

Chapter Nine

The Growing Interest of Turkey in the Middle East and North Africa: A new approach or business as usual?

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Introduction

This chapter examines the development of relations between Turkey and the Middle East and North Africa (MENA)¹ by investigating commercial and economic inter-state cooperation in the last decade and evaluates the economic performance of Turkey in the MENA. This chapter first provides a brief review of modern Turkey's economic relations in a historical perspective. Subsequently, it discusses the extent of regional changes in Turkey's foreign economic policy over the past decade, particularly during the AK Party's rule. Then, in the final section it assesses the changing nature of the relationships between Turkey and states in the MENA. It argues that Turkey's interests towards the region are the continuation of a multidimensional approach in Turkey's external relations that started with a 1980 reform program which has gained momentum particularly with the AK Party's "vision" of increasing economic relations with the MENA. Over the past decade the AK Party government, with a religious-conservative stance, has actively pursued a policy of increasing engagement in the MENA while the aim of full membership in the EU is still important. The success of the Turkish economy and its emerging private sector with an increasing orientation to the MENA has helped to diversify its external relations. Frustration over the accession negotiations with the EU and the stagnation of European markets as a result of the global financial crisis of 2008-2009 have also provided extra impetus to strengthen Turkey's relations with the MENA.

Turkey's Economic Relations in Historical Context

In Turkey, as in most of the other countries of the region, the past has undoubtedly played a significant role in determining its economic policy changes in general and its foreign economic relations in particular. Indeed, one also needs to pay attention to the impact of domestic political factors and international influence for a better understanding of the structural

¹ Here the MENA region includes the following states in addition to Turkey: Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the UAE and Yemen.

changes in the foreign economic policies of Turkey. The historical background of Turkey's economic relations can be divided into five main phases, namely the liberal era of the 1920s; Etatism in 1933-1949; the predominantly liberal policies of the 1950s; the era of inward-oriented development policies based on the national planning and import-substituting industrialization of 1960-1979; and neoliberal outward-oriented development policies of the post-1980 period.

In the early years of the Republic, Turkey had little control over the foreign trade regime before 1929 because the Lausanne Treaty, which concluded the war of independence, contained some serious restrictions. For instance, Turkey was forced to keep the low Ottoman tariffs until 1929. This meant that the government was unable to adopt trade policies in line with the needs of domestic enterprises, thereby resulting in an unfavorable trade balance and hindering industrial development (Hershlag 1968, 22). Therefore, the first years of the young republic could realize relatively little industrialization.

From the 1920s onwards Turkey's main European trading partners remained the same as during the late Ottoman era, including Germany, France, the UK and Italy. Until the beginning of the 1930s, Italy was the most important trade partner among them because of the Greek merchants who settled in the port-city of Trieste in Italy (Şahin 2012, 46). Greek merchants were engaged in foreign trade before they had to leave Turkey after the Greco-Turkish War (1919-1922). By contrast, the attitude towards foreign capital was cautious in light of the unfavorable experiences during the Ottoman Empire.

The etatist policies in which the state's role in finance, industry and foreign trade increased was mainly a pragmatic response to earlier disappointments related to previous liberal economic policies and the negative effects of the external environment. The impact of the Great Depression in particular squeezed the Turkish economy on two fronts. On the one hand, general decline in world trade volume decreased the prices of Turkey's traditional agricultural exports. This, in turn, significantly reduced Turkey's export revenues. On the other hand, curtailment of foreign trade cut down traditional agricultural imports. Foreign trade policy in this period showed mercantilist features under the mono-party system, and can be recognized with the famous slogan in the Republican People's Party Program in 1935: "Our principle in foreign trade and commercial agreements is to buy the products of those who buy our products" (Hershlag 1968, 75). However, this kind of mercantilist stance was eclipsed with increasing foreign debt during the Second World War.

1950 marked the transition to multi-party democracy in Turkey. The Democrat Party initially was in favor of a more liberal economic order. A greater scope for private enterprise, trade liberalization and encouragement of foreign capital were key elements. However, foreign trade policies can be divided into three periods. The first, from the election until 1954, was a very liberal period. The second period (1954-1958) witnessed an increasingly interventionist government policy in the sense of controls over imports and foreign exchange when faced with mounting short-term indebtedness and a large current account deficit. The third period marked the first major macroeconomic crisis that the Turkish Republic experienced after its foundation and entailed liberalizing foreign trade by removing quantitative import restrictions as the government had to launch a stabilization program in August 1958, Turkey's first ever encounter with the International Monetary Fund (IMF). An unfortunate episode was the collapse of the democratic regime. The Democrat Party government was overthrown by a group of military leaders in May 1960.

Law 5583 enacted in 1950 was the first law under the Republic to address the issue of foreign direct investment (FDI). It guaranteed profit transfers but under very restrictive conditions. In 1954, another law was accepted to attract more FDI – this was titled: the Law to Encourage Foreign Capital. Even though the law had a “liberal” stance in practice it was not implemented in a liberal manner until 1980, when the 24th January structural reform program was launched. Indeed, Turkey did not perform well in terms of FDI inflows in the second half of the 1950s.

In the aftermath of the 1960 military coup, Turkey also entered an era of planned economic development, through which a series of five-year development plans were put into effect in 1963. Another dimension of this phase was that industrialization in Turkey should be achieved as rapidly as possible through import substitution within the context of the five-year plans. The foreign trade regime with instruments of import permits, the allocation of foreign exchange, quota limits and tariffs was of great importance with respect to the pursuit of import substitution industrialization (ISI). Turkey was successful in achieving high rates of economic growth under ISI in the 1960s and the first half of the 1970s. Yet, the implementation of ISI is intrinsically unsustainable owing to its heavy domestic market bias and a fundamental neglect of exports (Onis 1999, 460) and this was apparent in Turkey. Indeed, following the completion of the “easy phase” of ISI, Turkey experienced an economic crisis. With ISI undermined, the excessive rates of protection and the overvalued exchange

rates contributed to the failure of Turkey's industrialization strategy. The oil crisis of 1973-74 and the U.S. arms embargo followed by the 1974 Cyprus intervention aggravated the ISI strategy further. These events led to a heavy foreign exchange bottleneck which was one of the most influential factors leading to a switch in the industrialization strategy away from ISI to an export-oriented industrialization strategy.

