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**Turkey's economy and trade policies evaluation in terms of the
goals of 2023 vision**

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ABSTRACT:

Turkey started millennium with economic crisis, but after that while rest of the world was suffering from economic crisis, Turkey strengthened its economic and political infrastructure, and its economy grew average 5% in last decade. With stable economic growth, Turkey was ranked the world's eighteenth largest economy with its 79 million population. In this paper, Turkey's economy and its trade development policies will be briefly examined and analyzed to show Turkey's capabilities and what should be done to increase trade volume and positive trade balance. We will also discuss Turkey's regional power in the global trade will be discussed in terms of opportunities to be a hub and gateway of trade, business and relations from European Union to Middle East and North Africa.

Key Word: Geopolitical Position, Tourism, Innovation, Islamic Finance.

I) INTRODUCTION

Anatolia and Thrace region, where Turkey is locating now, are at the place where the continents of Asia and Europe meet have always been a bridge between East and West. Goods and thoughts exchange between the East and the West at this region during the historical process. Also both goods and thoughts remain over the area and several cultures and civilizations occurred. Turkey is at the global area with this geographic location and a geopolitical position.

In the last three decades, Turkey has undergone major changes in many areas. Despite a number of economic crises and political instability, it has managed to grow over the years and is now often cited as one of the best-performing emerging economies in the world. The early 1980's

can be considered as a critical period, from an economic and trade perspective. Following a long period under an import substitution regime and protectionist policies, Turkey switched to an export-led to commemorate the centennial of the founding of the Republic.

In the past decade, Turkey's GDP has grown from \$192 billion to \$733 billion in 2015, with per capita incomes tripling from \$3,000 to \$9,437. The country's exports grew from \$28 billion in 2000 to \$143.9 billion in 2015 (Worldbank, 2015). Due to its growing economy and its political stability, Turkey began to an important market for international companies; one of the most attractive destinations of international meetings; and a major hub for manufacturing and transit trade.

The inflation rate declined from 70% to less than 10%, the net public debt ratio decreased by half, budget deficit shrank, and the FDI grew from almost \$6 billion to \$145 billion during this period (Worldbank, 2015). The reforms, compliance with the IMF and the EU membership requirements, and favorable external conditions led to these successes.

By 2012, Turkey set the goal called "2023 Vision". 2023 Vision aims that being among the 10 largest economies of the world by 2023. The most important part of 2023 vision is to reach \$500 billion export volume. Although it seems difficult to achieve the goals of 2023 vision, by heavily investing industrial infrastructures and using its geographical and geopolitical advantages, turning its young dynamic population to the workforce Turkey can increase its development and be a gateway of the global trade between the East and the West. Also its trade and industrial structures need to evolve, both in terms of technological composition and value added. Turkey also needs to be able to accommodate competitive pressures brought on by the

Customs Union with the EU and the free trade agreements (FTAs) the EU has with third countries (Gross & Selcuki, 2013). Turkey's trade development policies can be divided three main sections: Investment, foreign trade, and tourism policies. I will examine to reach Turkey's goals of the strategy what it needs to do.

II) LITERATURE REVIEW

2.1. Regional Powers, International Relationship and Gateway Trade

Work on regionalism and regional security has comprise many decades. There are three important roles regional powers for across time and regions: regional leader, regional protector, and regional custodian. A country should has two capacities to be leadership in the region. The first is in terms of a mutual recognition of leadership based on amicable interactions. Regional powers have conserved kindly relations with their neighbors, decreasing the impact of the security dilemma, which in turn has ensured legitimacy for their leadership. In lieu of legitimacy, a second capacity can be viewed solely in terms of recognition based on overwhelming material capability and the willingness to use that capability to influence member states (Frazier and Ingersoll, 2010).

A shared assumption in this literature is that relations between ethnic groups in a country are usefully described in terms of access to power. When countries are linked to one another because portions of their populations sustain transnational ethnic ties, governments design foreign policies that take these ties into account. It is evident that ethnic ties have an impact on international relations (Nome, 2013).

However the concept of *cultural intimacy* explain the existential dilemma at the heart of the modern state. What holds the state identity together is also what opens it to international criticism. Being a modern nation-state requires glorifying a timeless essence, a past, a ‘folk’ spirit, while simultaneously committing to a develop mentalist vision with awareness of international norms. International norms are what made it possible for modern states to be constructed, to be narrated as *actors* with a *culturally intimate* sense of self. This in turn makes it possible for them to have responses to international criticism akin to emotions (Subotic and Zarakol, 2013).

