



Impact of the Qatar Crisis on Turkey's Economic Relations with Qatar, Saudi Arabia and the UAE

Nader Habibi, Economics Department, Brandeis University

Working Paper Series

Impact of the Qatar Crisis on Turkey's Economic Relations with Qatar, Saudi Arabia and the UAE

Nader Habibi¹

August 25, 2019

Abstract

In June 2017 Saudi Arabia and the United Arab Emirate launched a transport and economic blockade against Qatar to punish her for supporting hostile Islamic groups and maintaining good relations with Iran. Turkey, which had good economic relations with both Saudi Arabia and the UAE opposed the blockade and expressed full support for Qatar. In this article I look at how the economic relations of Turkey with Qatar, Saudi Arabia and the UAE have evolved ever since. Looking at trade, investment and tourism data it is clear that there has been a sharp increase in bilateral economic relations between Turkey and Qatar. The Qatar crisis has had a negative impact on economic relations of Turkey with Saudi Arabia and the UAE but the there are some differences in the magnitude of decline in specific activities. The setback in bilateral trade has been more severe in Turkey-UAE relations, while the decline in investment ties has been more significant in Turkey-Saudi linkage. In the travel and tourism sector, which is more driven by consumer preferences than government directives, Turkey has remained a popular destination for UAE and Saudi tourists despite the diplomatic tensions. In 2019 Saudi government has launched a campaign to discourage its citizens from travel and investment in Turkey.

Keywords: Economic Development, Qatar, Economic Sanctions, GCC, Turkey, Saudi Arabia, The UAE, Blockade, Bilateral Trade, Tourism, The Middle East.

JEL Codes: F14, F51, N45, N75, O53.

¹ Department of Economics and the Crown Center for Middle East Studies, Brandeis University, nhabibi@brandeis.edu.

On May 29th, 2019, the leaders of 57 predominantly Muslim countries gathered in Mecca for the 14th Summit of the Organization of Islamic Countries (OIC). It was also during this summit that the chairmanship of OIC was officially passed from Turkey to Saudi Arabia. Under normal circumstances President Recep Tayyip Erdogan would not have missed this important occasion but in light of the recent diplomatic tensions between Turkey and Saudi Arabia he decided to skip this important event. Instead, he sent Turkey's foreign minister Mevlut Cavusoglu to take part in the handover of OIC chairmanship to Saudi Arabia.

The ongoing tensions between Turkey and Saudi Arabia began after the 2010-2011 Arab Spring uprisings, but they have intensified since 2017 because of the Qatar crisis and the Khashoggi murder crisis. In light of these tensions perhaps the leaders of both countries were happy that a face-to-face visit was avoided. Their respective countries, however, have no option but to interact with each other as they compete for influence and leadership in the Muslim world, particularly in the Middle East and Africa.

Turkey's tensions with Saudi Arabia also extend to the United Arab Emirates (UAE) and Bahrain, who, along with Egypt, launched the blockade of Qatar in June 2017. Deterioration of Turkey's relations with these countries in recent years stands in sharp contrast with the substantial and unprecedented growth in diplomatic and economic relations in the first decade of the 21st century. President Erdogan's Justice and Development Party (AKP), has governed Turkey since 2002. It initially showed a strong interest in expansion of Turkey's diplomatic, cultural and economic ties with Arab countries.

In this article I will review how Turkey's economic relations with GCC countries have evolved after the Qatar Crisis. This crisis is significant because it caused considerable damage to Turkey's economic ties with Saudi Arabia and the UAE, which, together, account for a much larger share of Turkey's economic linkages with the GCC block than the other four. We will analyze the evolution of Turkey-GCC economic relations after the Qatar crisis in three areas: trade, tourism and investment.

Background

Turkey first showed interest in the Middle East, particularly the oil exporting countries, in the 1980s under Prime Minister Turgut Ozal's leadership and his export-oriented economic reforms. Turkey's progress in this initiative was moderate and inconsistent because of domestic political instability and military-civilian tensions before the 2002 elections. After its 2002 electoral victory, the AKP government launched an aggressive campaign to expand Turkey's diplomatic and economic ties with the Middle Eastern countries.

These efforts coincided with a period of high oil prices, which led to a sharp increase in export revenues of Arab oil-exporting countries. This rapid increase in oil wealth and purchasing power of these countries did not go unnoticed by the Turkish government, who used an aggressive diplomatic effort to expand Turkey's economic ties with the six members of the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, UAE and Saudi Arabia. Despite their small population, which was under 10% of the total population of Arab countries, the GCC block [accounted for almost half of the Arab world's total GDP](#).

The 2002-2010 interval can be viewed as a period of mutual attraction between Turkey and GCC. Turkey exported agricultural products, steel and engineering services to GCC in return for energy products and capital investments. Among GCC countries, Turkey was most engaged with Saudi Arabia, the UAE and Qatar. Relations expanded in areas of regional diplomacy, security and bilateral trade and investment. The Arab countries welcomed the Turkish government's active support for the Palestinians in the Arab-Israeli conflict, which reflected a break from the less sympathetic position of previously secular Turkish governments. They also viewed Turkey as an attractive and safe investment market at a time when Arab investments in the U.S. and Europe faced growing skepticism and political resistance in the aftermath of the September 2001 terrorist attacks in New York City.

