



Brandeis University

Crown Center
for Middle East Studies

Mailstop 010
Waltham, Massachusetts
02454-9110

781-736-5320
781-736-5324 Fax
www.brandeis.edu/crown

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Middle East Brief

Turkey's Economic Relations with Gulf States in the Shadow of the 2017 Qatar Crisis

Nader Habibi

On May 29, 2019, officials from 57 predominantly Muslim countries gathered in Mecca for the 14th Summit of the Organization of Islamic Cooperation (OIC). During this summit, the chairmanship of the OIC officially passed from Turkey to Saudi Arabia. Under normal circumstances, President Recep Tayyip Erdoğan of Turkey would not have missed this important occasion, but in light of recent diplomatic tensions, he decided to skip it. Instead, he sent Turkey's foreign minister, Mevlüt Çavuşoğlu, to take part in the handover of the OIC chairmanship.

Under Erdoğan's leadership, Turkey had given a high priority to expanding its diplomatic and economic relations with Arab states, particularly the oil-rich monarchies of the Gulf. Saudi Arabia and the United Arab Emirates (UAE) emerged as two of Turkey's most important economic partners, and Turkey benefited from high levels of trade, tourism, and investment with them.

The diplomatic relations of these countries with Turkey, however, have been a volatile mix of ideological and geopolitical competition, on the one hand, and occasional strategic cooperation, on the other. Turkey's relations with Saudi Arabia and the UAE began to deteriorate rapidly in May 2017, when Turkey came to Qatar's aid after those two states led an economic blockade of Qatar. Relations worsened further in October 2018, when the Turkish government released an audio recording that implicated high-ranking Saudi officials in the murder of journalist Jamal Khashoggi in the Saudi consulate in Istanbul. A number of journalists and analysts expressed concern that these policies

Nader Habibi is the Henry J. Leir Professor of the Economics of the Middle East at the Crown Center.

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would put Turkey's economic relations with Saudi Arabia and the UAE at risk and thereby significantly harm the Turkish economy.¹

The Brief assesses the economic implications for Turkey of both its diplomatic alignment with Qatar and the Khashoggi crisis by examining changes involving four important economic ties with Saudi Arabia, the UAE, and Qatar: bilateral trade, foreign investment, purchases of Turkish real estate, and tourism. Each of these ties is vulnerable both to state action and to crisis-induced uncertainty.

Although Turkey's economic ties with Saudi Arabia have suffered a setback, the magnitude of this decline has not been as severe as initially anticipated. Despite considerable diplomatic tensions, Turkish-Saudi economic links have proven to be resilient. Trade and investment relations between Turkey and the UAE have suffered a larger rupture—though these losses have been partly offset for Turkey by an increase in exports to and investment from Qatar. The analysis shows how policymakers in all of these countries use their economic relations to reward or punish trade partners for diplomatic reasons.

Turkey's Changing Diplomatic Relations

Turkey's reaction to the 2011 Arab Spring uprisings and its support for factions affiliated with the Muslim Brotherhood (MB) led to tensions with Saudi Arabia and the UAE, both of whom regard MB movements in their own countries, as well as in the wider Arab world, as threats to their rule and to regional stability. Turkey's stance also produced a strengthening of its military and strategic relations with Qatar, which shares Turkey's positive attitude toward the MB. Despite these tensions, Turkish-Saudi and Turkish-Emirati relations did not deteriorate significantly until the July 2013 military coup against Egyptian President Mohammed Morsi, who was affiliated with the Muslim Brotherhood movement. Turkey opposed the military coup against Morsi, while Saudi Arabia and the UAE supported it. Turkish-Saudi relations had not declined further until that point in part because of Saudi Arabia's strategic calculation that cooperating with Turkey and Qatar against Syrian President Bashar al-Assad, an ally of Iran, was more important than punishing them for their support of the Muslim Brotherhood in the intervening years (2011-2013).

