turkey indicate an important maturation of firms, with many now involved in energy (see Part I), construction (see Part III), and raw materials. Companies in Turkey may spend a further \$64 billion on overseas acquisitions and setting up new operations abroad by 2023.¹² From 2006 to 2016, firms in Turkey made \$36 billion of outward investments.¹³

Public sector entities are also making investments outside the country, with utilities and oil and gas producers like Türkiye Petrolleri AO allocating nearly 80% of its investments abroad in 2016.¹⁴

There has also been significant outward investment from GCC countries, even after the downturn in state revenues following the fall of oil prices in late 2014, with stop-start movements.

One outcome of restructuring in public finance underway in GCC countries since 2015 has been an increasing interest in the privatization or shared investment in public-private partnerships of utilities, airports, ports, and large infrastructure. Some firms in Turkey have gained an important foothold: Limak Holding Group, a contractor, won a \$4.34 billion award to build a new terminal in Kuwait airport in 2016, for example.¹⁵

2 Drivers and emerging trends

Bilateral FDI flows between GCC countries and Turkey over the last 15 years have been volatile (table 2.1).¹⁶ Since 2013, Saudi FDI in Turkey has slowed from its boom in 2008 and (to a lesser extent) in 2012. Qatar's commitment has been more sustained, but lower in volume than FDI from the UAE.

Table 2.1: Inward and outward foreign direct investment in Turkey

Turkey FDI abroad, by country (US\$ million)															
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (provisional)
Gulf countries	0	0	7	5	18	25	32	27	129	63	51	29	126	99	41
Bahrain	0	0	0	0	16	5	0	0	116	35	7	0	1	0	0
UAE	0	0	1	1	2	14	29	18	11	4	34	23	114	28	37
Qatar	0	0	0	3	0	0	0	1	0	7	3	0	0	18	0
Kuwait	0	0	6	0	0	0	0	0	0	2	1	2	2	49	0
Saudi Arabia	0	0	0	1	0	6	3	8	2	15	6	4	9	4	4
Total world	251	486	815	1.065	1.677	2.275	2.604	2.040	1.823	2.542	4.335	3.226	5.234	5.241	3.111

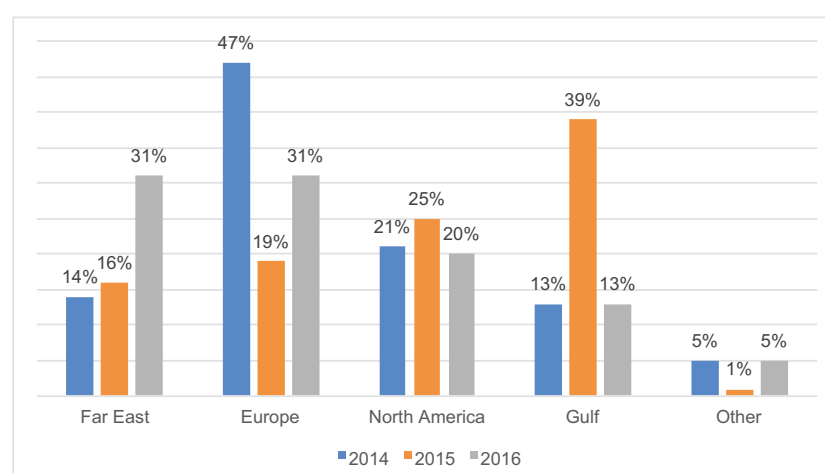
FDI in Turkey, by country (US\$ million)															
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (provisional)
Gulf countries	5	0	43	1.671	1.782	306	1.963	209	388	196	939	880	364	460	445
Bahrain	4	0	0	24	89	36	47	96	0	5	131	11	34	6	0
UAE	1	0	0	1.625	1.548	183	148	6	104	89	52	176	115	80	37
Qatar	0	0	0	0	0	0	126	0	52	50	46	469	8	350	375
Kuwait	0	0	38	20	123	77	330	73	193	43	271	185	197	7	22
Saudi Arabia	0	0	5	2	22	10	1.312	34	39	9	439	39	10	17	11
Total world	571	696	1.190	8.535	17.639	19.137	14.748	6.266	6.256	16.136	10.761	9.890	8.631	12.074	6.888

Source: Central Bank of the Republic of Turkey, November 2016.

Compared with a random sample of developing-country and regional peers,¹⁷ Turkey's room for expansion of cross-border capital flows is evident. Likewise, Bahrain has provided access to capital and opportunities for outward investment, though the size of its economy is not large.

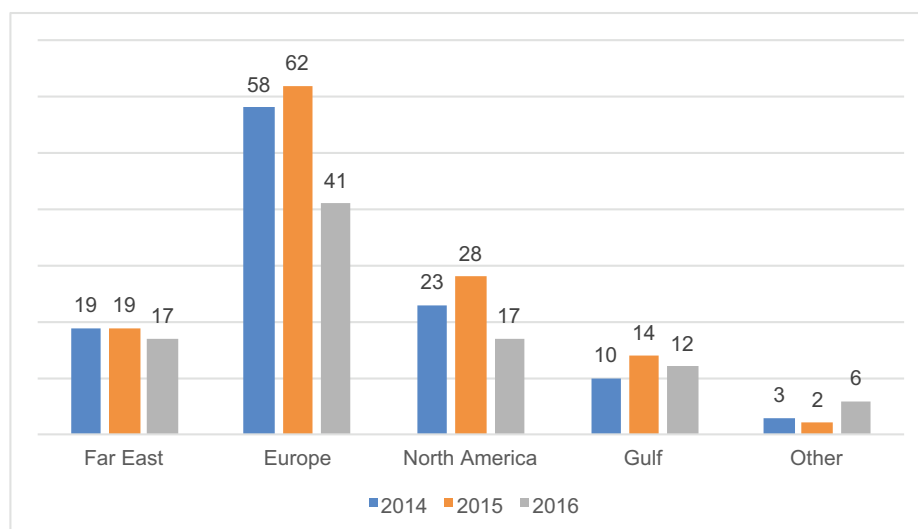
For Turkey's mergers and acquisitions or deal flow,¹⁸ while transaction figures are much lower than with Europe, North America, and even East Asia, the volume of Gulf deals in Turkey has been impressive (figures 2.1 and 2.2). The year 2016 proved difficult, though some deals signaled continued interest.

Figure 2.1: Turkey's foreign investor deal volume by region
(percent, including estimates for undisclosed deal values)



Source: Deloitte, 2017.

Figure 2.2: Foreign investor deal number by region



Source: Deloitte, 2017.

Last year was a low for FDI to Turkey, likely due to domestic security concerns, though that year was also weak globally. Within GCC countries, growth rates were very low, and all six showed a fiscal deficit in 2016 and forecasted deficit for 2017. The new realities of fiscal positions among GCC countries due to lower oil revenues could have important ramifications on state investment vehicles, including sovereign wealth funds.

All six GCC states have faced fiscal imbalances, as a percentage of GDP in both 2016 and 2017. Kuwait, the best placed among its peers for reducing its fiscal deficit, is projected to move towards surplus in the near term. The weakest GCC economies remain Bahrain and Oman, still highly dependent on oil export revenue but with very limited oil resources. Their spending commitments in public sector service delivery and wages remain a burden on their fiscal balance. Saudi Arabia has also continued to deal with difficulty in its spending commitments in a period of low oil revenues. But it has gone to local and international debt markets several times over the last two years as a stop-gap measure to continue fiscal spending patterns. The slowdown of the Saudi economy has become a concern, even to the International Monetary Fund, which has advocated for some slowing of the pace of reform.¹⁹

One opportunity for Turkey is the GCC countries' refocus to expand the private sector. The liberalization of GCC state-related entities goes along with state commitments to expand delivery of public services, such that large infrastructure development must continue rapidly, while the financing of that growth is now open to private investment.²⁰

Likewise, the interest of GCC sovereign wealth funds to generate investment revenue outside the GCC continues to grow as a national economic priority. The placement of outward FDI from GCC sovereign wealth funds seems concentrated in developed economies and major equity markets, though there is certainly interest in real estate holdings and opportunities in the Middle East.

