

# Turkey:

## Rising trends in bilateral trade

As the Middle East becomes the second largest market for Turkish exports, and both regions benefit from significant bilateral investment, Turkish law firm Mehmet Gun & Partners analyses the background to this rapid growth.

**B**ilateral trade between the Middle East and Turkey has been on the rise. Turkey's autonomous and independent position has made it a valuable ally for many MENA countries. Turkey's multiple trade treaties with many countries in the region, which have made the Middle East the second largest destination for Turkish exports after the European Union. According to the Turkish Statistic Institute, trade volume with the Middle East increased from USD5.9 bn to USD63 bn between 2002 and 2012, and now accounts for 16.4 per cent of all Turkish trade.

The foreign direct investment inflow from MENA countries to Turkey last year was USD1.17 bn from a total inflow is USD10 bn. In 2012, just over 30 per cent of the 3,031 new companies with international capital established in Turkey had Middle East shareholders. This is a good indicator of the developing power – and ever-closer association – of the Middle East.

### UAE SPECIFIC GROWTH

The UAE is currently Turkey's highest export destination amongst the other Gulf countries and there are more than 73 UAE based companies



operating in Turkey. This is partly due to trade agreements between the two countries such as the 'Agreement on Enhancing Economic and Technical Cooperation, 'Double Taxation Prevention Treatment' and 'Bilateral Investment Promotion and Protection Agreement. To expand and develop bilateral economic cooperation between both countries, the Turkish-UAE Business Council was founded in 2000 by the Foreign Relations Board of Turkey (DEIK) and the UAE Chamber of Commerce and Industry. As a result, Turkish exports to the UAE reached USD8.17 bn in 2012. The highest export categories in 2011-2013 were gold at USD4.6 bn, miscellaneous manufactured articles at USD1.08 bn, petroleum, petroleum products and related materials at USD761million and iron and steel at USD746 million.

#### REAL ESTATE INVESTMENTS

The Real Estate sector has seen numerous investments from the Gulf region particularly after the amendments of the law that now allows foreign

legal entities defined as 'commercial companies having legal personality and established according to the laws of its state' to acquire real estate subject to compliance with the provisions of certain laws. For example, the Ministry of Culture encourages inward investment within the scope of Tourism Inducement Law for the purpose of development and investment in tourism sector, the Ministry of Science does the same within the scope of Industrial Zones Law to encourage the development of new industrial zones and the Ministry of Energy and Natural Sources, allocates servitude and usufruct rights to encourage investment in power and investment in natural resources.

Among the most significant UAE inward investors are Emaar Properties who are engaged in ongoing real estate and construction projects worth USD4.3bn, Green Valley who has made several real estate investments in Turkey, including starting work on a USD60 million residence project in Trabzon province in 2014, the PJSC Group with its USD400 million





Top: Turkey real estate has seen numerous investments from the Gulf region  
Above: Abu Dhabi airport is an example of Turkish building contractors being awarded major projects

land purchase and Sama Dubai's USD5 million property investment with the Istanbul Metropolitan Municipality.

**OTHER SECTORS**

Investment from the UAE covers other sectors such as energy, infrastructure, venture-capital funds, banking, technology and tourism. The Abu Dhabi-based Company, Invest AD has spent USD75 million to acquire a significant minority stake in Ekol Lojistik (EKOL), one of Turkey's integrated logistics companies, while Abraaj Capital acquired 46 per cent of the shares in Acibadem Hospital, 50 per cent of luxury yacht manufacturer Numarine and is in partnership discussions for a USD400 million investment in Simit Sarayi, one of Turkey's leading bakery chains. The largest investments are in the energy sector initiated by Abu Dhabi National Energy who signed a Memorandum of Understanding with the Electricity Generation Co. Inc. (EUAS) and the Turkish government in 2013 to develop a major power project in southern Turkey worth USD12 bn.

**TURKEY TO MENA**

The bilateral relationship extends to parallel investments from Turkey into the MENA countries with a special emphasis on investments in the United Arab Emirates. Turkish building contractors have been awarded major projects in the MENA region for many years and have successfully completed numerous hotels, towers, malls and buildings and projects that require a high level of technical



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capability such as the metro, airports, pipelines and highways. The best illustration of this is a USD7.6 bn construction project of 'Dubai-Metro' undertaken taken by a Turkish-Japanese Consortium led by one of Turkey's leading construction companies Yapi Merkezi (YAPI). Another example is the Abu Dhabi International Airport project, where TAV Construction Company of Turkey, was chosen as the winning bidder for the USD3.2 bn contract.