Turkey's reaction to the Arab uprisings and its support for political factions that were affiliated with the Muslim Brotherhood, however, led to tensions with Saudi Arabia and the UAE on one hand and closer ties with Qatar. Despite these tensions, Turkey-Saudi and Turkey-UAE relations did not deteriorate quickly before the June 2013 coup of Egyptian military against President Mohammed Morsi. This was partly a result of Saudi Arabia's strategic calculation that cooperating with Turkey and Qatar against Assad (who was an ally of Iran) was more important than punishing them for their support of Muslim Brotherhood in those years.

When the Arab Spring protests spread to Syria in 2011, Turkey, Saudi Arabia and Qatar forced the rebel groups they supported to coordinate their war efforts with one another. This shared desire to defeat Assad allowed both sides to manage the tension over the Muslim Brotherhood. This cooperation continued through the first half of 2013. In another sign of deference to Saudi Arabia in those years, Turkey did not protest the suppression of anti-government uprisings in Bahrain (that were carried out with the assistance of Saudi military).

The military coup that removed President Mohammed Morsi from power in Egypt in June 2013, however, caused a significant rift between Saudi Arabia and the UAE, both in support of the coup, and Turkey and Qatar, who supported Morsi and condemned it. Saudi Arabia's tensions with Turkey and Qatar escalated in the months that followed as Turkey welcomed many Egyptian MB leaders that were forced to leave Egypt, while Qatar continued its financial support for MB and Islamist groups in various Arab countries. In March 2014, the Saudi government declared Muslim Brotherhood a terrorist organization and recalled its ambassador from Qatar. It did not terminate diplomatic relations with Turkey in the same manner but a number of high-level meetings were cancelled. Saudi-Turkey tensions also led to the cancellation of the fifth Turkey-GCC Strategic Dialogue. This was a major setback for President Erdogan, who had invested heavily in promotion these dialogues since 2008.

The rapid territorial gains of ISIS in Syria in 2014, along with the significant weakening of MB threat in Egypt, motivated Saudi Arabia to reduce her hostility toward Turkey and Qatar in hope of greater cooperation against ISIS and the Assad regime. The Saudi ambassador returned to Qatar in November 2014 and Saudi-Turkish relations also improved in 2015-2016. President Erdogan and King Salman met several times on both capitals. Turkey and Saudi Arabia even participated in

four joint military exercises in 2016. Turkey and Saudi Arabia managed to avoid any new tensions during 2016 and early 2017, prior to the Qatar crisis.

The Turkey-UAE relations since the Arab Spring have followed a similar path to the Turkey-US relations. This is due to the similarity of UAE and Saudi views on Muslim Brotherhood and their shared concern over Turkey's interventions in the Arab world. Interestingly, some supporters of President Erdogan had also expressed concern about UAE intervention in Turkey's internal affairs. After the failed July 2016 military coup in Turkey, some Turkish intelligence officials accused the UAE leadership of [involvement and support for the coup](#). Yet, despite occasional diplomatic tensions, bilateral economic relations between UAE and Turkey remained strong. In the aftermath of better relations between Turkey and Saudi Arabia, the diplomatic relations between Turkey and UAE also improved in 2016, after Turkey's foreign minister visited UAE in April. Within a month after this visit UAE re-installed its ambassador to Ankara. These developments in Turkey's relations with Saudi Arabia and UAE paved the way for negotiations toward a Turkey-GCC free trade agreement with the expectation that an agreement will be signed by late 2017. These negotiations were suspended after the Qatar crisis.

The current episode of tensions between Turkey, Saudi Arabia and the UAE began immediately after the May 2017 economic blockade of Qatar. Instead of remaining neutral toward this Saudi-led blockade, Turkey actively intervened in support of Qatar. This intervention played a crucial role in helping Qatar resist the demands of Saudi-UAE coalition (as explained in Appendix A). In comparison to earlier Turkish policies that Saudi Arabia and the UAE found offensive, Turkey's support for Qatar was an offense of a much larger magnitude and far more damaging to their interests.

Saudi Arabia and the UAE reacted to Turkey's intervention by initiating contact with the People's Protection Unit (YPG), Kurdish groups in Northern Syria that Turkey viewed as partners of the PKK, regarded as a terrorist organization by Turkey. In response to Turkey's military operations against YPG in northern Syria, the UAE foreign minister went as far as openly calling for protection of YPG and Kurdish regions of northern Syria against Turkey. He also opposed Turkey's plan to create a safe zone in some Syrian areas near the Turkish border.