When the Arab Spring uprisings spread to Syria in 2011, Turkey, Saudi Arabia, and Qatar pressured the rebel groups that they supported to coordinate their war efforts. This shared desire to defeat Assad allowed the three countries to manage tensions between them—and 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 active support of Saudi military units.

The Egyptian military coup against Morsi in July, however, caused a significant rift between Saudi Arabia and the UAE on one side, and Turkey and Qatar (which also strongly supported Morsi) on the other. Saudi Arabia's tensions with Turkey and Qatar escalated in the months that followed, as Turkey welcomed many Egyptian MB leaders who 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 the Muslim Brotherhood a terrorist organization and recalled its ambassador from Qatar. It did not curtail diplomatic relations with Turkey in the same manner, but a number of high-level diplomatic

meetings were cancelled. Saudi-Turkey tensions also led to the cancellation of the fifth Strategic Dialogue between Turkey and the Gulf Cooperation Council (GCC). This was a major setback for President Erdoğan, who had invested heavily in promoting these Dialogues since 2008.

However, the rapid territorial gains of the Islamic State in Iraq and Syria (ISIS) in 2014, along with the significant weakening of the MB threat in Egypt, motivated Saudi Arabia to reduce its hostility toward Turkey and Qatar in the hope of facilitating greater cooperation with them against both ISIS and the Assad regime. Turkish-Saudi relations thereupon improved visibly in 2015–2016 as President Erdoğan and King Salman met several times in both capitals: Erdoğan visited Saudi Arabia in March 2015 and December 2015, and King Salman visited Turkey in November 2015 and April 2016.

Turkey's relations with the UAE since the Arab Spring uprisings have followed a similar path, owing to the similarity of Emirati and Saudi views on the Muslim Brotherhood and their shared concern over Turkey's interventions in the Arab world. In the aftermath of better relations between Turkey and Saudi Arabia, diplomatic relations between Turkey and the UAE also improved in 2016, after Turkey's foreign minister visited the UAE in April.

The current episode in Turkey's tensions with 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—and this intervention played a crucial role in helping Qatar resist the demands of the Saudi- and Emirati-led coalition. By comparison with earlier Turkish policies that Saudi Arabia and the UAE disagreed with, Turkey's support for Qatar was an offense of a much larger magnitude and was seen as far more damaging to their interests.

Saudi Arabia and the UAE reacted to Turkey's intervention by initiating contacts with the People's Protection Units (YPG), the Kurdish paramilitary groups in Northern Syria that Turkey viewed as terrorists and a partner of the Kurdistan Workers' Party (PKK), which is also regarded by Turkey as a terrorist organization.² In response to Turkey's military operations against the YPG in northern Syria, the UAE foreign minister went so far as to openly call for the protection of the YPG and of Kurdish territory in that region against Turkey. He also opposed Turkey's plan to create a safe zone in some Syrian areas near the Turkish border.

Turkish-Saudi relations further deteriorated after the murder of Saudi journalist Jamal Khashoggi inside the Saudi consulate in Istanbul in October 2018. Turkish intelligence collected audio recordings of conversations between Saudi intelligence officials inside the consulate and some high-ranking officials in Riyadh, which provided strong evidence that this operation was approved by a high-ranking Saudi official. Before these damaging audio recordings were released by the Turkish government, small pieces of information about the murder contradicting the Saudi government's initial denials of involvement were leaked by pro-government Turkish newspapers. Apparently, Saudi leaders had initiated contacts with Erdoğan in hopes of stopping these leaks, but to no avail.³

Changes in Economic Relations

The large shifts in Turkey's diplomatic relations since the crisis involving Saudi Arabia, the UAE, and Qatar have impacted its bilateral economic relations with each of them. This section assesses this impact with respect to four economic indicators: bilateral trade, foreign investment, purchases of Turkish real estate, and tourism. The sensitivity of economic relations to diplomatic relations in these oil-rich countries, in which governments control massive economic resources and have traditionally used these resources as tools of diplomatic influence, does not come as a surprise.⁴ Accordingly, one would expect a decline in Turkey's economic relations with Saudi Arabia and the UAE and a strengthening of relations with Qatar since the crisis.