The period of 1963-1979 marked a significant breakthrough in Turkey's foreign economic relations. Turkey signed the Ankara Agreement with the European Economic Community in 1963 in order to initiate an association regime. According to the agreement, there were three stages in the way of full integration with the EU, which included preparatory, transitional and final stages. In accordance with this regime, in 1970, Turkey was committed to reducing the customs duties to zero within a specified period (22 years).

The 24th January 1980 measures, as a major stabilization and reform program, represented a decisive turning point for the Turkish economy. The program in a neo-liberal vision was based on the principles a free market economy, which entailed economic liberalization and expressed a transformation from an inward-looking development strategy into an outward-looking development strategy. Neo-liberal economic reforms have, in particular, led to rapid growth in exports for much of the period since 1980. In 1980-1990 exports rose rapidly, increasing from \$2.9 billion to \$12.7 billion at an average annual rate of 17.2%, while imports also grew sharply, increasing from \$7.9 billion to \$22.3 billion in the same period. The share of exports in GDP rose from 3% in 1980 to 24.5% in 1990. The share of foreign trade volume in the GNP also rose from 18.6% to 32.4% in the same period (Sen 1996, 239-240). The share of manufactured exports increased from 36% in 1980 to 76.7% in 1988. Turkey's export boom contributed to an economic recovery with GNP growth averaging nearly 6% in the period of 1980-1990 in comparison to an average growth rate of 0.5% between 1978 and 1980 (*ibid.*, 217).

The 1990s were the worst decade for the Turkish economy after World War II. A highly unstable economic trajectory was accompanied by political instability as the average life of governments was less than one and half years. While economic growth showed dramatic increases and decreases, the average inflation rate was more than 80% per year. The 1990s have been regarded as the lost decade for Turkey in terms of the failure to establish economic and political stability – during this decade Turkey had nine coalition governments. Economic

growth was increasingly sporadic, with sharp rises and falls, including a financial crisis in 1994, followed by a severe recession. Inflation raged at more than 80% per year.

Turkey's foreign trade, however, gained momentum in the 1990s. In particular, the customs union agreement with the EU that was implemented in January 1996 contributed to a further surge in Turkey's trade volume. Owing to the far greater external orientation of the economy after the customs union, foreign trade represented an even higher proportion of the national income in comparison to the 1980s. As a percentage of GDP, total trade increased from 33.7% in 1995 to 41.2% in 2000. The increase in this ratio resulted from the increase in both exports and imports. Exports which totaled \$21.6 billion in 1995 increased to \$27.7 billion in 2000. Imports which totaled \$35.5 billion in 1995 rose to \$54.5 billion in 2000 (Kocyigit and Sen 2007, 64).

Table 9.1. Turkey's trade by selected export destinations and import resources (1973-2000) (%)

Regions	Exports				Imports			
	1973	1980	1990	2000	1973	1980	1990	2000
OECD Countries	72.0	57.7	69.9	68.3	77.9	46.7	66.7	69.6
The EEC / The EU	46.4	42.7	55.4	52.2	54.8	28.7	44.4	48.9
The Other OECD	25.6	15.0	14.5	16.1	23.1	18.1	22.3	20.7
USA	9.9	3.4	7.5	11.3	8.9	5.8	10.2	7.2
Non OECD Countries	28.0	42.7	30.1	31.7	22.1	53.3	33.3	30.4
Middle Eastern Countries	12.3	18.9	13.8	8.0	9.9	39.5	12.1	5.7
Other Countries	15.7	18.0	16.3	15.7	12.2	11.5	21.2	17.6
USSR / Russian Fed.	-	5.8	-	2.3	-	2.3	-	7.1

Source: Kocyigit and Sen 2007, 66.

As far as foreign trading partners are concerned, Turkey's international trade has been dominated by the OECD countries for decades, within which the European Economic Community (EEC) and EU have nearly constituted half of Turkish trade (see Table 9.1). Conventionally, another important group in Turkey's foreign trade has been Middle Eastern

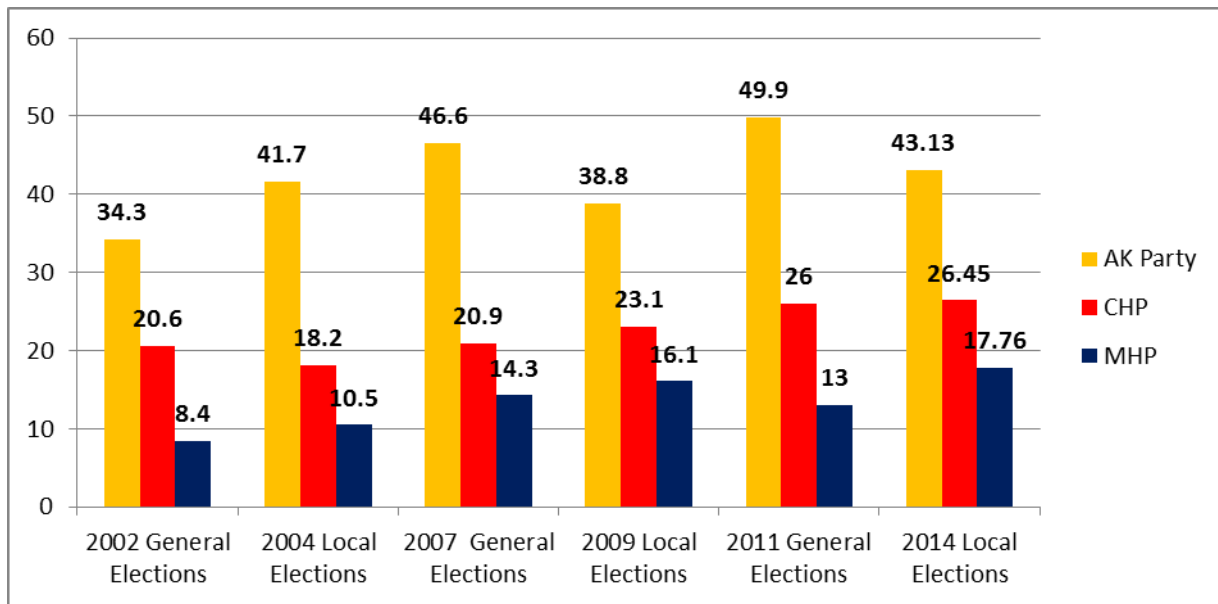
countries, but the shares of both exports and imports slowed down in the aftermath of the Gulf War in 1991. On the individual basis, except with the major countries of the EU (Germany, the UK, France and Italy), the shares of Turkish exports and imports with the USA have also been important although they declined in terms of the percentage of Turkey's total trade after 2000. Russia's share in total Turkish imports is evidently striking after the late 1990s because of Turkey's dependence on natural gas (Table 9.I).