According to Call (2011) there are three reasons for the failure of some country. These are distinguishing among capacity gaps, security gaps, and legitimacy gaps that states. Good policy requires knowing how and when to balance the need to reassure former enemies against the need for improved capacity, the need to foster legitimate rule with short-term security concerns or long-term capacity requirements. At a minimum, to dislodge policy from a one-dimensional and over aggregated analytic framework. At a maximum, balancing the imperatives of responding to these three gaps may be the crux of formulating policies that can meet short-term and long-term objectives.

On the other hand Rixen (2010) reported that a straightforward and dichotomous classification of international cooperation into bilateral or multilateral cooperation is unhelpful. Rather, as the compare with international trade suggests, it is quite likely that different policy fields exhibit different mixes of bilateralism and multilateralism at different stages of the cooperation process.

Also if states are to enforce international cooperation, they need to secure sufficient enforcement power while preventing abuses of power. If powerful states cannot credibly commit to such constraints, weak states have every reason to anticipate minimal gains from cooperation, so they refuse to negotiate. Powerful states should deliberately reduce the supply of collective enforcement power even if this results in shallow cooperation (Urpelainen, 2011).

For instance, *Preferential trade agreements* (PTAs) are international arrangements under which each member concedes special market access to all the other members' products. PTA is a valid policy to support trade with developed economies without having to decrease tariffs with other Least Developing Countries LDCs. PTA provides member countries to liberalize beyond the extent that can take place multilaterally. The formation of a PTA in this case helped to building a stable and strong relationship with the other partners (Baccini, 2012).

In addition, the current global political economy is characterized by the intensifying economic interaction of BRICS and 'near BRICS' economies, with emerging powers increasing their influence in neighboring regions. For example the growing partnership between Turkey and Russia constitutes a useful case study for examining this transformation, in which Western supremacy and US hegemony are under increasing challenge. Turkish–Russian relations shed light on broader themes in global political economy (Onis and Yılmaz, 2016). We may extend the argument to the 'BRIC' acronym. As with the 'Beijing consensus', its charisma – or ability to capture the imagination of investors and policy makers around the world – comes in part from the outsider status of its objects (Brazil-Russia-India-China) in relation to an established discursive and political field. BRICs must thus be interpreted as an innovation in the classificatory

regime of international finance a political metaphor and narrative strategy that seeks to alter investment patterns in the emerging markets funds industry (Fourcade, 2013).

Furthermore, in 2009, only one plausible alternative existed: a plan to bring gas from the South Caucasus and Central Asia across Turkey. The project was called Nabucco. Austria's OMV approached Turkey's BOTAS, in 2002 with the idea for a new pipeline to bring gas from Turkey's eastern and southern neighbors to Europe (Abdelal, 2013). The BTC route for delivering Azeri crude to European markets via Georgia and Turkey has been insulated to date from discretionary renegotiation owing to both a premium placed on returns on investment and greater regulatory transparency. That regulatory institutions can change also calls out for more research on cross-border transit relations – such as the delivery and re-export of Russian gas by Turkey – that have seemingly become more reliable in step with Ankara's growing stakes in off-take and becoming a transit hub and with greater transparency within the Turkish national energy system. Finally, as US and European officials consider future policy for alternative Eurasian pipelines, they should be attuned to the economic and institutional conditions that affect the balance of interests, risks and capacity associated with credible ventures (Stulberg, 2012).

Krook and True (2012) reported that internal definition, related to competing meanings of the norm, and in interaction with the external normative environment, consisting of other norms that are themselves in process. Those internal to norms, generated by continuing debates, especially among transnational activists and UN gender experts, over their exact definitions, and those external to norms, stemming from changes in broader normative environments. Attention to internal and external dynamism of norms, however, presents two key lessons for transnational activists: the need to revisit and politicize shortcomings between the theory and practice of

international norms, and the need to promote connections between evolving global gender equality norms and women on the ground.

Baccini (2014) has shown that the quality of institutions plays a prominent role in regional integration here are substantial gains to be made from improving the quality of institutions. These gains are well established in terms of economic growth, but also relevant in relation to economic cooperation. If the demand arises for regional integration in order to reap benefits from economies of scale and to reduce transaction costs, governments that have high-quality institutions are more likely to satisfy this demand and, in turn, improve their economic performance. The classic example that fits into this pattern is the experience of the EU, which is constituted by fairly homogeneous high-quality-institution member countries.

Bonnal and Yaya (2015) also reported that institutions promote growth by providing a stable economic environment; they encourage domestic and international investments. Weak institutions potentially create an environment detrimental to investments and deter international trade and the flow of international funds. Weak institutions perform poorly in terms of economic growth. Distinguish between two types of institutions: economic institutions and political institutions. Economic institutions are those that are directly related to the cost of doing business; hence, they are crucial for investors when making investment decisions. Political institutions determine the general political structure but are not directly related to business practices. These political institutions indirectly influence the risk perceptions of investors about the overall investment atmosphere in the country.