Bilateral Trade

Since the mid-1980s, Turkey has initiated liberal export-oriented economic reforms with the goal of developing a competitive, export-oriented economy—and the promotion of trade, investment, and exports was the top priority of the AKP government's foreign policy in its first decade of governance (2002–2012). Turkey has also sought to resolve its security and diplomatic tensions with its Arab neighbors and has given a high priority to GCC countries among Arab countries. The GCC region was therefore targeted as a top priority for the promotion of economic relations, and among GCC countries, Saudi Arabia and the UAE were viewed as the most important because of the much larger size of their economies by comparison with others'.

The volume of Turkey's trade with Qatar, Saudi Arabia, and the UAE from 2002 to 2018 is reported in Table 1. The export and import figures show both a sharp

increase in Turkey's trade relations after 2002 and the impact of the Qatar crisis on Turkey's bilateral trade with each of these three countries. As expected, one observes an increase in Turkey's exports to Qatar in 2017 and 2018, particularly in 2018. Immediately after the economic blockade was announced, Turkey stepped forward to provide Qatar with replacements for many commodities, particularly agricultural goods such as dairy products and poultry, that Qatar previously imported from Saudi Arabia and the UAE.

Table 1

Turkey's Exports to Saudi Arabia, United Arab Emirates, and Qatar (US\$ in millions)						
	2002	2010	2015	2016	2017	2018
Qatar	15	163	423	439	649	1,097
Saudi Arabia	547	2,218	3,473	3,172	2,735	2,636
United Arab Emirates	452	3,333	4,681	5,407	9,184	3,138
Turkey's Imports from Saudi Arabia, United Arab Emirates, and Qatar (US\$ in millions)						
	2002	2010	2015	2016	2017	2018
Qatar	11	177	361	271	264	335
Saudi Arabia	788	1,381	2,117	1,835	2,110	2,318
United Arab Emirates	100	698	2,009	3,701	5,547	3,781
Source of data: The United Nations Comtrade database.						

Turkey's trade with the UAE suffered a sharp decline after 2017: a 66% decline in exports and a 32% decline in imports. These declines were 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 was on a declining trend since 2015, and the percentage decline in 2018 (3.6%) was much smaller than in 2017 (13.8%). What is even more surprising is that Turkey's imports from Saudi Arabia not only did not decline after the Qatar crisis but instead rose by 9.9%, to \$2.3 billion, in 2018. These figures suggest an unexpected resiliency in bilateral trade between these two countries despite escalating tensions in 2018. The sharp difference in how diplomatic tensions affected Turkey's trade with Saudi Arabia vis-a-vis that with the UAE is also puzzling.

Foreign Investment and Business Relations

In addition to enjoying a large volume of trade in goods and services with Saudi Arabia and the UAE, Turkey has also proactively tried to promote its bilateral investment and business relations with both countries since 2002. These countries and Turkey have offered attractive investment opportunities to each other in recent decades. The UAE traditionally and Saudi Arabia more recently have maintained open and hospitable business environments for the attraction of foreign capital. At the same time, the real estate boom, along with massive government investment in domestic infrastructure projects, created many profitable investment opportunities for international investors in both countries.

Turkey also adopted business-friendly regulations and welcomed foreign investment with respect to many economic sectors in recent decades. Whereas the volume of foreign direct investment (FDI) inflow into Turkey between 1973 and 2002 was only \$15 billion, the country received \$193 billion in FDI between 2003 and 2017.⁵ The GCC countries were among the top investors in Turkey in this period and accounted for 9.4% of this amount. Owing to their large oil revenues and well-developed financial institutions, Saudi Arabia and the UAE—along with other GCC countries—have emerged as major suppliers of financial capital and foreign direct investment to the global economy, and these countries' investments in Turkey rose significantly after 2002.

The impact of the Qatar crisis on FDI investments in Turkey by Qatar, Saudi Arabia, and the UAE can be analyzed by comparing the 2017 and 2018 figures in Table 2. The value of Qatar's assets rose in both 2017 and 2018, while the assets of Saudi and UAE investors fell by 30% and 27%, respectively, in 2018.