In private capital flows, especially among private equity placements and acquisitions, active investors in the GCC look to Turkey. Based on deals with disclosed transaction values reported by EY, the average investment size by foreign investors in 2016 was some \$68 million (compared with \$179 million in 2015).²¹ Multilateral deals were among the largest by volume in this area, evidenced by foreign investors' closings including the Mars Entertainment Group–CJ CGV and Odeabank–International Finance Corporation, the European Bank for Reconstruction and Development, and private investors. Excluding these two transactions—the acquisition of Mars Entertainment Group by CJ CGV for US\$689.2 million and the acquisition of a 23.6% stake in Odeabank by the International Finance Corporation (IFC), European Bank of Reconstruction and Development (EBRD), and private investors for US\$265 million—the average investment size by foreign investors was \$44 million, down from \$68 million in 2015. The largest deal of 2016 with a disclosed value from a GCC-based investor was in financial services, the Commercial Bank of Qatar's acquisition of Alternatifbank. Excluding this transaction and within the contracted environment of 2016, activity by private equity and angel investors again saw significant GCC investor interest in Turkey.

One deal in 2016 saw combined GCC investor interest from Venture Capital Bank, based in Bahrain, and Al Sraiya Holding, based in Qatar. They took a shared 40% stake—\$150 million—in Turkey's ice cream and patisserie company, Mado.²² This investment typifies GCC interest in brand expansion in retail outlets in the region.

In technology, 2016 saw innovative GCC venture capital and angel investments in Turkey. Volt, a mobile phone-enabled ride-sharing company, received seed funding from Middle East Venture Capital fund and Wamda Capital (Dubai-based).²³ While Volt's investment is relatively small, it also signals regional interest in funding start-ups in the mobile and internet space.

But while investment interest in start-ups and technology is promising, the largest activities between investors in GCC countries and Turkey remain banking investments and contracting. Recent entrants include the 2016 opening of the Bank of Bahrain and Kuwait, the second Bahrain-based bank to enter Turkey's market.²⁴

Niche markets

The banking sector in Turkey is extremely reliant on GCC finance, particularly in the growing Islamic finance sector, whose banks are known as “participation banks” in Turkey. Ownership of the small banks that make up the majority of Islamic finance in Turkey is held largely by GCC investors and banking groups. There is strong interest from GCC banks to acquire or position themselves in the Islamic finance market in Turkey.

According to research by JP Morgan, 90% of assets in Turkey's Islamic financing is held by three financial institutions (figure 2.3): Albaraka Turk (part of Al Baraka Banking Group of Bahrain), Turkiye Finans (controlled by the biggest Saudi bank, NCB), and Kuveyt Turk (privately held, controlled by Kuwait Finance House).²⁵

Figure 2.3: Shares in the Islamic banking market in Turkey



Source: J.P. Morgan, 2017.

Banks in Turkey have a firm foothold in GCC countries, though largely anchored on Bahrain, a regional financial center. Bahrain is host to Turkey's bank branches of Denizbank, Finansbank, ING Bank, IS Bank, Kuveyt, Turk, Halkbank, Vakifbank, and Yapi Kredi; Saudi Arabia has Ziraat Bank of Turkey; and the UAE has branches of Akbank and Kuveyt Turk.²⁶

Turkey's largest trade partners in GCC countries generated shared trade of some \$16 billion in 2014, up from \$1.49 billion in 2002, while FDI flows to Turkey from GCC countries between 2010 and 2014 amounted to some \$2.8 billion.²⁷ Turkey's largest export markets in GCC countries in 2014 were the UAE and Saudi Arabia, with key products including construction materials, iron and steel. Saudi Arabia and the UAE absorbed 10% of Turkey's steel exports in 2010.²⁸

Trade in sensitive industries like defense is robust between Turkey and GCC countries. Bahrain, Saudi Arabia, and the UAE accounted for some 25% of Turkey's defense exports in 2012.²⁹ The privatization of defense contracting and efforts to build the manufacturing sectors in Saudi Arabia and the UAE could spur regional investment and create opportunities for firms in Turkey. New ties between Turkey and Qatar in defense basing may also create opportunities, though the risk of alienating other GCC countries remains high.³⁰

Where opportunities are proven is in service delivery of infrastructure contracts by Turkish firms in GCC countries. Saudi Arabia's recent opening of full ownership to foreign firms in engineering could prove advantageous for outward FDI from Turkey.³¹ Contractors in Turkey have dominated infrastructure markets for building and operating new airports across GCC countries in recent years. A new contract finalized in June 2017 will see three new airports in Saudi Arabia operated by Turkey's contractor TAV,³² in addition to the \$4.4 billion terminal in Kuwait this year.³³

Regional political barriers

While 2013–2016 has seen some diminished deal flow and inconsistent investment patterns between GCC countries and Turkey, there also has been evidence of resilience in banking sector ties and new areas of start-up growth. Yet to maintain areas of growth, and particularly in retail expansion, telecoms, and technology, the investment climate will need to see some easing of regional political tensions, which are obstacles to expanding banking and finance ties.

As the isolation of Qatar by its GCC partners continues, the regional consequences are becoming apparent. The entire Middle East and North Africa could be drawn into the conflict, either by proxy, by being forced to choose sides, or simply by missed economic opportunities to trade and investment. Turkey, which has relied on financial investment from Qatar but also from many other GCC countries, may find it increasingly difficult to align politically with one side without suffering economic consequences. With its hybrid model of a liberalized economy mixed with Islamist-informed governance, Turkey has conflicting economic interests if it is forced to choose sides.

The AKP-led government's embrace of an Islamist democratic movement buoyed by FDI and a foreign policy objective of “zero problems with neighbors”³⁴ has relied on GCC investment, and not only from Qatar.³⁵ Qatar's investments in Turkey have surged since 2013: of its \$1.5 billion total to date, \$1.2 billion was made in the past four years.³⁶ And while Qatar is an important financial and political ally of Turkey, Saudi Arabia, the UAE, and Kuwait are also important investors in Turkey. Similarly, GCC countries are significant destinations for corporates in Turkey, particularly in contracting.

As the GCC dispute drags on, there will be economic consequences to trade and finance across the region. Qatar may be able to weather the storm caused by the isolation from its GCC neighbors, but many other regional economies, like Turkey's, risk damaging their inward FDI in sensitive sectors like banking. For Turkey, its ability to project business abroad in large contracting engagements throughout GCC countries also faces strong headwinds.

3 Policy discussion

The institutional groundwork for increased banking and financial ties between GCC countries and Turkey is in place. To weather the political risk, all countries need to concentrate on areas of mutual benefit.

GCC countries' efforts to diversify and liberalize their economies, while completing many necessary investments in infrastructure, may be a very good opportunity to demonstrate the strength of regionally based firms and their expertise. Their pricing will be competitive and existing contracts are proof of concept and delivery. The ability to structure the financing of these projects through Islamic banking products could also prove attractive to regional private investors. Not just in build-operate-transfer regimes but also in the longer-term financing of large infrastructure projects, there could be niche opportunities for Turkish banks to provide project finance to Gulf entities, especially in the smaller Gulf states like Bahrain and Oman, which may have less access to traditional lenders and financing.

The private sector is poised to take a leadership role in growing opportunities between the GCC and Turkey, and political risk is often mitigated when firms have local branches and access. As regulatory reform proceeds in the GCC states, with particular openings in the Saudi bank sector, there could be opportunities for Turkish banks to establish more local operations.

Turkey-GCC banking and financial ties have strong institutional foundations and shared objectives. Innovative deals in emerging sectors in technology and in traditional retail, food and beverage sectors seem set for continued growth.

¹ EY, 2017.

² McKinsey Global Institute, August 2017.

³ McKinsey Global Institute, August 2017.

⁴ McKinsey Global Institute, August 2017.

⁵ McKinsey Global Institute, August 2017, 39.

⁶ McKinsey Global Institute, August 2017, 11.

⁷ Olson, 2008.

⁸ Foley, 2010.

⁹ Al-Atiqi et al., 2015.

¹⁰ Schmid and Subervie, 2014.

¹¹ KPMG, 2016.

¹² According to Bloomberg, citing an interview with Volkan Kara, a partner in Bain & Co.'s Turkey office.

¹³ Bain and Turkey's DEIK Outbound Investments Business Council, 2017.

¹⁴ Ersoy and Kandemir, 20 August 2017.

¹⁵ Fahy, 30 May 2016.

¹⁶ Based on data from the Central Bank of the Republic of Turkey.

¹⁷ For which there are data from McKinsey Global Institute, August 2017.

¹⁸ Deloitte, 2017.

¹⁹ IMF, 5 October 2017.

²⁰ Alexander, 14 August 2017.

²¹ EY, 2017.

²² ISPAT, 7 December 2016.

²³ Rahal, 20 July 2016; Deloitte, 2017.