The Political Economy of Turkey's Changing External Economic Relations Under the AKP

The 1990s in Turkey were characterized by a series of economic crises as a result of chronic macroeconomic instability. High inflation, volatile rates of economic growth, enormous levels of domestic debt and an increasing current account deficit made the Turkish economy extremely fragile and sensitive to domestic and international shocks. Indeed, the Turkish economy experienced three crises in 1994, 2000 and 2001. The crisis of 2001 was the most serious, which caused drastic declines in output, severe unemployment and negative distributional effects. However, this crisis also paved the way for a new program, "The Transition to a Strong Economy", establishing the policy and reform framework. Kemal Dervis, who was at that time Vice President at the World Bank, was appointed as Minister of State responsible for the economy. Under his leadership, the coalition government of 1999-2002 had to take the necessary steps for fiscal and monetary discipline accompanying structural reforms.

Following the 2001 crisis, the November 2002 general elections represented a major turning point and opened a new chapter in the political history of Turkey, after a decade of political instability under consecutive coalition governments. The Justice and Development Party (Turkish: Adalet ve Kalkınma Partisi; hereinafter, the AK Party) which entered the Turkish political scene on 14th August 2001, won a sweeping victory in this general election, which earned it an absolute majority of the 550 parliamentary seats. The extraordinary electoral success of the AK Party continued in three consecutive parliamentary elections in 2002, 2007 and 2011. Even more importantly, its vote share rose in each election cycle (from 34%, to 47%, and just under 50% respectively).

Fig. 9.1. The AK Party's electoral victories in comparative perspective



Source: The Supreme Electoral Council, 2014.

Although the origins of the AK Party are based on the half-century-old Islamic National Outlook Movement, the founders of the Party have succeeded in transforming the original political Islamist party into a conservative democratic party. It is no doubt that the conservative-religious character of the AK Party is paramount in its political identity. However, the AK Party has aimed to create a political identity in order to embrace different segments of Turkish society. Indeed, one of the main reasons for the AK Party's success has been viewed as its capacity to attract the different segments of society, ranging from the religious to the conservative, the urban and the liberal. Through this type of cosmopolitanism, the AK Party was in pursuit of reconciling the new opportunities of globalization with the traditional Islamic and national values of Turkey. This political stance has, in turn, enabled it to look both East and West at the same time (Kalın 2013, 425; Onis 2006, 229). Therefore, as the next section will explore, the vision of reinvigorating Turkey's role in the MENA as well as other neighboring zones under the AK Party is, to a large extent, a continuation of its multilateral policy-making approach.

Turkey's active and increasing engagement with the MENA in terms of economic relations since the beginning of the 2000s can be attributed to the "new foreign policy vision" put forward by Prime Minister Ahmet Davutoglu, who served as a chief adviser and later Foreign Minister in subsequent AK Party governments. He played a central role in designing the present parameters of the new assertive foreign policy activism. According to him,

Turkey's new foreign policy constitutes five principles as follows: "a balance between security and democracy"; "a zero problems policy towards Turkey's neighbors"; "developing relations with the neighboring regions and beyond"; "a multi-dimensional foreign policy" and "rhythmic diplomacy" (Davutoglu 2008, 79-82). In accordance with these principles, he emphasizes the role of economic interdependence, and furthermore argues that "*order in the Middle East cannot be achieved in an atmosphere of isolated economies*" (Davutoglu 2008, 85). There is no doubt that the expected outcome of increasing interdependence through economic and other human interactions is not only to gain new markets for Turkey's exports and business activities but also to achieve a durable peace in the region. As the next section will show, increases in the volume of trade, investment and the movement of people between the two sides are instrumental in reaching these objectives.

The successful performance of the Turkish economy over the past decade has been an important driving force behind the expansion of Turkey's relations with the MENA. As can be seen from Table 9.2, Turkey's Gross Domestic Product (GDP) grew by an average of 5% between 2003 and 2013, which was the fastest among the OECD countries which grew at an average of 1.7%. Turkey's GDP increased significantly to \$822 billion in 2013, up from \$231bn in 2002 at current prices, making Turkey the 18th largest economy in the world (WB 2015). Similarly, its GDP per capita also rose more than threefold, increasing from nearly \$3,400 to \$11,000 for the same time span. Simultaneously, Turkish foreign trade grew more than fourfold, rendering Turkey increasingly integrated with the world economy. Price stability has been one of the main parts in the economic stability of Turkey during the AK Party period. The inflation rate has declined to single digit figures from an average of 80% in the 1990s as mentioned above. Turkey managed to keep the unemployment rate between 9% and 10%. One would regard this as a significant success given the atmosphere of global economic crisis, while many EU countries are afflicted with double digit unemployment rates. Thanks to prudent fiscal policies, the AK Party governments have managed to reduce the budget deficit to GDP ratio from 12% in 2002 to 1.1% in 2014, which is one of the lowest rates in Europe and is also lower than the Maastricht criterion for a budget deficit of 3%. Similarly, public debt to GDP ratio fell to 33% in 2014, down from 74% in 2002, which also provides the 60% threshold of the Maastricht criterion for public debt stock since 2004. In terms of poverty, economic growth in a low inflation environment has had some significant trickle-down effects in Turkey. For example, the population living below \$4.30 per capita per day as the percentage of total

population dropped from 30.30% in 2002 to 2.06% in 2013. Undoubtedly, these positive developments show that the rising economic strength of the Turkish economy over the past decade has enabled the AK Party to diversify its trade and investment linkages in the greater MENA with some degree of autonomy as a result of a “new” assertive foreign policy while maintaining its engagement with its traditional Western economic partners.