Table 2

Foreign Direct Investment (Equity Capital) in Turkey (US\$ in millions)									
	2000	2003	2007	2011	2014	2015	2016	2017	2018
Qatar	0	2	0	59	778	715	4,941	5,522	6,262
Annual change (percent)						-8%	591%	12%	13%
Saudi Arabia	193	346	1,248	1,123	1,811	1,239	994	891	625
Annual change (percent)						-32%	-20%	-10%	-30%
United Arab Emirates	1	4	6,289	7,233	6,847	4,573	3,585	4,079	2,997
Annual change (percent)						-33%	-22%	14%	-27%
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
Annual change (percent)						-15.6%	-7.6%	29.5%	-27.7%
(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 of data: Central Bank of Turkey, Statistics Department, Balance of Payments Division, International Investment Positions (May 2019).

The interpretation of changes in the asset positions of Saudi Arabia and the UAE in Turkey after the Qatar crisis, however, must take into account Turkey's 2018 economic crisis, which had a negative impact on global investment in the country. International concerns about Turkey's foreign debt, along with rising tensions between the U.S. and Turkey, led to a financial panic in August of that year, which caused a sharp devaluation of the Turkish lira. This sudden devaluation is partly responsible for the decline in the 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 28%, from \$176.7 billion in 2017 to \$127.8 billion in 2018.

In light of this sizable decline, the 30% and 27% declines in the value of Saudi and UAE assets in Turkey are only modestly larger than the decline in what the entire world invested in the country and hence cannot be attributed to those countries' diplomatic tensions vis-à-vis Turkey. If the Qatar crisis had any significant negative impact on these countries' investments in Turkey in 2018, one would have observed larger declines in their asset values by comparison with the global average.

The value of Qatar's FDI investments in Turkey, on the other hand, has seen a conspicuous increase in relative terms that can be attributed to the positive political factors explained earlier. As shown in Table 2, the value of Qatar's FDI in Turkey jumped in 2016 as Qatar stepped forward to support the Turkish economy after the failed military coup in June 2016. It increased further in 2017 and reached \$6.3 billion in 2018, thereby offsetting a portion of the decline in Saudi and Emirati investments. Overall, the resilience in Saudi Arabia's trade relations with Turkey is also observed in the foreign direct investment of both Saudi Arabia and the UAE in Turkey.

Investment in Turkish Real Estate

Before May 2012, foreign nationals faced many restrictions on purchasing real estate in Turkey. These included a property ownership reciprocity rule,⁶ as well as a land size limit of 2.5 hectares (6.2 acres). Changes to Turkey's foreign investment laws approved in 2012 eliminated the reciprocity restrictions and raised the land size limit from 2.5 to 60 hectares (148 acres). These changes led to a surge in Arab (primarily GCC) interest in both residential and commercial real estate in Turkey.⁷

More recently, in 2017, Turkey passed a law that allowed foreigners to qualify for citizenship if they invested at least US\$1 million in Turkish real estate; that minimum investment threshold was lowered to US\$250,000 in September 2018. This reduction came a month after Turkey's banking and currency crisis of August 2018, when the Turkish government was desperately trying to attract foreign investment. In addition, a foreigner who was not interested in full citizenship rights was allowed to obtain Turkish residency with the purchase of a real estate property of smaller value.⁸ These developments have also increased the interest of all GCC nationals, particularly Saudis, in Turkey's real estate market.

Table 3 shows a large decline in Saudi real estate purchases in Turkey from 2017 (3,345 units) to 2018 (2,718 units), a decrease of 19%. In contrast, we observe a 30% *increase* in purchases by Kuwaiti nationals over that same period. These data further support the argument that since the oil revenues of Kuwait and Saudi Arabia are highly correlated, the divergence in their demand for Turkish real estate properties is largely explained by political and diplomatic factors

that have had an adverse effect on Saudi relations with Turkey.⁹ As expected, Qatar's real estate purchases rose by 150% to 764 units in 2018. At the same time, it is worth noting that neither the Turkish government nor the Saudi or UAE governments made significant efforts to prevent these real estate investments.