²⁴ Daily Sabah, 8 December 2016.

²⁵ J.P. Morgan, 16 May 2017.

²⁶ Walid Alameddine, 28 April 2016.

²⁷ Al-Atiqi et al., 2015.

²⁸ Al-Atiqi et al., 2015.

²⁹ Khan, 23 May 2016.

³⁰ Al Jazeera, 30 June 2017.

³¹ Reuters, 8 August 2017.

³² Anadolu Agency, 6 September 2017.

³³ Daily Sabah, 11 May 2017.

³⁴ Askerov, 2017.

³⁵ Sonmez, 27 January 2017.

³⁶ Sonmez, 31 May 2017.

PART III.

Construction and Real Estate Sector Engagement

Part III. Construction and Real Estate Sector Engagement

1 Overview

Economies of the Gulf Cooperation Council (GCC) need to minimize their dependence on hydrocarbons for 70–95%¹ of their national revenue, requiring both economic diversification and a restructuring of their economic relationships. Project markets—a primary driver of Gulf countries' past and future economic trajectories—are central to these two shifts.

Pessimists emphasize the relationship between GCC states' hydrocarbon revenue dependence and the dominance of state allocations in project financing. Yet declining oil prices do not necessarily signal the death knell of GCC project markets, provided economic diversification becomes a reality, and hence a new market driver. Optimists—despite estimates suggesting that some 20% of Gulf projects have been suspended²—point to the number of mega- and other infrastructure projects, especially rail, in the pipeline.

Core infrastructure development fosters greater confidence in regional project markets give the GCC states' economic diversification strategies as well as urbanization trends over the coming five years.³ Examples of these projects include Saudi Arabia's Madinah Metro and Qatar's Doha Metro Network. Another example includes Saudi Arabia's October 2017 announcement of plans to develop mega-city project NEOM, estimated to require an investment of \$500 billion.⁴ Optimists also refer to the increasing number of Gulf-hosted events that often qualify as mega-projects, notably Dubai's Expo2020 and World Cup 2022 in Qatar.⁵

In a nutshell, GCC project markets will shrink unless governments can secure stable alternative financing. They will also contract unless GCC economies diversify economically. The way in which GCC governments address these two key issues will determine how entrants in Turkey engage these markets. This chapter highlights transport and health infrastructure,⁶ in view of their relevance to Turkey's entry. It also introduces GCC activity in Turkey's real estate sector as a primary GCC flow of inward investment into Turkey.

2 Drivers and emerging trends

GCC project markets have increased their share of hosting for regional or global events, especially World Cup 2022 and Expo2020. Regional mega-projects demonstrate post-2000 structural transformations in GCC countries, including those to cope with population growth and to diversify economically. Each GCC member has a unique project market. The project market of the United Arab Emirates (UAE), one of the Gulf's leaders in terms of value, is a mixed bag. The UAE's projects market, and related investor confidence, demonstrated wide domestic variation.⁷ Dubai dominated these project markets with the Dubai Plan 2021 (linked to the UAE Vision 2021)⁸ guiding its portfolio

development. Dubai accounts for the bulk of the UAE's project funding, estimated by MEED in 2014 as contributing 75% of UAE-budgeted contract expenditures.⁹

Dubai's project market offers leading models of mega-projects, including the Burj 2020 development with one of the world's tallest global commercial towers and the Route 2020 metro link of the Roads & Transport Authority linking the metro red line to the city's Expo site.¹⁰

Abu Dhabi, though not a rival to Dubai, is performing quite well but has some project financing limitations, which affected its rail projects, including a delay to the Sheikh Khalifa Medical City and the Etihad Rail project.¹¹ In an attempt to counterbalance these project market losses, the emirate introduced a new property law in 2016 designed to increase the transparency and security of property purchases required by foreign investors.

Qatar and Saudi Arabia are less consistent project markets. With Kuwait, which is implementing such medium- to large-scale projects as the Mubarak Seaport and hospitals,¹² they represent over 90% of GCC countries' project capital spending. Qatar and Saudi Arabia's recent project financing record demonstrates similar limitations to those facing Abu Dhabi.¹³ Kuwait—a more consistent payer—continued increasing its project spending during the hydrocarbon price decline into 2016, despite its first budget deficit in over a decade.¹⁴

MEED estimated that the majority of Qatar's Q1 2016 awarded contracts were related to either materials-handling systems or to petroleum storage infrastructure, for a combined value of US\$865 million.¹⁵ This was a reduction from 2015, in response to the state's first budget deficit in over 15 years, although the extensive infrastructure development demands linked to the 2022 World Cup kept the market going to a degree.¹⁶ The government specifically protected Hamad Port in its revised budget.¹⁷

Bahrain's project market includes the two major projects of an airport expansion to accommodate 13.5 million passengers annually and the Ministry of Housing's planned housing scheme with 25,000 units.^{18,19} Oman, which also plans to expand Muscat International Airport and the Batinah expressway roadway, is interested in focusing more on rail, including a national railway developed by Oman Rail with a planned US\$15.6 billion budget.²⁰

The health care subsector of GCC project markets is an oft-overlooked driver despite its growing contribution to mega-project development. By mid-2016, this subsector reached a value of US\$65 billion covering 709 individual projects.²¹ Around 25% of this value is tied to mega-projects, 170 of the 709 projects currently in the construction phase versus 232 on hold,²² with 42% of those projects qualifying as mega-projects (US\$1 billion or greater) on hold.²³ Saudi Arabia and the UAE collectively represent 70% of these projects and 60% of their project value, with over 50% of the total in Saudi Arabia alone.²⁴ The 205 projects in the design phase demonstrate this subsector's future, as does its relationship to Gulf states' growing population dynamics, which require intensified attention to social infrastructure projects. This diversification includes the development of health systems for social services as well as regional health tourism, driving the creation of a mega-project sub-focus on hospitals and other health infrastructure.

The aforementioned mega-projects require significant financing, though regional project market financing shows some worrying trends. In 2016, S&P estimates suggested GCC project markets required financing of over US\$600 billion to cover slated projects to 2019. These estimates, in large part reflecting mega-projects, assume no further project changes or cancellations. Several infrastructure projects, including essential rail projects, have however been placed on hold. These projects range from the light rail system for Dubai World Central and the Abu Dhabi–Qatar Causeway and Friendship Bridge to the Sharq Crossing–Doha Bay in Qatar, with a collective budget of some US\$51 billion.²⁵

State revenues, which drove the Gulf's recent project market booms, remain the primary source of financing for those markets but are challenged by lower hydrocarbon revenues. These governments now have bigger project portfolios but declining financing owed to lower oil prices. GCC states have therefore begun to pursue alternative non-oil revenue generation, including taxation, privatization and PPPs, as well as debt market endeavors. GCC states have also made great strides in consolidating government expenditure, best illustrated by energy price reforms in recent years.

Yet GCC members need to create legal infrastructures able to facilitate PPP development and minimize direct or indirect constraints. All GCC national visions are currently addressing the need to develop satisfactory legislations and ecosystems towards this end.

Turkey's participation in GCC project markets

Foreign contractors have been the primary executing arm of Gulf projects with funding originating from GCC markets. But these contractors' involvement cannot be fully captured by data on awarded contracts, given the extent of subcontracting, especially for mega-projects.²⁶ It is clear that Turkey is a contracting or subcontracting leader in GCC project markets, with Turkish contractors ranked second globally after their Chinese peers. European and U.S. contractors are also active regionally, representing the dominant players among technical firms. Governments in the Gulf are increasingly turning to export credit agencies (ECAs) to support with the financing of billions of dollars of infrastructure projects, following the drop in oil prices and its consequent liquidity squeeze, which commenced in 2014.²⁷

Contractors in Turkey are ideally suited for lower-value-added inputs for Gulf infrastructure development. They have a notable presence in several markets including Qatar, where they manage some 120 projects valued at around US\$15 billion.²⁸

The 2017 Engineering News Record (ENR) rankings of the 100 leading international contracting firms include 10 firms in Turkey, while none from the GCC were included. Of the eight contractors in Turkey currently ranked in the top 100, two—TAV and Tekfen—are executing large Gulf projects. The Tekfen Holding conglomerate's member, Tekfen Construction, won the Qatar Al Khor Expressway, valued slightly above US\$2 billion.²⁹ This project comes in addition to the contractor's pre-existing contract for upgrading Al Shamal Road.³⁰ Tekfen is also contracted by Qatar's Public Works Authority for the service road enhancement design and construction for the North Road corridor.