Selmier and Oh (2013) found speaking a major trade language has significant impacts on both international trade and FDI, and English consistently provides positive contributions in both types of economic transactions. The other three major trade languages – French, Spanish and Arabic – do not generally provide the same level of benefits on their speakers when conducting international trade. While we theorize that countries with speakers of non-major trading languages invest their time learning English, thereby increasing the returns to English at the expense of other major trade languages, there are important subtleties to consider.

Investors respond negatively to political uncertainty. Elections are events characterized by potentially high levels of uncertainty. However, when the incumbent is re-elected, uncertainty is dramatically reduced and this remark is used to test the validity of our hypothesis. It is implemented by collecting information on the winner's identity (Frot and Santiso, 2013).

In addition, Sovereign risk, the ability and willingness of a government to pay back its debt, has been an important concept in the history of international finance. Traditional models of sovereign risk focus mainly on sovereign credit ratings and how various macroeconomic indicators affect these ratings. The most important indicators appear as gross domestic product—per capita, general government debt, current account balance, inflation, exchange rates, and political risk (Aktug, 2014). According to Berenskoetter (2014) for most International Relations (IR) scholars, the dominant political entity is the state, understood as a legal-institutional configuration claiming sovereignty over a particular territorial space. Yet while it is taken for granted that this configuration also contains people, what constitutes their sense of community is rarely at the centre of attention. For some, these people merely form a dispassionate and

pluralistic society held together by a social contract promising certain rights and physical security to its members.

Finally, the new phase of neo-liberalism in Turkey has been associated with a process of re-building state capacity in line with the requirements of a globalized market economy. What we observe, however, is the emergence of a 'regulatory state' or a 'competition state'. While this represents an improvement compared with the earlier phases of Turkish neo-liberalism, its ability to address the problem of income inequality remains severely restricted. The new phase of neo-liberalism promises to bring about superior macroeconomic performance without altering the fundamentally unequal and asymmetric nature of development which characterizes the neo-liberal model (Onis, 2009).

2.2. Tourism Policies

Tourism generates employment, foreign direct investment (FDI), as well as government and private income, tourism accounts for some 40 per cent or more of GDP. Tourism is fundamentally a resource-based industry where primary resources such as climate, landscapes, socio-cultural heritage, customs and cuisine are supplemented by labour intensive customer facing services such as transport, hotels, restaurants and attractions to produce the overall tourist experience. The international tourist industry contributes significantly to employment highlighting the dependence of their economies on this sector of the global economy (Lee, Hampton and Jeyacheya, 2015).

In addition, Gokovali (2010) has shown evidence of tourism not only directly contributes to economic growth, but also stimulates the growth of other sectors through backward and

forward linkages. It generates employment, ensures more equal income distribution and contributes to the development of underdeveloped regions within the country. It seems reasonable to assert that tourism can be especially important for developing countries where foreign exchange earnings are a constraint on import of raw and investment goods for industrialization.

2.3. Islamic Finance

Rethel (2011) reported that Islamic finance is a fast growing segment of international financial markets. Indeed, recent years have witnessed increasing efforts to develop and to institutionalise Islamic capital markets and above all, to make Islamic finance acceptable (and thus investable) to the mainstream. Islamic financial instruments and services are characterized by certain features – such as the prohibition of *riba* and the distinction between *halal* and *haram* products and activities – which clearly distinguish them from their conventional counterparts.

Imam and Kpodar (2013) have shown evidence of a close correlation between financial-sector development and growth. Countries with larger financial systems tend, all else being equal, to grow faster because banks perform a fundamental economic role as financial intermediaries and as facilitators of payments. Islamic banks are an increasingly visible alternative to conventional banks in Islamic countries and in countries with large Muslim populations. Islamic banking around the world, identifying the sources of its expansion and formulating policy advice on how to stimulate its further growth. The higher the percentage of Muslims in a country, the faster the expansion of Islamic banking. The significance of trade with the Middle East may be

due to both demand-pull and supply-push factors. If a country deals more with the Middle East, customers there might request that the trade transactions go through an Islamic bank.

Turkey is an emerging country, and capital flows play a substantial role in financing growth. Correspondingly, strength of capital flows may influence business cycles in Turkey. Capital flow forecasts for thirty-two developing countries by considering push factors (international factors) and pull factors (domestic fundamentals) (Akkoyun, Dogan, and Gunay, 2014).