Table 9.2. Overview of Turkey’s economic performance (2002-2013)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP(Current prices)(US\$ billions)	232.7	304.6	393	484	529.9	655.9	742.1	617.6	735.8	772.3	794.5	822.1
GDP per capita (US\$, current prices)	3403	4393	5595	6801	7351	8984	10745	8559	10067	10469	10609	10972
Real GDP growth (%)	6.2	5.3	9.4	8.4	6.9	4.6	0.7	-4.7	9	8.5	2.2	4.1
Investment (% of GDP)	17.1	17.4	20.7	21.4	22.6	21.8	20.02	17.2	18.9	23.8	20.6	20.07
Savings (% of GDP)	18.3	15.1	15.6	15.7	16.2	15.8	6.8	13.1	12.6	13.8	14.7	12.6
Imports (US\$ billions)	51.5	69.3	97.5	116.8	139.6	170.1	201	140.9	185.5	240.8	236.5	251.6

Exports (US\$ billions)	36. 1	47. 3	63. 2	73. 5	85. 5	107 .3	132	102 .1	113. 9	135	152. 5	151. 8
Current Account Balance (CAB)(% of GDP)	- 0.2 7	- 2.4 7	- 3.6 7	- 4.5 7	- 6.0 2	- 5.7 5	- 5.25	- 2.2 4	- 6.49	-9.7	-6	-7.3
FDI (US\$ billions)	1.0 8	1.7 5	2.7 9	8.9 7	19. 26	19. 94	16.9 6	6.8 6	7.81	16	12.6	12.9
Fiscal balance (% of GDP)	- 11. 5	-8.8	- 5.2 2	-1.3	- 0.6 1	- 1.6 2	-1.8	-5.5	-3.6	-1.4	-2	-2.2
Public debt (% of GDP)	74	67. 7	59. 6	52. 7	46. 5	40	40	46. 1	42.4	39.2	36.1	36.0 3
Unemployme nt (%)	10. 3	10. 5	10. 3	10. 3	9.9	9.9	11	14	11.9	9.8	10.1	9.7
Below \$4.30 per capita per day (% to total population)	38. 82	32. 18	32. 62	26. 39	25. 35	17. 59	15.3 3	11. 92	9.61	6.83	5.88	5.13

Sources: TURKSTAT 2015; IMF 2015.

The development of Turkey's relations with the EU has also contributed to accelerate Turkey's engagement with the MENA countries. Since the very foundation of the EU, Turkey has been eagerly interested in the integration process in Europe and has considered it a way of achieving its modernization. Therefore, Turkey applied for associated membership in 1959 and signed the Ankara Agreement with the EU in 1963. The Ankara Agreement envisaged a

progressive and gradual model of integration with Turkey through the three phases mentioned above (“preparatory”, “transition” and “completion”). At the end of the transitional stage, the customs union between Turkey and the EU was put into effect in 1996. The customs union still constitutes a unique step for Turkey’s EU integration without attaining full membership as opposed to the full membership processes of previous candidates. Turkey was officially recognized as a “candidate state” at the Helsinki Summit in December 1999, which marked a breakthrough in Turkey-EU relations. Following the steps taken towards democracy, and the rule of law and respect for human rights, EU-Turkey relations finally reached a historical stage at the Brussels Summit in December 2004 as the European Council decided to start the accession negotiations with Turkey in October 2005. However, the EU has exclusively referred to the “open-ended” nature of accession negotiations and implied that the results of these negotiations cannot be guaranteed in advance (Arıkan 2006, 3).

Indeed, this half-hearted attitude reflected Turkey–EU relations during the AK Party era, which can be divided into two distinct phases. In the first phase between the end of 2002 and the end of 2005, determined and strenuous efforts have been made by the AK Party government for fulfilling the Copenhagen criteria which involves a set of economic and democratization reforms in pursuit of starting the accession negotiations. Yet, in the second phase, the AK Party displayed a certain loss of enthusiasm and commitment to the efforts to join the EU as a full member. Among the problems in the EU process, some of the key decisions taken have led to a significant impact with respect to eroding enthusiasm not only at the government level, but also among the public at large. The first such decision was concerned with the possibility of permanent safeguards on full labor mobility after Turkey’s full membership. The second decision was the failure of the EU to fulfil its promises to the Turkish Cypriots. The EU’s failure to deal with the Cyprus matter on an equitable basis was interpreted as somewhat unfair treatment among some EU members (Öniş and Yılmaz 2009, 13-15). And finally, the practice of the EU’s Schengen visa policy has long been a source of massive complaint and objections in Turkey. Turkish nationals have regarded the Schengen visa regime as a practice that puts them at particular disadvantage in relation to their European counterparts who enjoy visa-free travel to Turkey. The businessmen and the government have argued that this visa regime constituted a form of unfair competition in trading between the EU and Turkey and made it much more difficult for Turkish business people to promote their goods and expand their markets within the EU (Kirisci and Kaptanoglu