The relations further deteriorated after the murder of Saudi journalist Jamal Khashoggi in October 2018, inside the Saudi consulate in Istanbul. Turkey adopted a very harsh reaction to the role of Saudi intelligence officials in this political murder despite requests by the Saudi government for assistance with a face-saving exit strategy. The Turkish intelligence had collected audio recordings of conversations between Saudi intelligence officials inside the consulate and some high-ranking officials in Riyadh, which provided strong evidence for their involvement.

The ups and downs of Turkey's diplomatic relations with Saudi Arabia, UAE and Qatar since 2010 has had an important impact on her economic relations with all GCC countries. Since the wealthier GCC countries actively use their financial power to influence the behavior of other countries and buy diplomatic support, this

sensitivity of Turkey-GCC economic relations to diplomatic developments should not come as a surprise. In the sections that follow we will shed light on the details of how Turkey's bilateral economic relations with these six countries have evolved after the Qatar crisis.

1) Bilateral Trade

Ever since the mid-1980s Turkey has initiated liberal export-oriented economic reforms with an emphasis on developing a competitive export-oriented economy. Despite experiencing both political and economic instability, successive Turkish governments have supported the export sector with a competitive exchange rate and an active economic diplomacy. The focus on trade and investment relations and promotion of exports was the top priority of the AKP government's foreign policy in its first decade of governance (2002-2012). In order to achieve this objective, Turkey tried to resolve its security and diplomatic tensions with its Arab neighbors and among Arab countries. As a result, the GCC region was targeted at a top priority for the promotion of economic relations. During this period Turkey undertook four major initiatives for promotion of trade and investment relations with GCC countries (box 1).

Turkey's Institutional Platforms for Promotion of Trade and Investment with GCC Countries

1. Non-governmental Business Councils between Turkey's Foreign Economic Relations Board (DEİK) 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 Subcommittees in agriculture and food security, electricity and water, energy, environment, financial and monetary issues, health, investment, tourism, and trade.
Source: Al-Atiqi, S., Caliskan, E., Long, C., & Sadriu, B. (2015). Turkey-GCC Relations: Trends and Outlook. Oxford: Oxford Gulf & Arabian Peninsula Studies Forum

Box 1

As demonstrated in Chart 1, these initiatives led to a steady increase in the volume of trade between Turkey and GCC countries. In addition to these diplomatic efforts, the complementary nature of the export products of Turkey and GCC countries also contributed to the expansion of bilateral trade. Turkey imported crude oil and refined petroleum products from GCC countries and in return exported industrial and agricultural products to these countries.

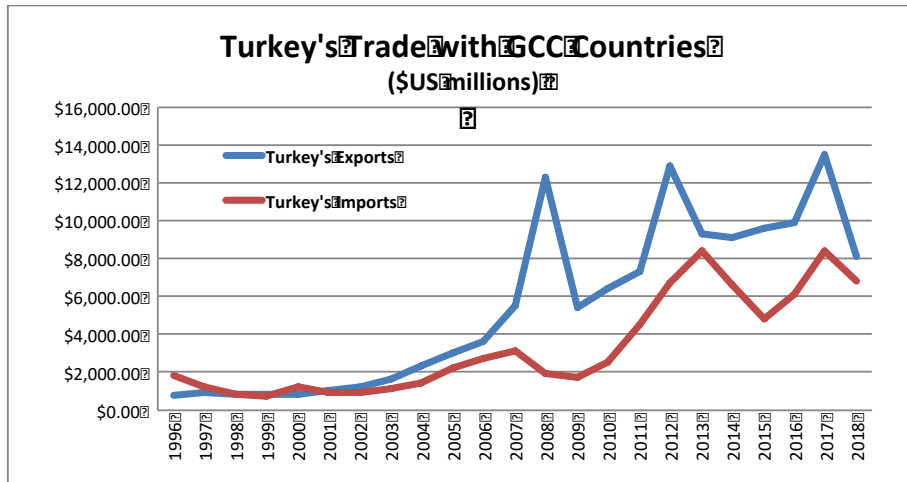


Chart 1.

The volatility of Turkish exports (chart 1) in most years is primarily driven by the volatility of GCC countries' oil revenues. The sharp decline in Turkish exports, after 2017, however, is the result of Turkey's diplomatic tensions with Saudi Arabia and the UAE. The reason is that the average price of crude oil in 2018 was larger than 2017 and yet we observe a decline in Turkey's exports to GCC in 2018. It is also worth noticing that in Chart 1 Turkey has consistently enjoyed a trade surplus with GCC countries since 2002. This surplus was near \$10 billion in 2008, partly thanks to the sharp drop in the price of oil. The sharp drop in Turkish exports narrowed the trade surplus down to under two billion dollars in 2018.

The aggregate trade data that is reported in Chart 1 masks the large differences in Turkey's trade with individual GCC countries. The volume of trade at the country level offers a better picture of how the Qatar crisis has affected Turkey's bilateral trade with each GCC country (Table 1).