TAV is more widely spread throughout GCC countries with large projects in Oman, the UAE, and Bahrain. These projects deal with airport infrastructure development—the firm’s specialization.

Regionally relevant contractors in Turkey that are not included in the above rankings include MNG, STFA, and Yuksel. MNG is active in Saudi Arabia, STFA in Oman (extensively in road projects), and Yuksel in Qatar and Oman. Other firms include Limak, which recently signed a contract for developing the new Kuwait International Airport terminal for slightly under US\$5 billion. This agreement met with problems related to Kuwait’s re-tendering of the project before awarding it to Limak with technology transfer expectations. Other regional airport tenders will involve PPPs given the need for new financing options, one of which TAV is already engaged as a partner (in Saudi Arabia). Regionally important rail projects—a regional trend—include contractors in Turkey such as Yapi Merkezi and STFA in Qatar’s Doha Metro Gold Line, supported by a US\$4.4 billion consortium (table 3.1).³¹

Table 3.1: Select recent construction projects in GCC countries involving Turkish companies

Date awarded	Country	Company	Project description	Value	Planned completion
November 2017	Saudi Arabia	MAPA Construction & Trade	Development of the Arafat-Taif Water Transmission System project	\$262.5 million	4 years
May 2017	Saudi Arabia	Yuksel	Develop the Bus Rapid Transit project in Riyadh	\$507 million	NA
November 2016	Saudi Arabia	Tekfen Construction	Construct a 333-km gasoline and jet fuel pipeline between the cities of Yanbu and Jeddah	\$299 million	47 months
August 2016	Qatar	Tekfen Construction	Construct Al Khor expressway, 34-km 10-lane highway	\$2.1 billion	36 months
June 2016	UAE	Gulermak	Construct Dubai Metro line extension to the Expo 2020 site and upgrade existing line	\$2.6 billion	4 years
May 2016	Kuwait	Limak Construction	Build new terminal at Kuwait International Airport	4.34 billion	4 years
January 2016	Bahrain	TAV Construction	Build new passenger terminal at Bahrain International Airport	\$1.1 billion	51 months
October 2014	Oman	Yuksel	Construct 34km main-road, 3.4km dual link road and 72 km single link roads in Ez Zahira	\$110 million	40 months
April 2014	Qatar	Yapi Merkezi & STFA	Build the Gold Line section of the Doha Metro	\$4.4 billion	54 months
January 2013	Kuwait	STFA	Build a 70-boat capacity port and expand existing one by Al-Ahmadi refinery	\$487 million	2 years

Source: Fahy, 30 May 2016; Tekfen Construction, 2016; Anderson, August 2016; Yüksel İnşaat, 27 October 2014; Utilities Middle East, 2 November 2017; Hürriyet Daily News, 25 January 2016; Bhatia, 24 January 2016; Gulf Business, 14 May 2017; Construction Week Online, 29 January 2013; RailyNews, 8 May 2014.

Technical consultancy firms in Turkey have yet to establish a strong regional foothold. These consultancies are more suited to the growing use of increasingly standard contracts for engineering, procurement, and construction.³² They cannot yet compete with U.S. and European firms given their institutionalized presence, global brand recognition, and ability to meet the demanding requirements of the application process. Turkish consulting firms are most successful in their traditional Asian and North African markets but also have experience in projects relevant to the Gulf: airport development, superstructure design, regional reference laboratories, dams, mining structures, housing and other project designs, oil and gas pipelines and refineries, ports, water supply and wastewater treatment, hospital facilities, and cement factory or silo design. With two cement factory projects, Es Proje is one of the technical consultancies active in GCC countries. Su Yapi provided technical consulting for Oman’s Wadi Dayqah Dam with

services including detailed design, tender document preparation, and construction supervision. Botek provided the design and construction supervision for Oman's Batinah Expressway, and Dolsar the detailed design for the Shamiyah Redevelopment Plan's Makkah Al-Mukarramah Tunnels.

Partnerships and long-standing processes and networks often limit these consultancies, and other contractors in Turkey. To enter Gulf project markets, both categories of firms require local partnerships. The tender process is demanding, with many firms in Turkey unable to meet process requirements. Diligence reviews are difficult and time consuming, with low probability of return in the form of selection. The content and application process of regulations vary between GCC members, with many identifying Oman as having more institutionalized regulatory contexts. Nor are these markets necessarily stable in content and application of regulations, although contractors in Turkey are adapted to less stable regulatory environments. Especially difficult are sectors that are only now coming under regulatory supervision.

Turkey's real estate market

Real estate and construction are essential to Turkey's economy, collectively accounting for some 6% of GDP in 2015 with post-2023 projections pointing to an increase to 10%; the country is a well established global construction exporter.³³ However, it is also a construction hub requiring investors, including those from GCC countries, with Turkey representing one of their new markets, due in part to its reform of regulations.

Several of these reforms are specifically relevant to individuals and institutions in GCC countries. For example, the state abolished Article 35 of the Land Registry Law No. 2644 by amending Law No. 6302 that entered into force on 18 May 2012.³⁴ This repeal ended the reciprocity condition on property purchases by foreign individuals or institutions from selected countries (but kept some restrictions). Although foreigners have the legal ability to buy any category of property, they must submit plans for projects if their purchased property has no pre-existing construction (greenfield). They are also limited to the ownership of 30 hectares maximum in Turkey, and that land cannot be in specified security zones.

Article 36 of Land Registry Law No. 2644 allows purchases made with foreign capital. Foreign investors must either hold at least 50% of the company's shares or have the legal right to appoint or remove company managers if the company has a legal personality in Turkey.

Push factors encouraging foreign buyers include Turkey's strong capital market, strong economic growth, conditional capital gains tax exemptions, mortgage flexibility, and government support for title deeds.³⁵ Pull factors include the rapid escalation of home and rental prices, with the latter posting a 20% increase over two years, increasing real estate returns.³⁶ Moreover, buyers in Turkey—including home buyers—generally limit reliance on mortgages and make reliable repayments when taking mortgages, and there is now citizenship eligibility for investors spending more than \$1 million.^{37,38}

Inward foreign direct investment (FDI) has a major role in Turkey's real estate market. The market requires FDI given the tendency for domestic firms involved in construction

projects to borrow in foreign currency at a loss, with loans representing some one-fifth of all domestic corporate loans.³⁹ The ratio of FDI in Turkey to real estate investment grew from 13% in 2007, with a real estate investment of US\$2.9 billion, to 34% in 2014—US\$4.3 billion.⁴⁰

Gulf engagement in Turkey's real estate

Gulf investors' interest in Turkey's real estate market is critical for Turkey's inward investment flows, with real estate accounting for 25% of Turkey's 2015 FDI inflows.⁴¹ Since 2015, individual and institutional GCC investors have bought around 3 million square meters⁴² of real estate in Turkey, a 40% increase from 2014.⁴³ Of the 2015 property sales to foreigners, the largest share went to Saudi Arabia with 1,640k sqm followed by the United Kingdom and Kuwait, with the latter posting 598k sqm. The fifth was Qatar with 396k sqm. No other GCC states were included in the ranking. Purchases in 2015 by Gulf investors represented about 30% of all real estate investments linked to Gulf-based individuals or institutions.⁴⁵ The weaker Turkish lira has also made the real estate investment proposition more attractive for GCC investors with Saudi Arabia and Kuwait ranking 2nd and 3rd respectively in Turkey's house sales to foreigners in 2016. The trend of high property sales to GCC citizens continued in 2017, with GCC citizens purchasing more than a quarter of all houses sold to foreigners by the third quarter (table 3.2).

Table 3.2: Number of houses sold in Turkey to GCC citizens

Country	2015	2016	2017
KSA	2,704	1,886	2,307
Kuwait	2,130	1,744	1,235
Qatar	332	192	180
UAE	277	256	279
GCC total	5,443	4,078	4,001
All foreigners	22,991	18,391	15,382

Note: 2017 figures are up to September. GCC total data exclude Bahrain and Oman.

Source: Based on data from the Turkish Statistical Institute, November 2017.

Istanbul remains the primary focus of real estate investment, including the city center of both the European and Asian sides as well as areas bordering Canal Istanbul, accessible to Marmara, Northern Marmara Motorway, and the third Istanbul airport and bridge. The value of property further from Istanbul's primary business centers has risen with the expansion of roadways and metros around the city.