Table 3

Purchases of Real Estate Units by Foreign Nationals in Turkey (2015-2019)					
	Housing Units Sale Numbers ⁽¹⁾				
Country⁽²⁾	2015	2016	2017	2018	2019*
Egypt	318	348	587	725	780
Iran	744	664	792	3,652	4,160
Iraq	4,228	3,036	3,805	8,205	6,124
Jordan	243	345	483	1,362	1,284
Lebanon				456	543
Libya	427				848
Palestine			337	655	
Yemen	231		390	851	1,214
Kuwait	2,130	1,744	1,691	2,199	1,621
Share of total (%)	9.3%	9.5%	7.5%	5.5%	4.4%
Qatar	277	256	305	764	591
Share of total (%)	1.2%	1.4%	1.4%	1.9%	1.6%
Saudi Arabia	2,704	1,886	3,345	2,718	1,840
Share of total (%)	11.8%	10.3%	14.9%	6.8%	5.0%
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	4,052
Share of total (%)	23.7%	22.2%	25.6%	14.2%	11.1%
Total (All Countries)	22,991	18,391	22,428	40,044	36,579
Source of data: 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.					
(2) Only the Middle Eastern countries whose quantity of purchased units were among the top twenty countries are reported for each year.					
*2019 data show purchases during the January-October period only.					

The data for the first ten months of 2019 (in the last column of Table 3) show that the Saudi share of total purchases by foreign entities declined to 5.0% in this ten-month interval, from 6.8% in 2018.¹⁰ At the same time, Saudi purchases of 1,840 units in this period suggests that the demand for Turkish real estate has shown some resilience despite a negative campaign by the Saudi government. In May 2019, Saudi government officials in the 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 respect to real estate transactions.¹¹ 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.¹² They cited multiple warnings by the Saudi embassy in Ankara about increasing risks of crime and theft for Saudi tourists.¹³ Since a major motivation for home purchases in Turkey by Saudi nationals is to use them as summer vacation homes, these travel warnings could also have had an adverse effect on Saudi demand for Turkish real estate. These hostile steps by the Saudi government might therefore be early signs of a new strategy on the part of the Saudi government to proactively discourage its citizens as well as private sector investors from investment in and trade with Turkey.

Tourism

Turkey traditionally has been a popular tourist destination for GCC citizens because of its natural beauty, its geographic proximity, its de facto visa waiver policy (visas are issued at the airport upon arrival), and the cultural values it shares with other Muslim countries. It is also a popular shopping destination for high-income GCC tourists—and the depreciation of the Turkish currency in recent years has made it more affordable for international tourists.

The tourist arrival data in Table 4 reveals that, despite tensions between Turkey and Saudi Arabia since the Arab Spring uprisings, the number of Saudi tourist arrivals has steadily increased since 2011. This positive trend continued in 2017, despite escalating Turkish-Saudi tensions, and likewise in 2018, when more than 747,000 Saudis visited Turkey. The number of UAE nationals that visit Turkey has traditionally been small, but their arrival numbers in 2017 reflect a moderate increase, followed by a modest decrease in 2018; the number of Emirati visitors in both years was larger than in 2016.

Table 4

GCC Citizens Arriving in Turkey (2003 - 2018)								
Nationality	2003	2007	2011	2014	2015	2016	2017	2018
Bahrain	4,133	5,829	9,712	24,305	32,476	41,505	59,442	77,075
Kuwait	8,210	12,589	41,617	133,128	174,486	179,938	255,644	298,620
Oman	1,298	399	5,998	14,283	18,787	13,891	25,234	53,230
Qatar	1,210	3,783	7,661	29,743	35,832	32,681	48,764	96,327
Saudi Arabia	23,676	41,490	116,711	341,786	450,674	530,410	651,170	747,233
United Arab Emirates	6,717	13,005	35,579	53,736	51,600	38,315	49,360	43,292
GCC Total	45,244	77,095	217,278	596,981	763,855	836,740	1,089,614	1,315,777
World Total	14,029,558	23,340,911	31,456,076	36,837,900	36,244,632	25,352,213	32,410,034	39,488,401
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. Link: <https://www.ktb.gov.tr/EN-153018/number-of-arriving-departing-visitors-foreigners-and-ci.html>