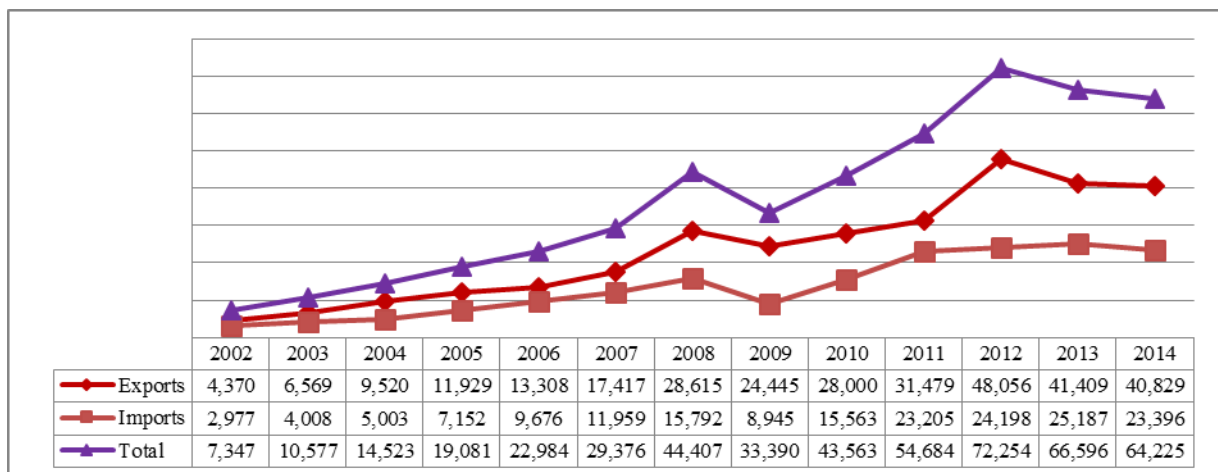
2011, 712-713). Frustrated with these decisions and the practices of the EU and with the stagnation of the EU membership process, the AK Party increased efforts to diversify its foreign policies in an attempt to strengthen relations with other regions, including the MENA (Altunışık and Martin 2011, 578; Hürsoy 2013, 505).

The process of diversification in Turkey's external relations was also a continuation of the growing strength and diversification of Turkish private business activities (Onis 2014; Kutlay 2011; Kirisci and Kaptanoğlu 2011). It is noteworthy in this context that one should recognize the differences of two leading business organizations. On the one hand, The Turkish Industrialists and Businessmen Association (TUSIAD, Türk Sanayicileri ve İşadamları Derneği) founded in 1971 consists of large firms and holdings mostly based in the Marmara region and represents the politically western-oriented and the pro-secular economic establishment. On the other hand, the Independent Industrialists' and Businessmen's Association (MUSIAD, Müstakil Sanayici ve İş Adamları Derneği) founded in 1990 constitutes mainly small-to medium-sized businesses in Turkey representing the conservative bourgeoisie, and known as Anatolian Tigers. This term refers to cities in Anatolia where a boom has occurred in production and capital accumulation led by companies in and around cities such as Bursa, Konya, Kayseri, Gaziantep, Denizli, Çorum and Malatya. These are the cities where the public has tended to be more conservative and pious, comprising a natural electoral base for the AK Party (Kirisci and Kaptanoğlu 2011, 714). In addition to these organizations, the foundation of the Confederation of Businessmen and Industrialists of Turkey (TUSCON, Türkiye İşadamları ve Sanayiciler Konfederasyonu) in 2005 as a private business organization comprising mostly small-and medium-sized businesses has also contributed to this diversification process, as TUSCON organizes the annual Turkey-Middle East Trade Bridge which brings together businessmen in the region of MENA. As the newly emerged Anatolian Tigers under these business organizations are located in inland Anatolia and have improved their economic internationalization, Turkey has strengthened business ties further with MENA markets. The global financial crisis of 2008-2009 and the following stagnation in the European markets also rendered the tendency of Anatolian Tigers toward the MENA region to gain additional momentum.

The Changing Nature of the Economic Relations of Turkey With the MENA

In recent years Turkey under the AK Party governments has actively pursued far-ranging engagement with MENA countries by encouraging trade and other interactions. In line with its assertive and proactive foreign policy, the governments of the AK Party have sought to develop state-to-state strategic cooperation and frequent contacts with the countries in the region in order to foster greater economic activity. In doing so, they have used a set of instruments in stimulating the economic exchanges at the regional level by establishing free trade agreements, preferential trade regimes as well as liberalizing visa requirements to facilitate the free movement of people. This process was also boosted by the intense efforts of the Turkish private sector for diversifying its partners as it tried to avert external demand shocks emanating from the global economic crisis of 2008-2009 and the following recession in EU countries. Therefore, it has become evident that the MENA region was seen as a way of compensating the decline in Turkish exports to European markets.

Fig. 9.2. Turkey's foreign trade with the MENA (2002-2014) (millions USD)

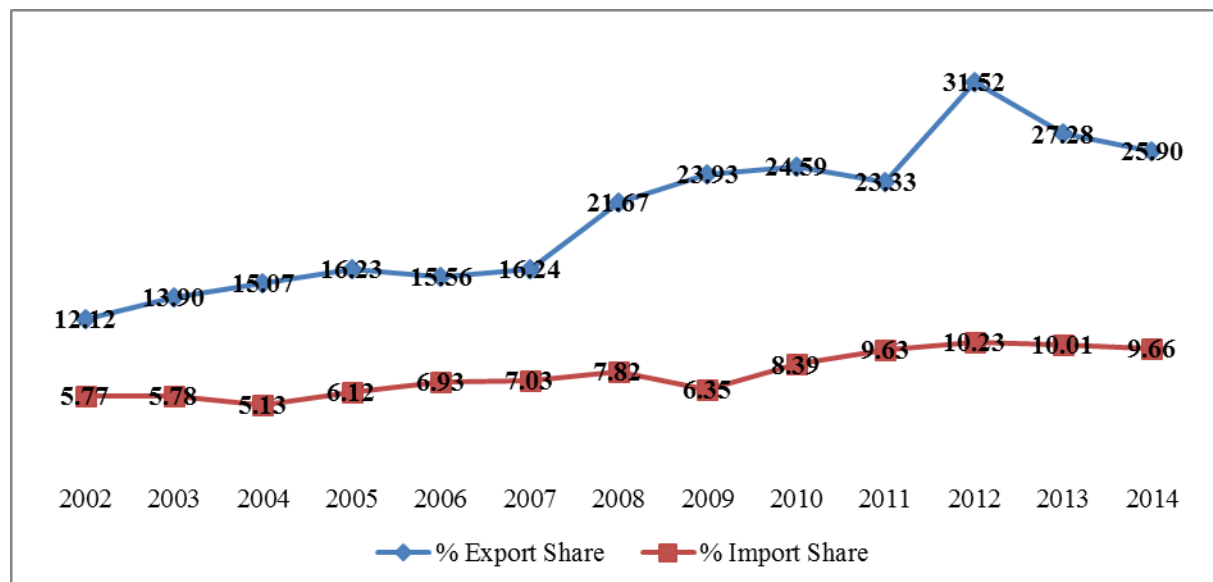


Source: Authors' calculations based on TURKSTAT, 2015.