2.4. Innovation Policies

Product innovation is an important source of firm-level employment growth. Product innovation is more complementary to skilled than to unskilled labor. Process innovation, which is likely to be associated with price reductions, tends to have no effect on employment, with two noticeable exceptions. Process innovation has a displacement effect on unskilled labor and a weak positive effect (10 percent significance) on employment in the case of small firms (Aboal, Garda, Lanzilotta and Perera, 2015).

Abedini (2013) reported that high-tech goods are \$671 billion in 1995, world exports of these goods achieved \$1.959 trillion in 2008 and, with a reduction due to the recent recession, \$1.65 trillion in 2009. Since high-tech goods usually are intensive in capital and skilled labor, the Heckscher–Ohlin model of international trade predicts that countries having relatively more abundant capital and skilled labor, such as the United States and Japan, will export such goods while countries having relatively less capital and skilled labor, such as China, will import them. The results indicate that high-tech exports from the emerging exporters are driven mainly by

these countries FDI inflows, participation in the international production chain of high-tech goods, and export concentration, while the same exports from the established exporters are based on their industrial infrastructure, R&D efforts, institutional quality, and export diversification.

Atiyas and Bakis (2015) also found the incentive system has become less discretionary and eligibility criteria have become quite objective and transparent. In addition there some positive effect on regional employment in the 2000s and positive effect of research and development incentives. There has also been a significant change in the composition of exports. The share of traditional exports such as textiles and garments has decreased over time and the shares of medium-level technology products (such as motor vehicles, basic metals, and machinery) have increased. However the share of high-technology products is still very low. The degree of sophistication of the exports basket of Turkey is still low compared to a number of comparator countries such as China, Mexico, Romania, and Thailand. In addition, those industries whose contribution to exports has increased over time exhibit higher dependence on imports of intermediate inputs such as raw materials and components.

Moreover services are now the most important economic sector in the world economy, both in developed and in the majority of developing economies. Innovation in services is a particularly relevant topic to explore in developing economies. Innovative and productive services create new competitive sectors. Examples are information and communications technology (ICT) and business process outsourcing (BPO) services. New and improved services can provide competitive advantages in developing countries that have traditionally concentrated on commodities or tourism. Innovation in services can reinforce existing competitive advantages (e.g., better service logistics associated with commodities trading), create new types of services

(e.g., new ICT offshoring services), and contribute to overall economic performance in other services, manufacturing, and agriculture (Rubalcaba, 2015). The new regulations are designed to expand the options of developed country firms to enter and exit markets more easily, with fewer restrictions and obligations, and to lock-in their appropriation of technological rents (Wade, 2003).

Yucel and Onal (2015) have shown evidence of significantly negative relationship between industrial diversification and risk. Accordingly, total risk decreases as the degree of diversification increases. The decline in this risk might stem from the coinsurance effect that occurs as a result of diversification. The finding that there is a negative correlation between diversification and risk lends credibility to the hypothesis that diversification reduces firm risk in financial terms.

III) DATA, METHODOLOGY AND RESULTS

3.1. Turkey's Geopolitical Position, International Relationship and Trade

Turkey, officially the Republic of Turkey, is a country located at a point where the 3 continents of the old world (Asia, Africa and Europe) are closest to each other and where Asia and Europe meet (Turkey at Glance, 2016). Due to its strategic location between Europe, Central Asia and the Middle East, Turkey is an important market for international companies. The great potential is evidenced by the country's exceptional economic growth in recent years. The private consumption has been growing steadily and this fast-growing market has a young, dynamic, well-educated population. Long-term trends that GDP per capita and incomes are rising in the country, especially in urban areas are some "key fundamentals" that make Turkey quite attractive for

companies. For instance, Gross National Income (GNI) per capita has risen sharply since the early 2000s (Marian, 2011).

Turkey's exports by country years are shown below.

Top 20 country in exports

Rank	Country	Value: Thousand \$				
		2015	2014	2013	2012	2011
	TOTAL	143 861 522	157 610 158	151 802 637	152 461 737	134 906 869
1	Germany	13 419 561	15 147 423	13 702 577	13 124 375	13 950 825
2	United Kingdom	10 558 456	9 903 172	8 785 124	8 693 599	8 151 430
3	Iraq	8 552 919	10 887 826	11 948 905	10 822 144	8 310 130
4	Italy	6 888 881	7 141 071	6 718 355	6 373 080	7 851 480
5	USA	6 396 049	6 341 841	5 640 247	5 604 230	4 584 029
6	France	5 846 022	6 464 243	6 376 704	6 198 536	6 805 821
7	Switzerland	5 675 488	3 207 526	1 014 523	2 124 525	1 484 320
8	Spain	4 743 130	4 749 584	4 334 196	3 717 345	3 917 559
9	UAE	4 681 439	4 655 710	4 965 630	8 174 607	3 706 654
10	Iran	3 664 362	3 886 190	4 192 511	9 921 602	3 589 635
11	Russia	3 590 236	5 943 014	6 964 209	6 680 777	5 992 633
12	Saudi Arabia	3 472 674	3 047 134	3 191 482	3 676 612	2 763 476
13	Netherlands	3 155 103	3 458 689	3 538 043	3 244 429	3 243 080
14	Egypt	3 125 089	3 297 538	3 200 362	3 679 195	2 759 311
15	Romania	2 815 675	3 008 011	2 616 313	2 495 427	2 878 760
16	Israel	2 698 292	2 950 902	2 649 663	2 329 531	2 391 148
17	Belgium	2 557 927	2 939 108	2 573 804	2 359 575	2 451 030