The most recent data for tourist arrivals in Turkey during the first half of 2019 offer further insight into Saudi and Emirati demand for travel to Turkey (Table 5).¹⁴ The number of tourist arrivals from both countries in the first half of 2019 is smaller than in the first half of 2018 but does not reflect a sharp decline: only 15% for Saudi Arabia and 8% for the UAE. Moreover, the number of Saudi tourists in the first half of 2019 is still larger than in the first half of 2017, before the Qatar crisis. But, Table 5 reveals that, in contrast to Saudi Arabia and the UAE, the numbers of tourist arrivals from Bahrain, Kuwait, and Qatar show significant increases during the first half of 2019.

Table 5

Turkey: Arriving Visitors from GCC Countries (2017-2019) (January - June)								
Nationality	Years			Nationality Ratio (%)			Rate of Change (%)	
	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%	3.00%	2.64%	33.00%	-0.50%
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. Link: <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 six months of that year.

As mentioned earlier, the Saudi government has tried to discourage tourism to Turkey in recent months as bilateral tensions continue. Instead of imposing outright bans on travel to Turkey, it issued warnings about various types of safety and financial risks.¹⁵ The Saudi media, including *Al-Arabiya* and *Saudi Gazette*, have echoed the government's concerns about Turkey, and the official warnings followed a media and social media campaign that began in December 2018 for a consumer boycott of that country.¹⁶ In the meantime, the UAE government has not issued similar warnings about travel to Turkey, despite the fact that the UAE's foreign minister has continued his criticism of Turkey's Middle East policy.¹⁷

A Net Assessment of the Economic Costs of the Qatar Crisis to Turkey

Analysis of the four economic indicators above reveals some visible differences in the impact of the Qatar crisis on Turkey's economic relations with Saudi Arabia and the UAE. With respect to bilateral trade in goods and commodities,

Turkish-UAE trade suffered a much larger setback in 2018 by comparison with Turkish-Saudi trade, despite the fact that Turkey had more diplomatic tensions with Saudi Arabia.

Similarly, the number of Saudi tourist visits to Turkey has been more resilient compared with Emirati tourist visits. The depreciation of the Turkish lira in 2018 made that country so attractive to Saudis that, despite all the tensions between the two governments, the number of Saudi tourists increased by 15% from 2017 while tourist arrivals from the UAE fell by 12%. In the first six months of 2019, however, the number of tourist arrivals from both countries declined relative to the first half of 2018. In the area of foreign direct investment, flows to Turkey from both Saudi Arabia and the UAE declined by comparable percentages from 2017, which closely followed the percentage decline in overall world investment in the country. This suggests that there was no additional decline in investments by either country attributable to the Qatar or Khashoggi crises.

Overall, when Turkey's economic losses in relations with Saudi Arabia and the UAE are compared with the economic gains in its relations with Qatar, it is clear that the increase in Turkey's economic engagement with Qatar has been able to offset a portion of its losses vis-à-vis Saudi Arabia and the UAE. Given the small size of Qatar's economy by comparison with the economies of Saudi Arabia and the UAE, it would have been unrealistic to expect a complete offset in any case. But the unexpected resilience of Turkish-Saudi economic relations has further reduced the economic cost of Turkey's multiple diplomatic tensions with Saudi Arabia since 2017.

Sources of Resiliency in Turkish-Saudi Economic Relations

The analysis of Turkey's economic relations with Saudi Arabia and the UAE in this Brief has shown that the unprecedented diplomatic tensions since the 2017 Qatar crisis have not caused a substantial disruption in its bilateral trade and investment relations with them. Turkey's economic relations with Saudi Arabia have proven more resilient than its relations with the UAE, despite the added tensions in Turkish-Saudi relations after the Khashoggi assassination.