Turkey's Exports to GCC Countries (US\$ millions)						
	Saudi Arabia	UAE	Qatar	Kuwait	Oman	Bahrain
2015	3473	4681	423	483	325	225
2016	3172	5407	439	431	244	193
2017	2735	9184	649	440	221	227
2018	2636	3138	1097	534	422	299
Turkey's Imports from GCC Countries (US\$ millions)						
	Saudi Arabia	UAE	Qatar	Kuwait	Oman	Bahrain
2015	2117	2009	361	141	60	104
2016	1835	3701	271	111	49	128
2017	2110	5547	264	169	95	187
2018	2318	3781	335	144	67	187

Table 1.

Turkey's trade with the UAE suffered the sharpest decline after 2017 with a 66% decline in exports and a 32% decline in imports. These declines are very significant

for Turkey because the UAE was its largest trade partner in 2017. Surprisingly, the impact on Turkey's trade with Saudi Arabia was much smaller. As shown in Table 1 the volume of Turkey's exports to Saudi Arabia were on a declining trend since 2015 and the percentage decline in 2018 (3.6%) was much smaller than 2017 (13.7%). What is even more surprising is that Turkey's imports from Saudi Arabia not only did not decline after the Qatar crisis, but rose by 10% to \$2.3 billion instead. These figures indicate that the Saudi officials did not take any significant steps to curtail Saudi-Turkey economic relations despite Turkey's active economic and military support for Qatar.

The Saudi-UAE block and the rest of GCC

When Saudi Arabia and the UAE launched their economic blockade against Qatar, Bahrain, which is heavily dependent on Saudi Arabia for its security, joined in (along with Egypt). Kuwait and Oman remained neutral and tried hard to mediate an end to the Qatar crisis. This neutrality was welcomed by Qatar, which increased [its reliance on Oman](#) for cargo transfer and commercial services. (Qatar used the Jebel Ali commercial port in Dubai for these services before the crisis). Both countries have also maintained good relations with Turkey. Kuwait had even expressed an interest in developing military cooperation with Turkey in a manner similar to the Turkey-Qatar military cooperation.

Along with these developments, the volume of Turkey's exports to both Oman and Kuwait rose sharply in 2018 but its imports from both countries suffered a decline. In light of the neutral positions of Oman and Kuwait in the Qatar crisis it is possible to define two blocks within GCC for analysis of Turkey-GCC relations. One block includes Saudi Arabia, UAE and Bahrain, and the other block includes Qatar, Kuwait and Oman. When we look at the aggregate volume of Turkey's trade with each of these blocks (Charts 2a and 2b), we observe a visible difference in how the Qatar crisis has affected each block's relations with Turkey.

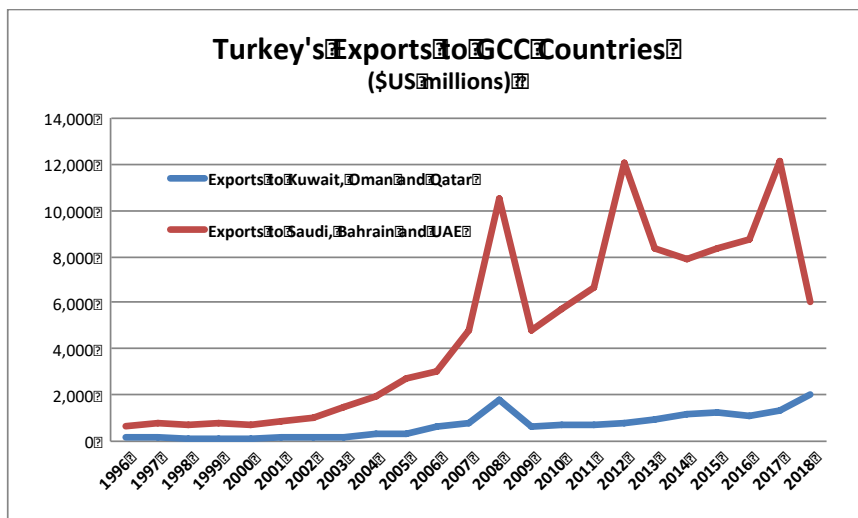


Chart 2a.

We observe that Turkey's exports to the Saudi block have been more volatile in the past decade: they declined sharply in 2018 while its exports to Qatar, Oman and Kuwait increased sharply. Yet at the same time the volume of exports to the Saudi block (\$6 billion) was three times larger than the other block. This data points to the resilience of Turkey's exports to the Saudi block despite diplomatic tensions, which is also the case with Turkey's imports from this block as shown in Chart 2b.