Istanbul ranked between the first and fourth positions in the most desired European cities for investments between 2011 and 2014. But the series of recent terrorist attacks, including those on tourist

locations and the international airport, took Istanbul to 20th position in 2014 and 14th in 2015.⁴⁶ That said, Istanbul took seventh position for projected growth potential for 2016.⁴⁷ Before 2016 and the July coup attempt, Turkey ranked as a top-performing global housing market, with more than 1.3 million residential homes sold in 2015—with some 22,800 of those sales going to foreigners. Turkstat reports that total housing sales increased to 1,289,320 in 2015, and the number of Turkey's housing units reached 22 million.⁴⁸ Of 2015 home sales to foreign investors, purchasers from Kuwait and Saudi Arabia dominated.⁴⁹

In recent years, Turkey's real estate developers have attended and showcased at major property investment conferences and exhibitions in the GCC, such as Cityscape Global.⁵⁰ Residential property with significant GCC investments include Nurol Life, Nurol Park, and Nurol Tower under Raine & Horne of Dubai.⁵¹ The demand helped Turkey become the world's fastest growing market for property in 2015 according to Knight Frank. In 2016, the market gained 13%, while on average, prices in Istanbul were up by 12%. Gulf investors, however, will likely play a continued key role in propping up overall price growth, despite the fall in prime market prices in 2016 and 2017, which is largely down to the weaker Turkish lira.^{52,53}

In commercial real estate, Istanbul accounts for 37% of Turkey's total leasable shopping space.⁵⁴ This space is likely to grow as the city was ranked the seventh most attractive global retail location. It is also a target for high-value office space given its ranking among leading global international hubs (although declining with recent security concerns).⁵⁵ Estimates suggest center-related construction was to have represented 62% of all office-oriented developments in Istanbul.⁵⁶

Turkey's leasable land, well below the European average, still offers strong growth potential.⁵⁷ Retail and shopping center real estate space more than doubled between 2007 and 2014 and the US\$52 billion in investment included US\$14 billion in FDI inflows.⁵⁸ Istanbul has around 100 malls (the most in Turkey)⁵⁹ and more are in the pipeline. Istanbul ranks in the top five global cities for retail spending, which suggests the profitability of retail and shopping property space.⁶⁰ This ranking is even more valuable for potential GCC investors given the tendency for Gulf tourists to spend on shopping-related leisure activities. Investment in this real estate subsector includes one-third of inward FDI.

3 Policy discussion

Between 1972 and 2013, overseas contractors and engineering services firms in Turkey completed over 7,000 international projects valued at US\$250 billion. These contractors, ranked second globally behind their Chinese peers, tend to lean towards lower value-added services in the project value chain. Construction input-related industries in Turkey are also developing, with an emphasis on iron, steel, cement, marble, and ceramics.⁶¹ The success of these contractors and materials firms must be transitioned to higher value-added services, specifically technical consulting. Improved strategic placement of contractors and technical consultancy firms in target markets in Turkey—including those of GCC countries—will increase Turkey's value-added in those lucrative project markets. Gulf markets are ideal for Turkey's entry, especially transport infrastructure: such projects have a combined regional value of US\$336.8 billion.⁶²

These markets present, however, many barriers to Turkey's entry, including onerous technical requirements. Contractors and technical firms in Turkey must establish niche positions to compete with U.S. and European competitors. One way to do this is to improve their brand recognition, which would entail the following: greater direct access to Gulf governments by business and trade missions or inclusion in state visits; established "ground floor" positions in regional projects to institutionalize their regional presence; and stronger institutional capacity to compete at the application stage. Also

important may be the “soft” role offered by Turkey’s Prime Minister, Binali Yildirim, as the former transport minister, which may reinforce ties between Turkey and GCC countries in project markets, at least in terms of brand recognition.

Actors in Turkey should also support the GCC’s approach to PPPs. Turkey is a leader in PPPs, especially in the project market. In 2015, it established the PPP Center of Excellence as an Istanbul-based association specialized in PPP advisory services.⁶³ It has potential for contributing to policy exchanges in an area of Turkey’s expertise useful to Gulf state policy development. It can also provide opportunities for recognition of firms in Turkey by GCC governments whose nationals receive training in Turkey and vice-versa.

For Gulf entry into Turkey’s market, the priority remains real estate. Turkey’s government should continue to experiment with incentives to facilitate greater interest, given its need for FDI. Because other investment is hesitant, it should continue to incentivize Gulf entry. Turkey’s institutions should also examine weaknesses in Turkey’s real estate market, especially the housing market, which will affect the market’s long-term health. These weaknesses include insufficient development of “product diversity, funding channels, and market penetration.”⁶⁴ Turkey also requires international models for city hospital projects. Given their experience in such management, GCC actors could add great value in this space.

¹ IMF, 10 November 2015.

² An example of a source identifying healthy project markets includes BNC, July 2016b.

³ Estimates suggest a 6.5 million population increase in the five years from 2015; BNC, July 2016b.

⁴ Al Arabiya, 24 October 2017.

⁵ An example of a source identifying healthy project markets includes BNC, July 2016b.

⁶ The six primary infrastructure sectors are: resource extraction (minerals, petroleum, gas, and so on); manufacturing and other industry-related development; social sectors such as education and health; telecommunications structures; physical transport structures; and utilities.

⁷ Cityscape Global, July 2016.

⁸ Dubai launched its specific Vision 2021 plan in December 2014. This plan is complementary to the UAE’s broader Vision 2021 strategy, launched in 2010, but is also a follow-on to the successful Dubai Plan 2015, implemented between 2007 and 2015.

⁹ James, 25 May 2016.

¹⁰ Deloitte, 2016, 10–11.

¹¹ Deloitte, 2016, 10–11.

¹² Deloitte, 2016, 11.

¹³ FTSE, 10 February 2016.

¹⁴ FTSE, 10 February 2016.

¹⁵ James, 25 May 2016, slide 17.

¹⁶ Deloitte, 2016.

¹⁷ Cornock, 4 May 2016.

¹⁸ Times of Oman, 14 December 2016.

¹⁹ Bhatia, 25 May 2016.

²⁰ Deloitte, 2016; Cityscape Global, July 2016.

²¹ BNC, July 2016a.

²² BNC, July 2016a, 3–4.

- ²³ BNC, July 2016a, 5.
- ²⁴ BNC, July 2016a, 3.
- ²⁵ BNC, July 2016a.
- ²⁶ UNCTAD, 2015, 56.
- ²⁷ Barbuscia and Arnold, 24 November 2016.
- ²⁸ Anderson, 25 August 2016.
- ²⁹ Anderson, 25 August 2016.
- ³⁰ Anderson, 25 August 2016.
- ³¹ For more, see Oxford Business Group, 2015.
- ³² Oxford Business Group, 2013.
- ³³ WTO, 2016.
- ³⁴ For more on laws regarding the purchase of property in Turkey by foreign individual or institutions, see Republic of Turkey Ministry of Foreign Affairs, 2011.
- ³⁵ For more on these or related drivers, see Maierbrugger, 15 January 2016 and REIDEN, 1 April 2015.
- ³⁶ Cityscape Turkey, 26 January 2016; The Economist, 6 February 2016.
- ³⁷ Fink and Erosy, 25 April 2016.
- ³⁸ Cox, 19 May 2017.
- ³⁹ Fink and Erosy, 25 April 2016.
- ⁴⁰ Gokce and Camlibel, 2016.
- ⁴¹ ISPAT, n.d.
- ⁴² Cityscape Turkey, 26 January 2016.
- ⁴³ Cityscape Turkey, 26 January 2016.
- ⁴⁴ Zawya, 7 March 2016.
- ⁴⁵ Cityscape Turkey, 26 January 2016.
- ⁴⁶ Gokce and Camlibel, 2016.
- ⁴⁷ Barnard, 20 August 2016.
- ⁴⁸ Gokce and Camlibel, 2016.
- ⁴⁹ ISPAT, n.d.
- ⁵⁰ Arab News, 24 August 2015.
- ⁵¹ Arabian Business, 23 November 2015.
- ⁵² Cox, 19 May 2017.
- ⁵³ World Bank and GFDDR, 2010, 37.
- ⁵⁴ ISPAT, n.d.
- ⁵⁵ Z/Yen Financial Centers Index rankings are listed at http://www.cc.lu/uploads/media/2016_March-Turkish_Real_Estate-Sector_report-SON.PDF.
- ⁵⁶ Invest in Group, June 2016.
- ⁵⁷ ISPAT, n.d.
- ⁵⁸ Gokce and Camlibel, 2016.
- ⁵⁹ Gokce and Camlibel, 2016.
- ⁶⁰ Gokce and Camlibel, 2016.
- ⁶¹ For more on development in these sectors, see Oxford Business Group, 2015.
- ⁶² BNC, July 2016b, 5–6.
- ⁶³ For more on the PPPCoE, see Istanbul PPPCoE, n.d.
- ⁶⁴ World Bank, 11 October 2016.