18	China	2 414 934	2 861 052	3 600 865	2 833 255	2 466 316
19	Poland	2 329 283	2 401 689	2 058 857	1 853 700	1 758 252
20	Azerbaijan	1 898 919	2 874 608	2 960 371	2 584 671	2 063 996
	Others	45 377 083	52 443 825	50 769 896	45 970 523	43 786 984

Table 1 Source: www.turkstat.gov.tr

As can be seen from the table in the past five years the value of Turkey's exports %65 constitutes to the European Union and its neighbors. These countries one of the biggest trade partners of Turkey. However in 2015, Turkey's export decreased because of international relationship.

Turkey's exports kind of product shown below in 2015.

Exports by product	TOTAL (Value: Thousand \$)		
	2015	2014	2013
Food and live animals	14 341 640	15 156 639	14 112 070
Beverages and tobacco	1 229 725	1 390 451	1 191 448
Crude materials, inedible, except fuels	3 980 149	4 916 446	5 316 818
Mineral fuels, lubricants and related materials	4 518 357	6 110 786	6 724 347
Animal and vegetable oils, fats and waxes	854 699	1 007 858	1 230 368
Chemicals and related products, n.e.s.	9 145 083	10 098 098	9 455 563
Manufactured goods classified chiefly by material	35 546 466	42 291 332	41 810 539
Machineries and transport equipments	39 257 994	42 746 749	41 022 159
Miscellaneous manufactured articles	27 267 127	30 123 822	27 290 202
Commodities and transactions not classified elsewhere	7 720 281	3 767 976	3 649 122
TOTAL	143 861 522	157 610 158	151 802 637

Table 2 Source: www.turkstat.gov.tr

Exports to are dominated by Manufactured goods classified chiefly by material and Machineries and transport equipments. Also the top exports of Turkey are Miscellaneous manufactured articles Food and live animals, and Commodities and transactions not classified elsewhere respectively.

According to UK Trade & Investment (UKTI) web-page, as a large rapidly developing country Turkey's European Union (EU) accession negotiations are leading to significant opportunities for companies in a broad range of sectors. The ongoing EU accession talks are also a key driver for the modernization of Turkey's economy and business environment. With a large domestic market of 79 million people (Doing business in Turkey, 2015).

According to the European-Turkish Business Confederation (UNITEE) conference (2012), as a Europe's Gateway to the East Turkey plays a key role in terms of security and prosperity, and has a strategic role as an energy corridor and the EU and Turkey are already important trading partners but that there is potential for much more. There is the interdependence between the EU and Turkey and this interdependence can produce positive results for both sides. 1995 Customs Union agreement with the EU and the end of Cold War contributed to the opening up of the Turkish economy. After the 2000-2001 economic crisis companies started to go to the new markets, especially in Central Asia. Turkey is a transit country in many ways. Istanbul is a hub and now Turkey wants to make it a global financial center (UNITEE Conference, 2012).

Additionally, when we look its EU membership process, Turkey will be uniquely placed to channel trade between East and West. Therefore, EU and other countries should look to Turkey to act as an economic bridge to Central Asia and the Middle East because Turkey could have a

'role to play' as the EU's "must eastern hub". There is mixed evidence about the extent of that potential. For instance, as the energy sector demonstrates, Turkey has a "huge potential to serve as a gateway to Central Asia, Caucasia and the Middle East (Keeping the Door, 2007).

Turkey has a very strong interaction and links with the economies of Central Asia and the Middle East. Multinational companies are also increasingly using Turkey as a base for their operations in the Central Asia region (examples including Coca Cola, Microsoft, JP Morgan Chase and General Electric). As a gateway, Turkey's proximity to and bilateral trade relations with the new emerging markets in the Middle East, Caucasian Republics and Central Asia create unique business opportunities for multinational companies. Turkey is one of the leading investors in Caucasian and Central Asian Turkic Republics because its strong cultural and historic ties, provides Turkey with privileged access and a strong base to develop business with to those countries. Therefore, Turkey is the best gateway to wider region markets (Keeping the Door, 2007).