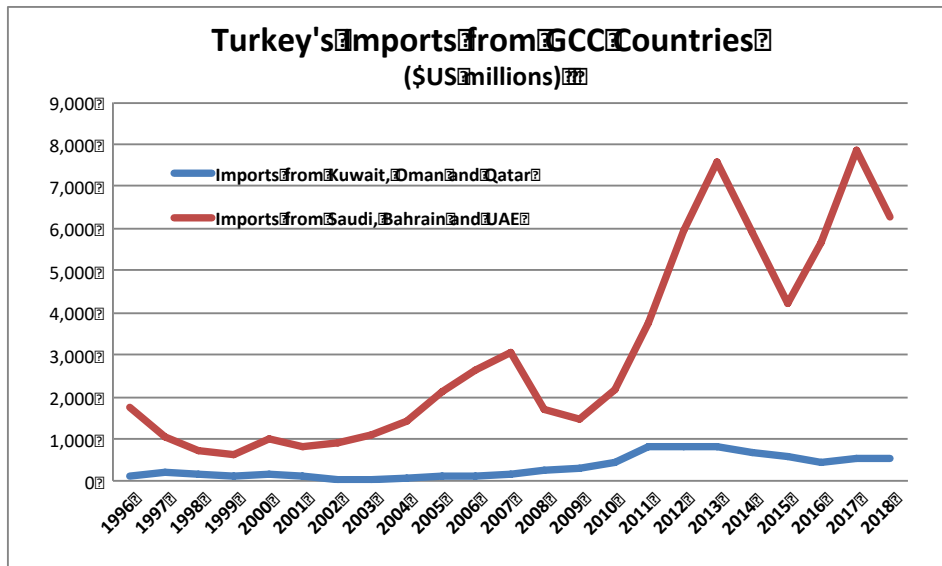


Chart 2b.

Turkey's fast and effective support for Qatar in response to the Saudi-UAE blockade has had a positive effect on its relations with Kuwait and, to a lesser degree, with Oman. Saudi Arabia's unexpected and harsh policy toward Qatar caused a concern in Kuwait and Oman about the risk of facing a similar treatment in any potential dispute with their larger neighbors. Similarly to Qatar, they rely on the United States for protection against external threats. However, the Qatar crisis has demonstrated that the U.S. will not necessarily support them in a dispute with other GCC members such as Saudi Arabia. President Trump initially sided with Saudi Arabia in the Qatar crisis and it was only after a few weeks that, under the influence of then Secretary of State Max Tillerson, the U.S. adopted a more neutral position.

It appears that Kuwait's al-Sabah ruling regime is also looking at Turkey as a potential military ally that can support its intra-GCC conflicts, in which the U.S. and other major powers are likely to remain neutral. Since Kuwait and Saudi Arabia have [competing claims to the oil resources](#) of the neutral zone that they jointly own, disagreement with that country is a concern for Kuwait. Both Kuwait and Oman are concerned about Mohammed bin Salman's radical foreign policy, which most experts blame for the Qatar crisis and the Yemen war. These concerns played an important role in Kuwait's decision to [sign a military cooperation agreement](#) with Turkey in October 2018.

2) Investment and Business Relations

In addition to a large volume of commodity trade, Turkey also has proactively tried to promote its bilateral investment and business relations with GCC countries since 2002. The GCC countries and Turkey both have offered attractive investment opportunities to each other in recent decades. Traditionally, the GCC countries have maintained open and hospitable business environments for the attraction of foreign capital. At the same time, the massive government investments in domestic infrastructure projects have created many profitable investment opportunities for international investors in all GCC countries.

Turkey has also adopted business friendly regulations and welcomed foreign investment in many economic sectors in recent decades. While the volume of foreign direct investment (FDI) inflow into Turkey between 1973 and 2002 was only \$15 billion, the country [received \\$193 billion](#) between 2003 and 2017. The GCC countries were among the top investors in Turkey in this interval and accounted for 9.4% of this amount. Thanks to their large oil revenues the GCC countries have emerged as major suppliers of financial capital and foreign direct investment (FDI) to the global economy and their investments in Turkey rose significantly after 2002 (Table 2).

GCC Countries' Foreign Direct Investment (Equity Capital) in Turkey (millions of US\$)									
	2000	2003	2007	2011	2014	2015	2016	2017	2018
Bahrain	4	185	1,073	556	1,110	960	996	1,287	628
United Arab Emirates	1	4	6,289	7,233	6,847	4,573	3,585	4,079	2,997
Qatar	0	2	0	59	778	715	4,941	5,522	6,262
Kuwait	99	179	708	814	1,800	1,162	1,047	1,236	1,053
Saudi Arabia	193	346	1,248	1,123	1,811	1,239	994	891	625
Oman	0	0	0	0	0	0	0	0	11
Total GCC	297	716	9,318	9,785	12,346	8,649	11,563	13,015	11,576
TOTAL WORLD	18,812	30,595	151,929	130,912	174,802	147,587	136,435	176,708	127,821
GCC/World(%)	1.6%	2.3%	6.1%	7.5%	7.1%	5.9%	8.5%	7.4%	9.1%
(SA-UAE)/World(%)	1.0%	1.1%	5.0%	6.4%	5.0%	3.9%	3.4%	2.8%	2.8%
(SA-UAE)/GCC(%)	65.3%	48.9%	80.9%	85.4%	70.1%	67.2%	39.6%	38.2%	31.3%

Source: Data: Central Bank of Turkey, Statistics Department, Balance of Payments Division, International Investment Positions (May 2019)

Table 2.