PART IV.

Tourism Sector Engagement

Part IV. Tourism Sector Engagement

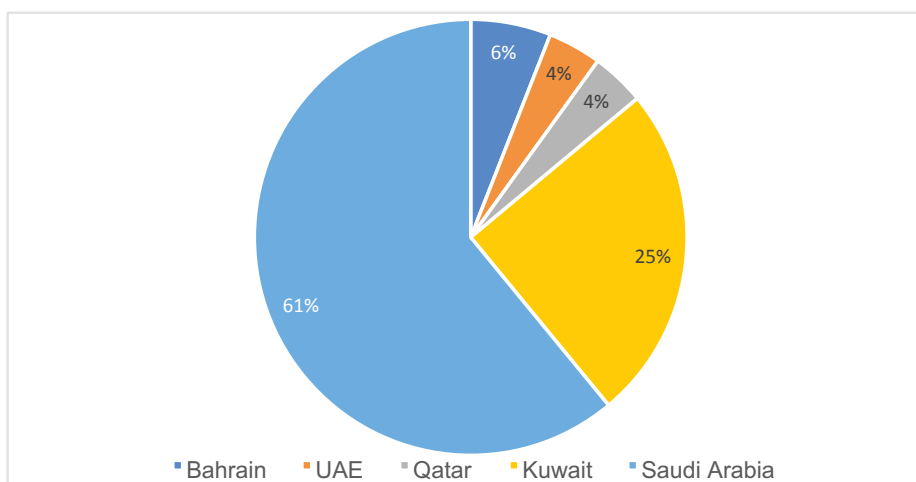
1 Overview

In 2015, the tourism industry's contribution to Turkey's economy was TL251 billion, accounting for around 13% of GDP and 8.3% of employment.

In 2016, the number of visitors notably plummeted to around 25 million from the previous year, a 30% decline and lowest level in nearly a decade.¹ The decline in German tourists (down 28.8%) was the most worrying, especially as it coincided with the 93% drop in Russian visitors (who previously made up 14% of Turkey's tourist entries) due to Russia's November 2015 ban on tourism to Turkey. Other traditional sources, including North Americans and Europeans, did not compensate for these declines. These tourists stayed away largely because of the 2013 Gezi protests and subsequent PKK and "Islamic State" terrorist attacks. While the impact of these events proved to be dramatic for the country's tourism sector, the effect was short term as already by the third quarter of 2017 the country rebounded with a 23.7% increase from the previous year with only around 3 million short of the number of visitors for that same time in 2015. Moreover, the country's 2017 ranking was unchanged since 2015 in the World Economic Forum's Travel and Tourism Competitiveness Index.²

Despite the overall decline in 2016, GCC visitors recorded their highest numbers of visitors to Turkey that year (822,849) and by September 2017 have already surpassed their all-time record from the previous year (1,257,419) with Saudis representing the majority of visitors, and Kuwaitis coming in second (figure 4.1).

Figure 4.1: GCC visitors to Turkey in 2017



Note: 2017 is up to September only. The figure excludes Oman given the lack of data.

Source: Based on data from the Republic of Turkey Ministry of Culture and Tourism, November 2017.

While Turkey's government is prioritizing GCC tourism, Gulf tourists cannot make up for the losses from Russia or Germany. They can, however, benefit specific tourism sectors.

2 Drivers and emerging trends

Turkey's economy requires increased value added in all sectors and stages of production, including services such as tourism, which has received increasing attention in Turkey's national development strategies. This focus began in 2007 with the Ministry of Development's Ninth Developmental Plan (2007–2013). The Tenth Development Plan (2014–2018) prioritized the industry's shift from an emphasis on mass tourism, which drove its development until 2012, to higher value-added services,³ including health tourism.

Although mass tourism cannot be underestimated—it supported the industry's rapid development in previous decades—it is reaching a point of declining returns on receipts per capita, which between 2004–2015 remained relatively stable at under \$800 as reported by the Ministry of Culture and Tourism. The level and trend of these receipts explain the government's interest, as a shorter-term measure, in GCC tourists and their luxury-oriented consumption patterns. Such transformation requires differentiated attention—including individual and interrelated plans—to developing direct and indirect (or induced)⁴ tourism spending.⁵ Different levels and institutions of Turkey's government are also engaging in such planning outside the Ninth and Tenth development plans. For example, Istanbul municipality (IBB) is developing a plan to alter its international image in targeted countries as a means to both counter declining tourism rates and to boost its MICE (meetings, incentives, conferences, exhibitions) profile. Their success has yet to be determined.

Nationally, the Ministry of Culture and Tourism is targeting specific groups, including those from higher economic strata in all countries, from countries that tend to demonstrate higher receipts overall, and from more consistent expenditure rates by all tourists year-round.⁶ Yet this targeted approach is only a short-term fix because, although it marks a shift from dependence on mass tourism, it does not increase the industry's value added.

Gulf tourism in Turkey

Gulf tourists are included in this short-term approach. Middle East markets post the fastest growth rates in their outbound tourism;⁷ of those tourists, those originating from the GCC spend approximately 75% of their total tourism receipts abroad.⁸ Many are high spenders interested in leisure with an emphasis on luxury-oriented consumption, especially among Kuwaiti and Qatari tourists. GCC countries reported the world's highest numbers of ultra-high and high net worth individuals in 2013, with the number increasing by 5–6% annually between 2011 and 2013.⁹ As tourists, these high net-worth individuals, and even their less affluent counterparts, spend on average between US\$6,700 (Qatar) and US\$11,500 (Saudi Arabia) per trip abroad.¹⁰

These tourists travel in family units that are larger than their western counterparts (averaging four to 12 members)¹¹ and stay longer (on average four days longer) than other tourists.¹² They are predominantly Muslim and in recent years where Ramadan has fallen in the summer, they tended to split vacation time into two parts in order to stay home during their holy month.¹³ Turkey is advantageously placed given its geo-

graphic location and its ability to provide services accommodating their religious practices. More has been done in recent years to also accommodate the language barrier by incorporating Arabic in the service industry. These factors along with the political instability in traditionally popular destinations throughout the Middle East since the 2011 Arab uprisings could help explain the exceptional rise of GCC tourism to Turkey over the past decade (table 4.1).

Table 4.1: GCC visitors to Turkey by nationality, 2008–2017

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bahrain	8,081	9,090	9,375	9,712	13,342	16,230	24,305	32,476	41,505	69,219
Kuwait	22,084	26,801	27,281	41,617	65,167	88,238	133,128	174,486	179,938	310,603
Qatar	4,862	4,902	6,043	7,661	3,971	18,630	29,743	35,832	32,681	56,068
Saudi Arabia	55,636	66,938	84,934	116,711	175,467	234,220	341,786	450,674	530,410	766,773
UAE	19,676	22,051	30,480	35,579	48,071	52,424	53,736	51,600	38,315	54,756
TOTAL	110,339	129,782	158,113	211,280	306,018	409,742	582,698	745,068	822,849	1,257,419

Note: 2017 is up to September only. The figure excludes Oman given the lack of data.

Source: Based on data from the Republic of Turkey Ministry of Culture and Tourism, November 2017.

For the longer term, Turkey is developing strategic pull factors (see just below) to attract tourists to higher value-added services, but they generally require some government support. Other pull factors aim to attract foreign direct investment in sectors including tourism. GCC investment is important because it is less risk averse than that from other regions to Turkey's security issues. In the tourism industry, these investors are most active in the hotel sector. In Turkey's health system specifically, GCC investors include Integrated Healthcare Holdings among others for a 75% stake in Acibadem Healthcare Group; the National Bank of Kuwait's consociation with Dunya Eye Hospitals; and Qatar First Investment Bank/ARGUS Capital's consociation with Memorial Healthcare Group. Some private health providers noted that GCC investors were often among the only sizeable investors still in the market after the withdrawal of United States, European, and Australian investors. Such patterns are observed in the larger tourism sector as well, with GCC capital—especially from Kuwait, Qatar, and Bahrain—growing by 5.2% in 2015 tourism-related investments.¹⁴

Health tourism development

From the angle of the pull factors, health tourism is a critical sector for expanding the value added of Turkey's tourism industry. The Ministry of Development prioritized health tourism in the Ninth Development Plan. It has also established a Health Tourism Improvement Program and categorized it as a Primary Transformation Program. The government assigned the Ministry of Health to manage this program with the Ministry of Culture and Tourism between 2014 and 2018.