As Table 9.2 and Figure 9.3 suggests, while Turkey's total trade volume rose more than fourfold from \$87.6 billion in 2002 to nearly \$400 billion in 2014, trade between Turkey and the MENA increased more than eightfold in the same period, namely from \$7.3 billion to \$64.2 billion. After Turkey's exports to the MENA markets reached a historic record at \$48 billion in 2012, it still remained high at \$40.8 billion in 2014. Turkish imports from the region between 2002 and 2014 also showed an upward trend, except in 2009, from \$2.9 billion to

\$23.4 billion. Similarly, the share of MENA countries in Turkey’s total exports, which was around 4.4% in 2002, increased considerably to nearly 26% in 2014 (see Figure 9.3).

Fig. 9.3. The MENA’s share in Turkey’s total exports and imports (2002-2014) (%)



Source: Authors’ calculations based on TURKSTAT 2015.

As Table 9.3 shows, Turkey’s exports predominantly concentrate on two economic regions: the EU and the MENA. These two regions account for nearly 70% of Turkey’s total exports. It is notable that there is a significant change in the relative market size of Turkey vis-a-vis these two regions. The EU still plays a leading role despite the significant fall in Turkey’s total exports to the region (due to economic crisis in the EU and the dramatic contracting of its domestic demand). By contrast, it is clear that the MENA represents a growing market for Turkish exports and has become one of the promising destinations for Turkish goods thanks to various agreements signed between the two sides, and other factors such as the relatively rapid population growth in the MENA, unsatisfied demand and cultural and geographical proximity.

Table 9.3. The share of geographic regions in total Turkish exports

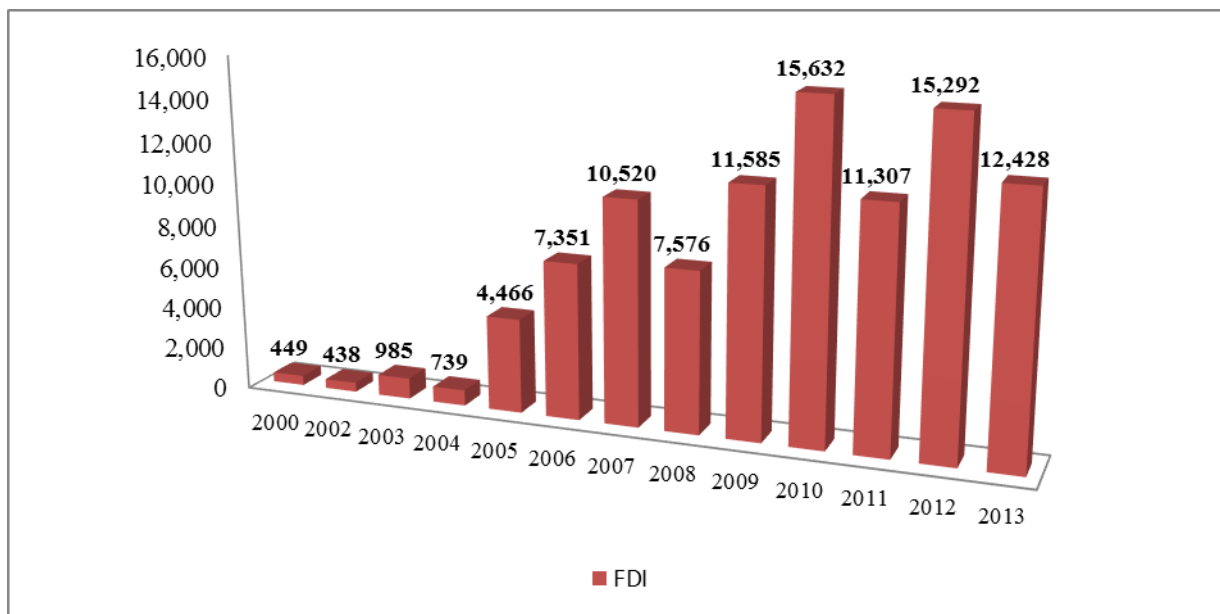
Years	MENA	EU	OTHER
2002	12.12	56.62	31.26
2005	16.23	56.30	27.47

2010	24.59	46.26	29.15
2014	25.90	43.29	30.81

Source: Authors' calculations based on TURKSTAT 2015.

The growing interest of Turkey towards the MENA has other dimensions beyond merchandise trade. Non-trade aspects of Turkey's economic relations with the region involve primarily FDI, construction activities, tourism, development assistance and humanitarian aid. Bilateral FDI between Turkey and the MENA blossomed after the AK Party came to power. As Figure 9.4 shows, the total volume of FDI stock between the two sides rose more than twelvefold from \$985 million in 2003 to \$12.4 billion in 2013.

Fig. 9.4. Turkey's FDI stock (inflow + outflow) with MENA countries (Millions USD)



Source: Central Bank of the Republic of Turkey (CBRT): Statistical Data (EDDS) 2015

Although the greater part of Turkish FDI continues to flow to EU countries, Turkish investments in the MENA have notably increased from \$100 million in 2002 to \$871 million in 2013. In this context, FDI inflows from MENA countries to Turkey showed a dramatic increase during the same period, reaching a record level of \$15.3 billion in 2010, up from \$338 million in 2002, and maintained a level of annual FDI inflows above \$10 billion in the following three years (2011-2013) (see Table 9.4).