The value of GCC investments in Turkey for several years after 2000 are reported in Table 2 and reveal significant shifts in relative shares of various GCC countries. Qatar's FDI assets rose from negligible amounts in 2003 to \$700 million in 2015 but jumped sharply to near \$5 billion in 2016 (the year of the unsuccessful military coup against Erdogan). Unlike Qatar, the value of the equity assets of Saudi Arabia and the UAE declined in 2016. Furthermore, we notice that as a result of these shifts, the shares of Saudi and the UAE in total equity capital of GCC countries in Turkey fell from 67% in 2015 to 39.6% in 2016.

We can analyze the impact of the Qatar crisis on GCC equity investments in Turkey by comparing the 2017 and 2018 figures in Table 2. We see that the value of Qatar's assets rose in both 2017 and 2018 while the assets of UAE and Saudi investors fell by 26% and 29%, respectively, in 2018. A very sharp decline in investments of

Bahrain, which also participated in the blockade of Qatar, is also noticeable in Table 2. Looking at FDI asset values for Kuwait and Oman, who have remained neutral in the Qatar crisis and as a result maintained good relations with Turkey, we notice a 14% decline in the value of Kuwait's assets and a very small positive investment value for Oman.

Overall, our interpretation of the changes in the asset positions of GCC countries in Turkey after the Qatar crisis must take into account Turkey's 2018 economic crisis, which had a negative impact on global investment in that country. This crisis led to a sharp devaluation of the Turkish lira, which is partly responsible for the decline in value of foreign investments when measured in U.S. dollars. As a result of the 2018 crisis the value of total global equity investment in Turkey fell by 27%, from \$176.7 billion in 2017 to \$127.8 billion in 2018.

In light of this sizable decline, the 26% and 29% decline in value of Saudi and UAE assets in Turkey cannot be attributed to political tensions. If the Qatar crisis had any negative impact on these countries' investments in Turkey in 2018, we should have observed significantly larger declines in their asset values. The value of Qatar's assets in Turkey, on the other hand, have clearly enjoyed an increase in relative terms that stands out and can be attributed to positive political factors that were explained earlier. Furthermore, the fact that the assets of Kuwait declined by a far smaller percentage than the world average can also be interpreted as an improvement in Kuwait's equity investments in Turkey.

GCC Investment in Turkish Real Estate

Before May 2012, foreign nationals faced many restrictions for purchase of real estate in Turkey. These included a property ownership reciprocity rule¹, and a land size limit of 2.5 hectares. The changes to foreign investment laws that were approved in 2012 eliminated the reciprocity restrictions and raised the land size limit from 2.5 hectares to 60 hectares. These changes led to a surge in [Arab \(primarily GCC\) interest in both residential and commercial](#) real estate in Turkey.

More recently, in 2017 Turkey passed a law that allowed foreigners to qualify for citizenship if they invested at least \$1 million in real estate. The minimum investment threshold was lowered further to \$250,000 in September 2018. This reduction came only a month after Turkey's banking and currency crisis of August 2018, when Turkish government was desperately trying to attract foreign investment. These developments have also increased the GCC nationals' interest in Turkey's real estate market in recent years. Yet, at the same time, the diplomatic relations of each GCC country with Turkey have also affected their interest in Turkish real estate.

¹ If a country allowed Turkish citizens to buy property then its citizens were allowed to purchase real estate in Turkey.

Turkey: Purchases of Real Estate Units by Foreign Nationals					
	Housing Units Sale Numbers⁽¹⁾				
Country	2015	2016	2017	2018	2019*
Algeria					250
Egypt	318	348	587	725	411
Iran	744	664	792	3 652	1 787
Iraq	4 228	3 036	3 805	8 205	2 908
Jordan	243	345	483	1 362	670
Lebanon				456	274
Libya	427				374
Palestine			337	655	521
Yemen	231		390	851	664
Kuwait	2 130	1 744	1 691	2 199	757
Share of total (%)	9.3%	9.5%	7.5%	5.5%	4.3%
Qatar	277	256	305	764	332
Share of total (%)	1.2%	1.4%	1.4%	1.9%	1.9%
Saudi Arabia	2 704	1 886	3 345	2 718	992
Share of total (%)	11.8%	10.3%	14.9%	6.8%	5.7%
United Arab Emirates	332	192	401		
Share of total (%)	1.4%	1.0%	1.8%		
Total Sales to GCC Countries in top 20	5 443	4 078	5 742	5 681	2 081
Share of total (%)	23.7%	22%	25.6%	14.2%	11.9%
Total (All Countries)	22 991	18 391	22 428	40 044	17 452

Source: General Directorate of Land Registry and Cadastre (GDLRC)

(1) House sales numbers to foreigners by nationalities are higher than the total house sales to foreigners because different nationalities may buy the same houses. *2019 data covers January-May sales.