Several categories of international patients could be targeted by the above plans. First are medical tourists defined according to the patients' access to the given treatment. Health tourism does not include domestic health services provided to expatriate residents of Turkey. It does, however, include those services rendered to expatriate residents of other countries—such as expatriates living in the GCC—in Turkey. Last are health service seekers from countries with which Turkey maintains bilateral health agreements. These individuals seek care through established inter-governmental mechanisms designed to facilitate movement between countries for health service delivery.

Turkey's government is attracting health tourists via four main factors. First is that of the health system itself in the form of the national Health Transformation Program, which changed the system's very structure along with public and private sector functions, as well as perceptions abroad on Turkey's health service quality (the public sector also pursues health tourists, adding complexity to the sector's targets).

The second is national branding, which includes the global marketing campaign "Turkey Home," launched in 2014. Its aim is to establish a single brand identity in Turkey.¹⁵ It includes Turkey's first digital and social media brand identity campaign, coupled with a digital platform.¹⁶ These and other promotional activities fall under the Ministry of Foreign Affairs' oversight and the Ministry of Tourism and Culture's management. The latter funded the campaign, which costs some US\$100 million a year.¹⁷ Still, Turkey needs to hone this brand further, including aspects related to tourism. Until recently, Turkey's reputation as a health tourism destination focused on thermal tourism—the country's original health tourism service—and affordable esthetic procedures, dominated by hair transplants and plastic surgery.

The third factor is the selection and promotion of specific health service "leaders." Turkey's leading value-add services include bone marrow transplants, cardiology and cardiovascular surgery, dental treatments, in-vitro fertilization, oncology and sophisticated cancer treatments, ophthalmology, organ transplants, orthopedics and traumatology, robotic surgery, and stem-cell treatments. Eye surgery, oncology, and organ transplants are among health tourists' most requested services, including tourists from the Gulf, even though GCC health systems continue to improve.

Transplants are essential for Turkey's tourism industry and its shift to high value-added health tourism. The government's concentration on improved transplant procedures in Vision 2023 is related to national health and provides competitive success rates. Turkey is expanding its national transplant service centers with 57 dedicated to kidney transplants, 30 to liver transplants, and 25 to corneal transplants.

The fourth pull factor is facilitated visa entry. Turkey's e-visa system contributes to easy access to visas, which can be obtained in minutes through an online application. Multiple entry visas are available to all GCC citizens, two for free and one exempt (table 4.2).

Table 4.2: Turkey's multiple entry visa conditions for GCC citizens

Country	Status	Duration	Cost
Bahrain	Required	Active 180 days Maximum stay 90 days	Free
Kuwait	Required	Active 180 days Maximum stay 90 days	Free
Oman	Required	Active 180 days Maximum stay 90 days	US\$60
Qatar	Exempt		
Saudi Arabia	Required	Active 180 days Maximum stay 90 days	US\$60
UAE	Required	Active 180 days Maximum stay 90 days	US\$60

Source: Data retrieved from Republic of Turkey Electronic VISA Application System, as of November 2017.

Role of the private sector in health tourism

The government does not drive all health tourism pull factors—the private sector is also developing an increasing portfolio. This expansion is important, especially as the private sector provides over 90% of care to medical tourists and 70% of care to patients from countries having bilateral agreements with Turkey's Social Security Institution.¹⁸ Leading private providers in health tourism are Acibadem, Anadolu, and Medical Park. Such providers engage foreign health markets according to those markets' patient portfolios and overall needs, and identify the value-added services in demand there.

Some providers see huge potential future value added for each successfully rated service for a health tourist. For example, each well-rated transplant procedure may generate several more patients over social networks.

Acibadem offers an ideal case study with which to examine this pull factor. Acibadem intentionally de-emphasizes aesthetic services despite quick returns. It instead opts to attract health tourists for high value-add services such as bone marrow and organ transplants. One way in which it does so is to strategically engage foreign health markets by means of tailored approaches. It then tailors its targeted high value-added services to specific foreign market engagement. Tailoring includes attendance in specialized international GCC-specific platforms such as medical conferences. It also includes the targeted engagement of foreign health markets according to those markets' disease and demographic profiles. For example, the GCC exhibits unusually high obesity and Type 2 diabetes rates. These rates fuel demand that may rise up to 300%. They also create complications, such as cardiovascular disease, which are already on the rise with a potential 400% rise in demand. GCC health tourists will therefore demand related services.

Private providers are also moving to high-quality yet still relatively affordable health services that contrast with those previously emphasizing affordable (if not cheap) services. They also contrast with those of western European and United States providers, known for high-quality but often expensive services.

Other factors driving health tourism

An increasing number of domestic health institutions are pursuing internationally recognized certification, including that of the Joint Commission International (JCI). But international accreditation alone is insufficient to serve as a strong pull factor, because only a quarter of medical tourists and other international patients sought services from accredited institutions in 2012.¹⁹

Push factors—grounded in demand patterns often tied to GCC health systems and government incentives—also drive health tourism. The overriding push factor is patients' lack of trust, despite notable improvements in provider care over the past two decades. GCC citizens are not therefore pushed to travel to Turkey by any lack of accredited health institutions or failing health infrastructure. The UAE, for instance, has 145 institutions and Saudi Arabia 101 institutions with JCI accreditation, compared with

Turkey's 47.^{20,21} These and other Gulf countries have made heavy health infrastructure investments since the 2000s, which include “health cities” similar to those under design in Turkey.

Gulf health systems are, however, short of their own physicians to staff this expansion: Saudi Arabia, for example, depends on foreign physicians for three-fourths of its national cadre. Although Turkey is beginning to experience some human resource challenges in its own health sector, it still has the capacity to support the continued growth of a health tourism market.²² This capacity includes some 136,000 medical doctors in 2014, for a respectable ratio of providers to population of one physician for every 573 people.²³

Other factors driving GCC health demands include the countries' demographic shifts coupled with the disease prevalence related to these shifts, and Turkey is well placed for this. Turkey's Ministry of Health already includes geriatric services in its health tourism plans and promotions. For example, Article 53 of the Tenth Development Plan specifically targets health services for aging populations.²⁴ The Ministry is also pivoting the health system to treating noncommunicable diseases, which matches Gulf patients' health care treatment needs (such as for diabetes and heart disease).

As relevant to health as traditional tourism is GCC citizens' consumption of high-end products and services. GCC health tourists traditionally favored western European and U.S. providers given those systems' established standards and GCC governments' coverage of medical costs for their citizens in domestic or foreign markets. Yet declining oil prices have encouraged GCC states to seek more efficient health expenditure, and Turkey's health system is known for providing relatively high-quality services at lower rates than those found in western European and U.S. systems.

Also important are the unique demands of the large GCC-based expatriate populations, who generally receive less health-related government support than GCC citizens. They therefore seek more affordable yet still high-quality health service options, preferably in a country easily accessible to their country of residence.

3 Policy discussion

Turkey's government already prioritizes GCC tourists given their contributions to traditional and added value tourism receipts. Businessmen from the GCC can access high public officials whom their counterparts in Turkey cannot easily reach.

The government should generally place more emphasis on health tourism given its added value, both to combat the decline and stagnating per capita receipts from mass tourism, and to increase the linkages with other industries and sectors. A more specific recommendation is that plans and programs should become linked, ranging from improving international perceptions to expanding financial incentive schemes (such as discounts offered by Turkish Airlines for medical tourists), based on state mechanisms outlined in table 4.3. A quantitative evaluation of how the items in that table contribute to inward GCC tourism—traditional and value-added—is needed, however.