At the crossroads of Europe and the Middle East, Turkey has become a major hub for manufacturing and shipping goods to Europe and central Asia. For instance, Turkey presents an excellent investment opportunity for multinational companies looking to expand into Europe, the Middle East and central Asia (Gillespie, 2009).

Turkey is an important export market for the Middle East, Central Asia, North Africa, Caucasus and Russia. If you go to Lebanon, you'll find that all the Nestle [confectionery] products are produced in Turkey and distributed to the Middle East. Also, the Turkish government undertook some serious structural reforms for investment in Turkey. They passed a law which

covers everything from corporate governance, to competition, to contract law, so this is very important, and may improve the business climate in Turkey (Marian, 2011).

In order for Europe to remain an engine for economic growth in the world, the attention should now be focused to the rapidly growing economies of Asia because around 90% of the world's economic growth takes place beyond the EU's borders. Asia's key position in the world economy is indisputable and that Turkey is ideally placed in geographic, geopolitical and economic terms to become a key regional trade hub between Europe and Central and Eastern Asia. Therefore, EU and New European Entrepreneurs should break cultural and linguistic barriers and venture into the rapidly growing Turkish market. From there they will be able to seek out new business and investment opportunities in Turkey's surrounding regions and further east (UNITEE Conference, 2012).

Turkey's foreign policy ambition is to become a major energy hub and a buffer state“ for European security. Turkey takes its bridging role between supply and demand points very seriously and also aspires of becoming an EU member. Furthermore, Turkey is a classical US-partner and a regional observatory coveted by the West. Therefore, it is neither efficient nor reliable to establish any comprehensive regional organization in the region, without Turkey's participation (Homorozean, 2010).

Although Turkey itself is heavily dependent on imported energy from Russia and Iran, it has great potential as an energy hub or gateway for the EU, not least because of its strategic position, bordering eight other countries in the region. Turkey is close to 71 % of the world's

proven gas and 73% of oil resources and a 'natural hub between several vital energy suppliers and energy consumers. Turkey has the potentially large role for in future EU energy security, since it borders some of the richest hydrocarbon territories in the world and is already a key transit state for gas into the EU (Keeping the Door, 2007).

Turkey is ranked as the 4th largest labor force compared to EU countries. Turkey's young population provides an advantage for the country over other developing countries. However, in spite of some improvements, Turkey's labor force is still characterized by a low level of schooling among the other OECD countries. Another challenge is that there is a mismatch between the skills gained in higher education and those demanded by labor market. So, there is a high unemployment rate among higher education graduates (World Bank Group, 2015).

The population of Turkey became 78 741 053 people as of December 31, 2015. In 2015, the population residing in Turkey grew by 1 million 45 thousand 149 people compared to the previous year. 50.2% (39 million 511 thousand 191 people) of the total population were males and 49.8% (39 million 229 thousand 862 people) were females. The median age of the population in Turkey rose from 30.7 in 2014 to 31 in 2015. The median age was 30.4 for males while it was 31.6 for females in 2015 (Turkstat, 2016).