This greater resilience of Turkey's economic ties with Saudi Arabia vis-à-vis those with the UAE since the 2017 Qatar crisis can be attributed to two factors. First, Turkish-Saudi trade is diverse, and a significant portion of Saudi trade with and investments in Turkey is driven by the private sector, which is less influenced by diplomatic concerns. Many private Saudi businesses continue their investments in Turkey in 2019. In April, the Saudi-based SAK Consultants announced a \$100 million investment project in Turkey, and its chairman, Solaiman El Khreiji, defended this decision by arguing that politics should not affect economic ties: "They should differentiate. In politics, sometimes you have differences."¹⁸

Second, during both the Qatar crisis and the Khashoggi crisis, neither the Saudi nor Turkish governments took any measures to restrict economic relations or end diplomatic relations. Indeed, there were some indications that Erdoğan was trying to minimize the damage to economic ties in both instances. During the Khashoggi murder investigation, for example, he repeatedly expressed confidence that King Salman had no role in the assassination or its cover-up; instead, he invited the Saudi king to identify and punish the responsible government officials.¹⁹

Future Prospects

As tensions continued in the first half of 2019, the Saudi and UAE governments intensified their efforts to discourage their citizens from investment in and travel to Turkey. Although the data suggest that these negative campaigns have not been successful so far, they might have an adverse effect on economic ties in the future.

The most recent developments in these countries' relations with Turkey do not offer any signs of de-escalation in the near future. Both Saudi Arabia and the UAE strongly condemned Turkey's military operation in northern Syria, which began in October 2019. During an Arab League Summit that was convened soon after this operation, the UAE's minister of state for foreign affairs, Anwar Ghargash, argued that "Turkey's naked military aggression on northeast Syria represents a threat to the sovereignty of all Arab states."²⁰

At the same time, the pragmatism and flexibility of President Erdoğan should not be underestimated. He has shown, time and again, a strong capacity to change his policies when expedient—as when Turkey was able to improve its ties with Russia after they were severely damaged in November 2015, when Turkey shot down a Russian fighter jet in Syria.²¹ Another test will come in connection with Saudi Arabia's Vision 2030 plan; Erdoğan might find it difficult to deny Turkish businesses the opportunity to take advantage of the plan's lucrative export and investment projects on account of diplomatic tensions.²² Since other countries are gradually putting the Khashoggi crisis behind them and competing for access to the Saudi market, Erdoğan might also come under pressure from the Turkish business community to reduce tensions with Riyadh. Many international firms and diplomatic delegates that boycotted Saudi Arabia's second Future Investment Initiative conference in 2018, because of the Khashoggi killing, participated eagerly in the third one in October 2019.²³

There is also recent precedent for a willingness on the side of Saudi Arabia and the UAE to welcome a rapprochement with Turkey after periodic tensions: Both countries improved their ties with Turkey in 2015 after the severe 2014 tensions over the Egyptian military coup against Mohammed Morsi.

Finally, one should not rule out a gradual de-escalation in Qatar's dispute with Saudi Arabia and the UAE. Although the blockade continues, there is a reluctance on the part of both sides to further escalate the situation—evident in the willingness of all three countries to participate in official GCC activities and to preserve the organization in spite of the intra-GCC Qatar crisis. This was best demonstrated by a comment by Saudi Foreign Minister Adel al-Jubair during the 39th GCC summit in Riyadh, in December 2018: "Members of the council are determined that the crisis with Qatar does not have a negative effect on the council in general and its structure...The goal is to preserve all of these important structures, until the crisis ends, hopefully soon."²⁴

Any improvement in Saudi and Emirati diplomatic relations with Qatar will also increase the likelihood of their rapprochement with Turkey—but this rapprochement will not necessarily take place at the same pace for Saudi Arabia and the UAE.

Endnotes

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Nader Habibi

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