Table 4.3: Turkey's state mechanisms involved in health tourism

Government mechanism	Description	Strengths and activities	Challenges
Facilitation of entry	§ The Ministries of Health, Foreign Affairs, and Culture and Tourism are coordinating on their respective fields § Intergovernmental tourism or health agreements have been written § Business-government and business-business health service agreements have been completed § Promotional activities for health tourism are tailored to countries and populations	§ Entry barriers have been reduced, including visa requirements and so on § Turkey's Ministry of Foreign Affairs maintains an e-Visa system for individuals, families (2–10 individuals), and groups (10–300 individuals) § Turkey's government has formal visa, tourism, health services, and related agreements with some GCC states § Public (and private) providers apply GCC governments' support of citizens' medical costs (up to 70% of health costs) from services rendered domestically or abroad	§ Some countries still require visas from Turkey's citizens § Turkey's visa requirements vary between GCC countries § Turkey has not yet completed all relevant agreement categories with all GCC states § GCC health tourists may enter Turkey with tourist visas, making it difficult to extend their visas should post-procedure problems arise § Whereas the UAE intends to vary medical tourism visas according to individuals' health service § There are too few public and private health tourism staff supporting entry of GCC health tourists
Incentives	§ Financial and other support, such as tax deductions, is given to certain providers § Financial and other support is provided to tourists	§ The Ministry of Economy offers up to a 50% reduction in the cost of airline tickets for health tourism travel and other financial support for health tourism promotion abroad § The Ministry of Finance provides tax exemptions for income from health tourism-related services § The government supports market research, international accreditation fees, attendance at trade fairs, and so on	§ Some question the validity of government support for health tourists seeking esthetic services
Data collection and application	§ Standardized indicators are applied to track the main tourism categories, including health tourism § Data are used in developing strategic plans and subsequent actions	§ Turkey's Ministry of Culture and Tourism offers a monthly breakdown of tourist entry and exit levels by country at: https://www.kultur.gov.tr/EN,154508/2016.html § Turkey's Ministry of Health established a Foreign Patient Registration System (YHKS) to capture patterns of Turkey's international patients	§ The Ministry recognizes limitations of the YHKS § The Ministry requires additional data reporting on health tourism from small service providers § Data requires additional analysis of health tourism as the WHO-backed 2011 Health Systems Performance Assessment (HSPA) did not include measurement and assessment of this sector
"Brand Turkey"	§ "Brand Turkey" was established to promote tourism § It is tailored to Gulf tourists	§ Turkey's government has opened cultural centers in GCC countries, such as the Yunus Emre Cultural Center in Qatar § It supports the airing of Turkey's television shows in GCC states as well as recognition of other famous figures from Turkey, such as the Qatar soccer coach Uygun § It supports firms' participation in trade shows and other specialized venues, such as medical conferences § The government supports health networks and initiatives, such as Turkish-led International Transplant Network that includes peer institutions in other countries § The Ministry of Culture and Tourism has had Arabic language sites since 2012 § The same Ministry hosts international tourism congresses and exhibitions	§ Underperforming firms tarnish Turkey's brand when entering Gulf markets § Poor service providers in Turkey also undermine the brand, and include unregistered tourist groups, taxi drivers charging high rates, and clinics providing cheap esthetic services § Turkey needs to increase its tourism and health tourism surveys via digital social networks
Domestic policies and institutions	§ New institutions and other platforms encourage Turkey-GCC tourism engagement § New sector-specific policies, legal frameworks, and other structural contexts have been created	§ For example, Law No. 663 requires that the Ministry of Health make regulations necessary for the growth of Turkey's health tourism services § Turkey's Ministry of Health maintains the Healthcare Tourism Coordination Committee	§ Turkey's IVF policies limit the range of health services § Turkey requires more accredited organizations for health tourism support

Source: Author.

For example, mechanisms or broad initiatives that have emerged over the last five to 10 years should be further engaged in the process of adding value, including the JCEC. Moreover, DEIK's Health Services Council (SAIK)—originally the Health Tourism Council, which represents those institutions most interested in GCC health tourism engagement—should be further engaged, as should all the local governments managing cities with the highest tourist densities.

The government should also aim to enhance tracking and quality among small providers of esthetic health services; include “affordable luxury” in the national branding of Turkey's health tourism; and increase interaction between tourism-focused business associations and other institutions engaged more broadly in bilateral relations between Turkey and GCC countries.

For data collection and analysis, the government should simplify tourism monitoring and evaluation assessments, which are overcomplicated: they come under the responsibility of nine institutions.²⁵ Clarification of responsible institutions is necessary, as is additional survey work, other active and passive data collection, and stakeholder mapping to complement passive tourism data collection. Even surveys and survey evaluations of value-added tourism must themselves provide greater value added, taking such methods as network analysis into consideration.²⁶

The Ministry of Culture and Tourism should establish a more extensive GCC-specific tourism strategy, in line with its 2023 master plan. In the current Vision 2023, the Ministry briefly highlights certain geographic considerations in its marketing and promotion section. The considerations include its objective to “pay special attention to” at-

tracting tourists in the East Asia-Pacific given the increasing level of tourism from that region; and to stage “special promotional campaigns with territorial coverage, in states of the Middle East, Iran, and Turkish Republics of Central Asia.”²⁷ These approaches should be tailored to individual GCC markets. The Ministry and other relevant government institutions, such as Istanbul municipality, may do so by including advanced perception surveys in those markets, coupled with the technical input of communications firms known to and based in the Gulf. Current perception campaigns are insufficient.

Finally, institutions in Turkey should track GCC states’ development of their own tourism industries, especially the health tourism sector. GCC states’ advances may be a complicating factor for Turkey given that they also aim to increase intra-GCC tourism.²⁸

¹ Haines, 10 March 2017.

² WEF, 2017.

³ Republic of Turkey Ministry of Development, 2014.

⁴ Induced refers to spending or related activities of employees directly or indirectly associated with the tourism industry. Analysis of the industry has often focused on traditional sectors including transportation, restaurant and food services, accommodation, entertainment, and recreation. An expanded definition, however, is necessary to capture its total GDP contribution and broader economic relevance. This definition includes indirect and induced activities ranging from advertising support or sanitation services to emerging sectors such as health tourism.

⁵ For a breakdown of direct, indirect, and induced tourism with examples, see WTTC, 2016, 2.

⁶ OECD, 2014, 315.

⁷ UNWTO, 2012.

⁸ Observatoire Valaisan du Tourisme, 2014, 8.

⁹ Observatoire Valaisan du Tourisme, 2014, 13.

¹⁰ Observatoire Valaisan du Tourisme, 2014, 21.

¹¹ Observatoire Valaisan du Tourisme (2014), “The Gulf Cooperation Council,” 8 and 21.

¹² Observatoire Valaisan du Tourisme (2014), “The Gulf Cooperation Council,” 8, 14, 22, and 24.

¹³ Observatoire Valaisan du Tourisme (2014), “The Gulf Cooperation Council,” 14.

¹⁴ Author interviews.

¹⁵ FutureBrand, 2015, 36, 43, and 53; Sandikci and Kemming, 2011; Republic of Turkey Ministry of Culture and Tourism, 2015, 5–6 and 8; Anholt, 2002, 186–187; Reputation Institute, 23 June 2016, 11, 13, 15, 16, 28, and 30.

¹⁶ Republic of Turkey Ministry of Culture and Tourism, 2015, 3.

¹⁷ OECD, 2014, 314.

¹⁸ Patients receiving health services under bilateral agreements generally receive services in Ankara or Istanbul; Kaya et al., 2013, 16.

¹⁹ Kaya et al., 2013, 46.

²⁰ For a list of UAE institutions currently accredited by the JCI, see JCI, n.d.a. For a list of Saudi institutions currently accredited by the JCI, see JCI, n.d.b.

²¹ Including private service providers and university teaching hospitals. For a list of Turkey’s institutions accredited by the JCI, see JCI, n.d.c.

²² Although Turkey does not face the MD shortage experienced by GCC states, it currently reports one of the lowest “professionally active” MD rates in the OECD with only 1.8 MDs per 1,000 members of the population. “Professionally active” covers MDs providing direct care to patients as well as those active in administration, education, research, or other related services. For OECD-reported MD rates, see OECD, 2015.

²³ Republic of Turkey Ministry of Health, 2014.

²⁴ Republic of Turkey Ministry of Development, 2014, 11.

²⁵ These institutions are the State Planning Organization, the Ministry of Culture and Tourism, the National and City Tourism Councils, National Tourism Certification Services, the Domestic Tourism Survey Unit, the Tourism Education Steering Unit, the National Tourism Databank Unit, and universities (broadly). Some of these institutions should be brought together with those that would be associated with collecting health tourism data to provide specific data monitoring and analysis for this category of tourism.

²⁶ Other relevant surveys include Dupeyras and MacCallum, 2013; HSBC, 2012; OECD, July 2016; WTTC, November 2012; and WTTC, January 2015.

²⁷ Republic of Turkey Ministry of Culture and Tourism, 2007.

²⁸ For an example of GCC tourism industry analysis, see Frost & Sullivan and Insights Middle East, 2014.

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