Population pyramid, 2015

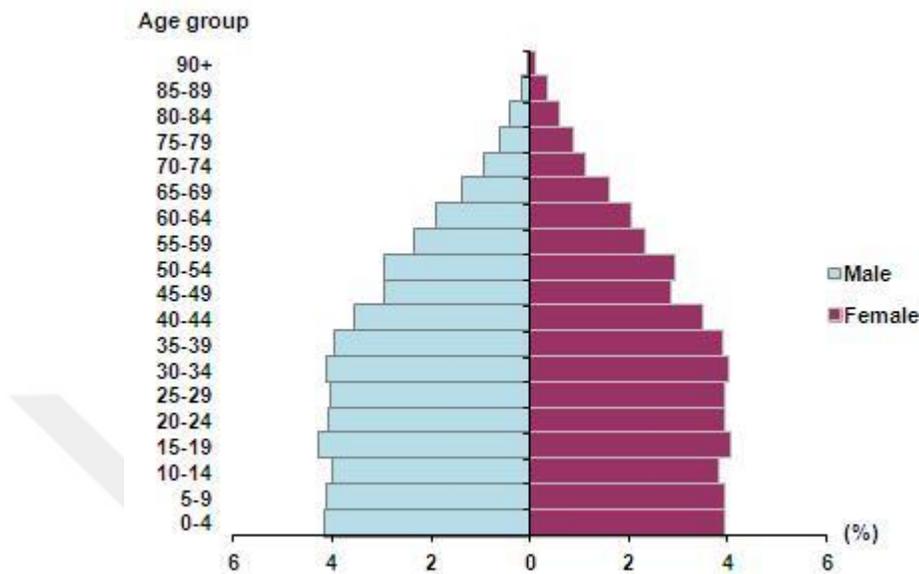


Chart 1 Source: www.turkstat.gov.tr

The proportion of population in 15-64 working age group was 67.8% in 2015 (53 million 359 thousand 594 people) as the previous year. Proportion of children aged 0-14 dropped to 24% (18 million 886 thousand 220 people) while the proportion of population aged 65 and over increased to 8.2% (6 million 495 thousand 239 people) in the total population (Turkstat, 2016). According to summary table of number of students, 2014-2015 Number of male students at higher education 3 276 658, and female student 2 786 228 (Higher Education Statistics, 2014-2015).

Thanks to implementation of the liberalization process since the 1980s, the Turkish economy has experienced a period of substantial growth. Foreign trade, in respect of both exports and imports, has grown rapidly and notable changes in the structure of exports have been observed. In this regard, industrial products have gained prominence over agricultural products. Turkey became a member of the World Trade Organization (WTO) in 1995. Following this

move, it finalized an agreement with the European Union, enabling it to join the Customs Union on January 1, 1996, following the establishment of a Customs Union with the European Union, Turkey's exports entered a new structural transformation process. Developments in recent years show that production and exportation have increased substantially in high-technology sectors, where goods include electrical and electronic machinery and equipment, as well as in the automotive industry. In this respect, it can also be observed that the export market share of manufactured industrial products has increased (Invest in Turkey, 2014).

Turkey has been an EU candidate since 2005. So, it has performed a number of structural reforms to meet EU requirements. These reforms include the abolition of the death penalty, reform of the judiciary, an increase in the rights of political parties and freedom of association, improved protection of human and minority rights, greater freedom of expression, a constitutional amendment reinforcing civilian over military supremacy and the subordination of domestic law to international law in the area of human rights (Blanke & Mia, 2006).

3.2. Innovation Performance

According to 2015-2016 report of Global Competitiveness Index (GCI), Turkey ranks as 51th out of 140 economies. Innovation is one of the elements of this index and Turkey's performance in innovation pillar is 56 out of 140 economies (The Global Competitiveness Index, 2015).

Turkey's global scores relatively well in the government procurement of advanced technology products, yet, capacity for innovation, availability of scientists, company spending

on R&D and quality of scientific research institutions remain areas of concern for the country in global scale (Erawatch Report, 2013).

According to the Turkish Statistical Institute Research and development expenditure in Turkey went up by 18.8 percent in 2014 to reach TRY 17.6 billion (USD 6.1 billion). Spending surpassed 1% of the country's total GDP 2014, with private-sector outlay accounting for almost half, at 49.8%. Academic institutions followed with 40.5% and the rest, 9.7%, made by public institutions (Invest in Turkey, 2015).

Unfortunately Turkey drops six places to 51st. This result has been driven by a general decline in almost all factors driving competitiveness, with 10 out of 12 pillars registering a lower score than in the past edition. The assessment of institutions experiences the most severe drop, falling to 75th. The country's delicate political phase (elections took place in June 2015) along with the geopolitical conflicts the country engaged in have set a climate of uncertainty that tends to hold back private investments, especially those coming from international investors, which are crucial for Turkey's development. (The Global Competitiveness Report, 2015-2016).

In spite of performing better in this area compared to other emerging countries, there are some weaknesses and challenges. The Turkish economy is largely dominated by SMEs(Small and medium sized enterprises), but they only create about 55 % of total value added. Turkey's resource productivity (volume of GDP over Domestic Material Consumption) and R&D expenditure, as a percentage of GDP, are low. Almost 58 % of Turkish exports consist of low-technology goods. Poor business environment, regulatory reform, policy measures to support innovation create difficulty for Turkey's private sector development. In order to improve private

sector competitiveness and support innovation, it is necessary to focus on moving from low value added production to high value added production by increasing productivity, R&D and innovation capacity, to improve industrial and intellectual property rights, sustainable growth and corporate social responsibility into policy-making and business culture, to increase access to finance for SMEs (Indicative Strategy Paper For Turkey 2014-2020, 2014).

3.3 Tourism Infrastructure

Tourism is one of the largest and fastest growing industries and an important source of development in Turkey as well all other countries. Therefore; in line with new right philosophy and neo-liberal policies of 1980's, Turkey has accepted tourism as one of the new “growth sectors” and means of demonstrating the implementation of the “outward-oriented, export-promotion” development policy. Therefore; Turkey has been investing its tourism infrastructure since 1980's (Nohutcu, 2002).