Table 9.4. Turkey's FDI stock with MENA countries (2002-2013) (Millions USD)

Years	FDI Inflow	FDI Outflow	Total
2000	392	57	449
2002	338	100	438
2003	877	108	985
2004	625	114	739
2005	4.336	130	4.466
2006	7.213	138	7.351
2007	10.290	230	10.520
2008	7.244	332	7.576
2009	10.962	623	11.585
2010	15.390	242	15.632
2011	10.830	477	11.307
2012	14.409	883	15.292
2013	11.557	871	12.428

Source: Central Bank of the Republic of Turkey (CBRT): Statistical Data (EVDS) 2015

Turkish outflow FDI ranged from small bakeries and restaurants set up by individuals to large Turkish multinational enterprises (MNE). According to a survey published in 2014, in 2012 53 affiliates of the largest 28 Turkish MNEs in the MENA operated in a wide range of fields including infrastructure, oil and gas related investments, energy, fertilizer, food and beverage, glass, textile and consumer products (DEIK 2014, 15-25).

Construction and contracting industry is one of the major parts of Turkish outward FDI. Turkish companies realized nearly 7500 construction projects in 103 countries in the world between 1972 and 2014 (Muteahhitler Birliği 2014, 13). The total volume of work undertaken by Turkish contractors has reached approximately \$285 billion. The total cost of the projects realized in the MENA also climbed to \$119.4 billion by the first half of 2014, accounting for nearly 42% of the total cost of Turkish construction projects worldwide (see Table 9.5). In the period 2010-2013 projects in Iraq, Saudi Arabia, Libya, Iran and Qatar represented 32% of total contract value of total foreign Turkish construction activities (ibid. 7). However, Turkish companies still have major projects in almost all countries in the MENA which includes the

building of highways, airports, bridges, tunnels as well as hotels, shopping centers and housing and sports complexes.

Table 9.5. Construction projects of Turkish firms in MENA countries and share to total (1972-2014 (first 6 months))

Country	Number of Projects	Total Project Costs (\$)	Share (%)
Libya	565	28819029791	10.13
Iraq	853	20855749588	7.33
Qatar	117	15085321033	5.30
Saudi Arabia	212	13523285914	4.75
Algeria	231	9830917444	3.45
UAE	104	9126399009	3.21
Oman	41	5590691316	1.97
Iran	45	4077133087	1.43
Morocco	48	3339491196	1.17
Jordan	38	2298803862	0.81
Yemen	15	1565399965	0.55
Kuwait	24	1400037504	0.49
Israel	157	1226253549	0.43
Egypt	26	981782857	0.35
Tunisia	11	772959772	0.27
Lebanon	10	364979157	0.13
Bahrain	4	284752200	0.10
Syria	24	258415791	0.09
Palestine	1	35000000	0.01
Total	2526	119436403035	41,97

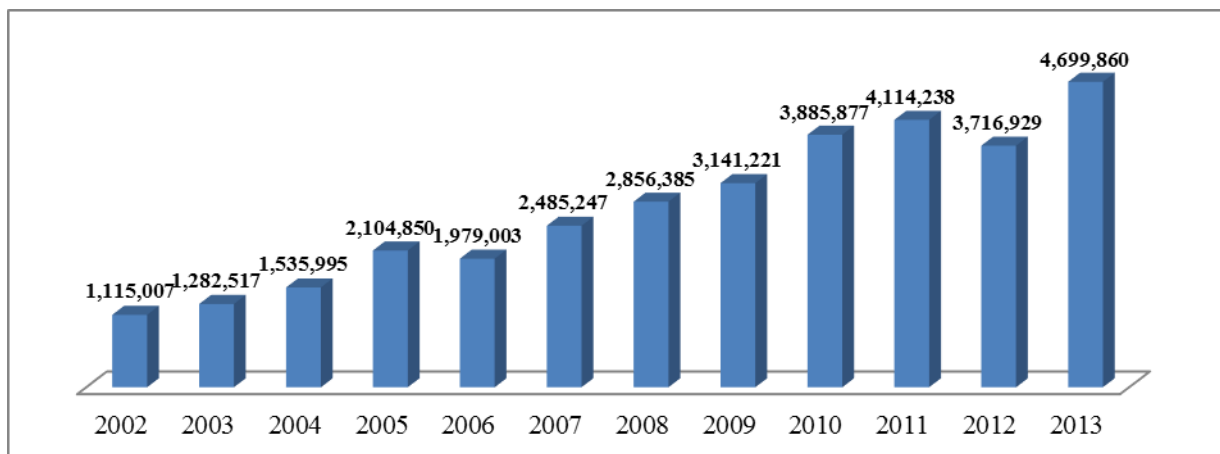
Source: Türk Muteahhitler Birliği 2014.

The growing activism of Turkish external policies has also been observed in its increasing role in development aid in the MENA and especially in neighboring countries. Official Development Assistance (ODA) from Turkey has remarkably grown over the past decade. It

rose to \$2.5 billion in 2012 from \$200 million in 2002, almost doubling between 2011 and 2012. In 2013 Turkey was the third largest humanitarian donor country among G20 states, with \$1.6 billion given in foreign aid, and the most generous country in terms of share of GNI (0.21%). It is clear that a large proportion of humanitarian assistance from Turkey was, in particular, associated with the escalating Syrian crisis on its southern border, and housing refugees within Turkey constitutes an important part of this aid (GHA 2013, 36; GHA 2014, 27-30).

Another dimension of Turkey’s increasing interaction with the MENA is the growth in the contact and engagement between peoples and cultures. The increase in the movement of people over the past decade has been boosted by the consciously liberal visa policy of the AK Party in order to ease restrictions on travel. The visas were mutually removed between Turkey and nine countries in the MENA (Republic of Turkey Ministry of Foreign Affairs 2015). The removal of visa barriers has led to ever-larger numbers of people from the MENA travelling to Turkey. As Figure 9.5 shows, the number of tourists from MENA countries travelling to Turkey rose to nearly 4.7 million in 2013, up from 1.1 million in 2002.