In 2012, the number of Turkish companies in Ras Al Kheimah's RAK Free Zone has reached 480 with an

important USD180 million investment by Rixos Hotels planned to take place there. To enhance the trade relationship between Turkey and the UAE and to promote the RAK Free Economic Zone, RAK and the Directorate General of Turkish Free Zone have signed a memorandum of understanding in 2013. An interesting development has been the strategic investment by UAE based Tawzan, an investor in industrial production and Turkey's leading defense industry company Roketsan, who have signed a contract to supply the UAE armed forces with the laser-guided 'CIRIT' missile system.

**FURTHER AFIELD**

Turkey's robust relationships with its neighbours in the region are clear. However, the Erdogan administration's dedication in recent years to building close ties with other countries has produced significant results. For instance, the Turkish and Japanese governments have together developed a strategic partnership to rebuild Northern Iraq. In 2003, construction activity by Turkish investors in the region was valued at USD242 million but due to this

partnership initiative, the figure rose to USD1.43 bn in 2008. Turkish companies are now building houses, roads, bridges, hospitals, schools and military areas, and Iraq is one of the top export destinations for Turkish business.

### NEW FINANCING MODELS

Turkey is developing its Islamic finance system, which attracts new investment, and is one of the founding partners of Islamic Development Bank. On 30 December 2013, the Treasury and the Islamic Development Bank concluded a guarantee agreement where USD220 million was given to the Turkish Industrial Development Bank, to fund for renewable energy and energy efficiency investment projects.

Turkey aims to be one of the ten largest global finance centers by 2023 and to achieve this goal has revised its legislation, renewed its financial institutions and adopted Islamic finance structures as an alternative to the conventional structures. *Sukuk* lease certificates are not only issued by the Treasury in Turkey and abroad, but also by the private entities in order to provide funds. Moreover, tax exemptions applicable on conventional exchange instruments now also apply to *Sukuk* lease certificates. The Turkish Deputy Prime Minister believes that Istanbul can fill the gap between the financial centres of London, Frankfurt and Dubai and become a regional powerhouse. Turkey's strategic geographical position, its strong cultural links with the Middle East, its stable economic growth and a young, well educated and highly-skilled workforce, make it an ideal safe haven for both investors and refugees from political turmoil. Cairo has already lost some of its international standing to Istanbul, as was shown when the Nikkei Index of Japan relocated its Middle East offices to Turkey.

The Islamic finance sector's assets are projected at USD605 trillion by 2020, 18 Islamic *Sukuk* (bonds) worth USD7.2 bn have been issued in Turkey since 2010. Moreover, there are three indices and four funds already operating under Islamic rules on Borsa Istanbul and the World Bank opened a Global Center for Islamic Finance in Istanbul in October 2013.

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In addition, the Cabinet has sent legislation to Parliament for the formation of the Istanbul Arbitration Centre (IAC). Ankara wants the IAC to become a major dispute resolution centre for investors, particularly in the IFC, and a centre for the resolution of commercial disputes



across the region. In the Turkish banking sector, the Dubai Islamic Bank has a representative office in Turkey, and recently acquired Turkey's MNG Bank for USD160million, furthermore, the Lebanese Bank Audi has taken a license to operate in Turkey as OdeaBank.

The Ministry of Culture encourages inward investment within the scope of Tourism Inducement Law to develop this sector

### THE KEY TO BILATERAL TRADE

A common culture and shared religion have certainly helped to build strong bilateral relations between Turkey and MENA countries. Investment flows from the MENA states to Turkey enhance economic growth, build vital infrastructure, boost company profits, create job opportunities and lift living standards. Whilst the UAE is now the largest Gulf investor in Turkey, both countries are committed to further increase the volume of bilateral trade to USD10 bn by the end of 2015. 🇹🇷



Text by:

1. **SERRA BASOGLU GÜRKAYNAK**, partner and head of corporate, Mehmet Gun & Partners
2. **DILARA HASANOVA**, legal advisor, Mehmet Gun & Partners