Table 3

As shown in Table 3 the share of GCC in total purchases of real estate units remained relatively strong in the 2015-2017 interval- with a pick of 25% in 2017. This was followed by a sharp decline in 2018, which was mainly caused by an increase in purchases by other countries while the number of units bought by GCC countries declined by only 1% to 5,681 units. Among GCC countries we observe a sizable decline in Saudi purchases from 3,345 units in 2017 to 2,718 in 2018 (down 19%.) Qatar's investments in contrast rose by 150% to 764 units in 2018. We also observe a 30% increase in purchases of Kuwaiti nationals during 2018, which further supports the argument that since oil revenues of Kuwait and Saudi Arabia and UAE are highly correlated, the diversion in their demand for Turkish real estate properties can only be explained by the political and diplomatic factors that have had an adverse effect on Saudi and UAE relations with Turkey.

The data for the first five months of 2019 (in the last column of table 3) shows that the Saudi share of total purchases declined further to 5.7% in this five month interval, in comparison to 6.8% in 2018. The purchases of UAE nationals were so small that it did not even make it to the list of top 20 countries in terms of volume of real estate purchases in Turkey, in 2018 and 2019.

In May 2019 the Saudi government officials (in Riyadh Chamber of Commerce and Industry) issued a warning to Saudi citizens against investment in Turkey. They claimed [to have received many complaints](#) from Saudi investors about fraud and extortion by Turkish officials with regard to real estate purchase transactions. They also indicated that some Saudi nationals who had purchased property in Turkey

were denied access to their property. In July 2019 Saudi media also [launched a campaign to discourage](#) Saudi tourists from visiting Turkey. They cited multiple [warnings](#) by the Saudi embassy in Ankara about [increasing crime and theft risks](#) for Saudi tourists. Since a major motivation for home purchases in Turkey by Saudi nationals is to use them as summer vacation homes, these travel warnings will also have an adverse effect on Saudi demand for Turkish real estate.

3) Tourism

Turkey has traditionally been a popular tourist destination for GCC citizens because of its natural beauty, proximity, visa waiver (visa issued in the arrival airport), and shared cultural values. It is also a popular shopping destination for high-income GCC tourists. The tourist arrival data in Table 4 also reveals that despite increased tensions between Turkey and two largest GCC countries (Saudi Arabia and the UAE) after the Arab Spring, the share of GCC in total number of tourists coming to Turkey has increased significantly from under 1% in 2011 to above 3% during 2016-2018.

The depreciation of Turkish currency in recent years has also made it more affordable as a shopping and tourist destination. While Turkey suffered from domestic political uncertainty and higher frequency of political violence in 2015-2016, these developments did not deter the GCC tourists to the same extent as the Western and Asian travelers (Table 4). The total number of tourist arrivals into Turkey suffered a sharp decline in 2016 (the year of the failed military coup against Erdogan) but the number of GCC tourists rose by 9.5%. It is also clear that the 2017 Qatar crisis and the 2018 Khashoggi murder have not had a negative impact on GCC tourism demand for Turkey and the total GCC arrivals have increased by 30% and 20% in 2017 and 2018, respectively. Surprisingly, we observe this positive trend not only for Qatar, Kuwait and Oman, but also for Bahrain and Saudi Arabia. Only the relatively small number of UAE visitor arrivals registered a decline in 2018.

GCC Citizens Arriving in Turkey (2003 - 2018)								
NATIONALITY	2003	2007	2011	2014	2015	2016	2017	2018
Bahrain	1133	1829	1712	2405	2276	1505	1442	775
Kuwait	210	2589	1617	33128	74486	7938	55644	98620
Oman	1298	899	1998	4283	8787	3891	5234	3230
Qatar	1210	783	661	9743	5332	2681	8764	6327
Saudi Arabia	23676	1490	16711	41786	50674	30410	51170	747233
United Arab Emirates	6717	13005	5579	3736	1600	8315	9360	43292
GCC Total	5244	77095	217278	96981	763855	36740	1089614	1315777
World Total	14029558	23340911	31456076	36837900	36244632	25352213	32410034	39488401
Share of Saudi Arabia and UAE in GCC (%)	67%	71%	70%	66%	66%	68%	64%	60%
Share of GCC in World Total (%)	0.32%	0.33%	0.69%	1.62%	2.11%	3.30%	3.36%	3.33%
Source of Data: Border Statistics 2018 https://www.ktb.gov.tr/EN-153018/number-of-arriving-departing-visitors-foreigners-and-ci-.html								

Table 4

The most recent data for tourist arrivals in Turkey during the first half of 2019 offers further insight into GCC nationals' demand for Turkish tourism² (Table 5). In this table we can compare the number of GCC tourists during the first half of 2017, 2018 and 2019. We observe that while the number of tourists from Qatar, Kuwait and Bahrain continued their uptrend in first half of 2019, the number of Saudi and UAE visitors to Turkey declined by 15% and 7.9%, respectively, in comparison to the first half of 2018.