Fig. 9.5. Visitors arriving in Turkey from MENA countries (2002-2013)



Source: Republic of Turkey Ministry of Culture and Tourism General Directorate of Investment and Enterprises 2013.

The connections between Turkey and other MENA countries stemming from this movement of people can be best observed by the expansion of Turkish Airlines (THY) flights in the region. By September 2014 THY flew to 260 destinations worldwide, 44 of which are in the MENA (THY 2015). Additionally, Turkish TV soap operas have been broadcast on prime-

time Arabic TV and have gained widespread popularity in the region which in turn has not only helped to increase Arab tourism activities in Turkey but also to eliminate psychological and cultural barriers between peoples in the region (Kirisci and Kaptanoglu 2011, 709).

Although many points made so far suggest that ever-increasing interaction between Turkey and the MENA is likely to continue in the longer-term, both regional and domestic challenges that would qualify Turkey's performance in the region need to be considered. On the regional side, the impact of the Arab uprisings is significantly important regarding the performance of the bilateral relations of Turkey in the region. As Tables 9.4 and 9.5 indicate, overall trade and investment between Turkey and the countries most affected by the Arab Spring, especially Tunisia, Egypt, Libya and Syria, did not actually suffer greatly apart from a few exceptions such as the loss in trade volume with Syria in 2012, and with Libya in 2011. Interestingly enough, even Turkey's trade with Syria during the civil war there recovered slowly in 2013 and almost reached pre-war levels in 2014. In achieving this, the efforts of Syrian businessmen who have fled their country to escape the civil war and who reside mainly in eastern cities in Turkey close to the Turkish-Syrian border have been especially effective. They have revitalized trade with Syria through the companies they have set up in Turkey. However, it should be noted that the expectations related to Turkey's foreign trade with Syria before the war was so high that it was hoped that annual bilateral trade with Syria would have reached \$5 billion (Sonmez 2014). Similar observations can also be made more strikingly for Turkish investment in Libya. As Table 9.5 indicates, the level of Turkish investment projects in Libya reached \$175 million in 2011 and \$176 million in 2012, but in 2013 and 2014 the expansion of Turkish FDI in Libya, especially in the construction sector, came almost to a halt at \$7 million and \$8 million respectively. The significant decline of Turkish investments in Libya was, therefore, the biggest loss for Turkey's bilateral economic relations experienced in the region following the Arab uprisings. Consequently, on the whole, it can be said that the loss in Turkey's bilateral economic relations with the countries of the Arab uprisings is the greatest challenge for the medium-term, if not long-term.

On the domestic side, several major and interrelated constraints—the current account deficit, extensive energy dependence, and a low savings rate—faced by the Turkish economy comprise the domestic challenges for the maintenance of Turkey's economic performance in the MENA. As Table 9.2 indicates, the current account deficit as a percentage of GDP was, in particular, high between 2010 and 2013, registering 6% in 2012 and 9.7% in 2011. The main

reason for this current account deficit is the large foreign trade deficit. As with the foreign trade deficit, annual energy imports (nearly \$60 billion) are blamed for the high current account deficit (Edgerley 2013).

An analytical macroeconomic history of the Turkish economy since the Second World War underlines quite convincingly that economic crises follow the same pattern: high economic growth aggravates the current account deficit, and a sudden interruption of capital inflows together with other structural problems triggers economic crises (Onis 2013, 1416). The underlining causes of Turkey's current account deficits present two important factors, namely exceptionally low saving rates and extensive energy-import dependence. On the one hand, as savings fall short of investments, Turkey needs foreign capital to finance its current account deficit. On the other hand, Turkey's current account balance is highly sensitive to changes in energy prices because it must import almost all of its energy needs. The country's dependence on foreign energy continues to increase in parallel with its fast economic growth. Hence, high degrees of energy dependence and low savings rates constitute the major structural root causes of Turkey's chronic account deficit. These constraints, in turn, might limit the expansion and the sustainability of Turkey's external relations towards the MENA.

Conclusion

Turkey is becoming increasingly interested in the MENA, emerging as a regional economic power thanks to its successful economic performance. Although Turkey's multidimensional approach to its external relations began with a reform program in 1980, the pace of policy reform increased following the AK Party's rise to power in November 2002. The AK Party's foreign policy activism under Davutoglu's "new foreign policy vision" especially complemented the "vision" of increasing economic relations with the MENA. Over the past decade the AK Party government, with a religious-conservative stance, has actively pursued a policy of increasing engagement in the MENA while the aim of full membership in the EU remains important. The political stability Turkey has enjoyed since 2002 has underpinned its impressive economic performance. The success of the Turkish economy and its emerging private sector with an increasing orientation to the MENA has helped to diversify the external relations of Turkey. Frustration over the accession negotiations with the EU and the stagnation of European markets as a result of the global financial crisis of 2008-2009 provided extra impetus to strengthen Turkey's relations with the MENA.

MENA countries over the past decade have represented a growing market for Turkish exports and have become some of the most promising destinations thanks to the facilities offered by the recently established liberal bilateral agreements. The growing interest of Turkey towards the MENA has also been reinforced by other dimensions beyond merchandise trade such as FDI, construction activities, tourism, development assistance and humanitarian aid. Turkey under the AK Party has set out a 2023 vision which has ambitious goals. Accordingly, the government's main objective is to make Turkey a top ten economy in the world by the centenary of the foundation of the Turkish Republic. To do this, the government plans to increase GDP to \$2 trillion and GDP per capita to \$25,000 by 2023. Furthermore, the government aims to develop a \$500 billion export sector and to increase the total number of exporters to 100,000 companies (mfa.gov.tr).

In accomplishing these objectives, Turkey must address its overdependence on foreign energy and low levels of domestic savings not only to overcome its long-standing current account deficit but also to come to terms with current and future challenges presented by the Arab uprisings. In the long term, there is no doubt that Turkey seeks to promote a peaceful, stable, prosperous and more democratic environment for the countries of the Arab uprisings, in particular, and the MENA as a whole. Such developments in this direction would mean a win-win outcome for all the parties in the region.

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