Turkey: Arriving Visitors from GCC Countries - (2017-2019) (JANUARY - JUNE)								
	YEARS			NATIONALITY RATIO (%)			RATE OF CHANGE %	
NATIONALITY	2017	2018	2019*	2017	2018	2019*	2018/2017	2019/2018
Bahrain	23 980	32 223	40 990	0.20	0.20	0.23	34.37	27.21
Kuwait	94 667	116 911	144 257	0.77	0.73	0.80	23.50	23.39
Qatar	17 656	36 058	40 545	0.14	0.23	0.22	104.23	12.44
Saudi Arabia	205 790	276 544	234 992	1.68	1.73	1.30	34.38	-15.03
United Arab Emirates	18 518	17 296	15 925	0.15	0.11	0.09	-6.60	-7.93
GCC Total (Excluding Oman)	360 611	479 032	476 709	2.94	3.	2.64	33%	-0.5%
World Total	12 249 449	15 968 001	18 076 506	100.00	100.00	100.00	30.36	13.20
Source of Data: Number of arriving and departing citizens June 2019 https://www.ktb.gov.tr/EN-153018/number-of-arriving-departing-visitors-foreigners-and-ci-.html . The figure for each year shows the number of arrivals in the first 6 months of that year.								

Table 5

As mentioned earlier, the Saudi government has tried to discourage tourist visits to Turkey in recent months as the bilateral tensions have continued. Instead of imposing outright bans on travel to Turkey, it has issued warnings about various [types of safety and financial risks](#). The Saudi media (such as Al-Arabiya and the Saudi Gazette,) has also echoed the government concerns on these countries. These official warnings follow a media and social media campaign for consumer boycott of Turkey, which [began in December 2018](#). In the meantime, the UAE government has not issued similar warnings about travel to Turkey, despite the fact that the UAE foreign minister has continued [his criticism](#) of Turkey's Middle East Policy.

Final Words

In recent years Saudi Arabia and the UAE have emerged as two of Turkey's top economic partners in the Middle East. Her economic relations with these two countries, however, have not been immune to the occasional diplomatic tensions, which have intensified since the 2010 Arab Spring uprisings. These tensions reached a new height after Turkey actively supported Qatar in its 2017 crisis with Saudi Arabia and the UAE. In this article I have looked at how the 2017 Qatar crisis and the 2017 Khashoggi crisis have impacted Turkey's economic relations with all six GCC countries, particularly the two sides of the Qatar blockade crisis. For this investigation I have focused on bilateral trade, GCC countries investments in Turkey and GCC tourist visits to Turkey.

The most recent available data show that there was a sharp decline in Turkey's exports and imports from the UAE in 2018 but only a moderate decline in the value of Turkey's exports to Saudi Arabia. Furthermore, contrary to expectations there

² These data exclude the large expatriate community in the UAE, which are registered under their nationality.

was even an increase in the value of Turkey's imports from Saudi Arabia in 2018 despite all the bilateral tensions. There was no surprise in volume of Turkey's bilateral trade with Qatar, which rose sharply in 2018. Turkey's exports to Kuwait and Oman, which remained neutral in the Qatar crisis, also increased in 2018 along with improved diplomatic relations.

The GCC countries have traditionally been among the top foreign investors in Turkey. The official data on foreign direct investment and real estate investment show a sharp decline in value GCC direct investments in Turkey during 2018, which was mostly a result of the devaluation of lira and Turkey's 2018 economic crisis. The value of Saudi and UAE assets (in US\$) declined by 25% but this was no different than the fall in the value of total world investment in Turkey (which also declined by 25% in 2018). Qatar's direct investments in Turkey defied this decline and rose by 13% last year. We observe a sharp decline in the combined share of Saudi Arabia and the UAE in total investments of GCC countries in Turkey.

We also observe a significant diversion in Saudi Arabia and Qatar's investments in Turkey's real estate market in 2018 and 2019. While the Saudi purchases registered a sharp decline, Qataris bought more properties in Turkey. As a result of the ongoing tensions the Saudi government has recently discouraged its citizens from investing in Turkey. Finally in the area of tourism, we did not observe any decline in the number of Saudi tourists (which account for more than half of total GCC tourists annually) that visited Turkey in 2017 and 2018 but the latest data shows a 15% decline in the first half of 2019 (in comparison to the first half of 2018). In contrast, the number of tourists from Qatar, Kuwait and Bahrain increased noticeably during the same interval.

Our data analysis suggests that in 2017 and 2018 the expansion of Turkey-Qatar economic relations was larger than the decline in Turkey's economic relations with Saudi Arabia and the UAE. This can be partly explained by the strong role of private investors and consumers in Saudi and UAE economic relations and these private entities are reluctant to cut back their ties with Turkey despite diplomatic tensions. As the tensions continued in the first half of 2019, however, Saudi and UAE governments tried to discourage their citizens from investment and travel to Turkey and this official campaign might lead to a further decline in investment and tourism. At the same time any improvement in diplomatic relations of Turkey with these two countries can lead to a sizable growth in bilateral economic relations in all fronts.