Geographic structure and climate of Turkey is appropriate for development of hunting, sunbath, yachting, air sports, winter sports, botanic, rafting, underwater diving, golf and mountaineering. With these activities Turkey is one of the most important tourist destinations in the region. Historical and faith tourism is also very attractive in Turkey. Because of the foundations of the various civilizations on the lands of Anatolia since ancient ages, Turkey has so many historical places like castles, churches and palaces. Turkey has been retorting its historical heritages, increasing its accommodation facilities, building new areas for extreme sports (Turizm Cesitleri, 2011).

International tourist arrivals grew by 4.4% in 2015 to reach a total of 1,184 million in 2015, according to the latest UNWTO World Tourism Barometer. Some 50 million more tourists (overnight visitors) travelled to international destinations around the world last year as compared to 2014. In 2014, total exports from international tourism up to US\$ 1.5 trillion, or US\$ 4 billion a day on average. (World Tourism Organization (UNWTO), 2016).

Also The World Travel & Tourism Council projects the world will welcome nearly 1.8 billion international visitor arrivals per year by 2025, a 58% increase from the 1.1 billion international arrivals who crossed borders in 2014 (Skif, 2016).

However Tourism income in 2015 decreased by 8.3% and reduced \$ 31 billion 464 million 777 thousand compared to the previous year. In this year the average expenditure of the foreigners was \$ 715 per capita. In this year, number of departing visitors increased by 0.5% compared to the previous year and reached to 41 million 617 thousand 530. While 85.5% of visitors was foreign (35 million 592 thousand 160 persons), 14.5% of them was Turkish citizens resident abroad (6 million 25 thousand 370 persons) (Turkstat, 2016).

3.4. Islamic Finance Industry

The Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually. Today, Sharia-compliant financial assets are estimated at roughly US\$2 trillion, covering bank and non-bank financial institutions, capital markets, money markets and insurance (Takaful) (Worldbank, 2015). Expectations of market size to be \$3.4 Trillion by end of 2018 (Islamic Finance, 2016).

Islamic banking has increasingly emerged both in Turkey and in the world as a safe haven for the investors especially during such turbulent times (Herdem, 2015). Shifts in government's

priorities allowed Islamic finance to gradually acquire legitimacy in Turkey. Particularly in the last decade, Turkey reaffirmed its commitment by stepping up to play a pivotal role in the world of Islamic finance. Recent developments also reveal that the future looks promising in this field. For example, in 2013 The World Bank Global Islamic finance Development Centre was launched. Last year, largest state-owned bank T.C. Ziraat Bankası A.Ş., Vakıfbank and Türkiye Halk Bankası A.Ş. (also known as Halkbank to receive approval in establishing participation banking division (Mondag, 2015).

In 2014, Turkey , accounted for 3,2% of the world's Islamic banking assets. (Islamic Financial Services Board, 2015). But Turkey possesses all the basic ingredients essential for becoming a global hub for Islamic banking and finance, which is known with a better term in the context of Turkey, i.e., participation banking. It has historical legacy of leadership of the Muslim world, has gone through a period of secularism, and has vibrant and growing economy that has a unique position of being part European and part Asian. By virtue of its geographical location, it enjoys the status of a bridge between Asia and Europe, and hence can serve as a bridge between the Islamic world and European continent. As other attempts in Europe to become a regional hub for Islamic banking and finance have seen only limited success, a window of opportunity has opened for Turkey to not only become a regional leader but also a global leader in Islamic banking and finance. The biggest advantage that Turkey has over its competitors in Islamic banking and finance is in terms of the size of Muslim population and hence a potential domestic market (Humayon Dar, 2013).

IV) DISCUSSION

In 2012, Turkey set the goal called 2023 Vision. 2023 Vision aims that being among the 10 largest economies of the world by 2023. The most important part of 2023 vision is to reach

\$500 billion good and service export volume. After new Republic was emerged, Turkey started to integrate with the West, and it began to move away from the East.

Due to its growing economy and its political stability, Turkey began to an important market for international companies; one of the most attractive destinations of international meetings; and a major hub for manufacturing and transit trade. Despite not offering the same rapid rates as growth as some other developing countries, Turkey has some key fundamentals that make it an attractive location and market for both retailers and manufacturers, including a growing middle class, a large pool of young workers, potential for future EU membership, and its position as a gateway from Europe into Central Asia, North Africa and the Middle East.

During the giant global crisis including many countries in the world, with its strong economy, geopolitical position, geographic location, its young dynamic population, and its trade with the world, Turkey has strengthened its democratic system and made great social and political reforms. It can set an economic example for other countries, and its position is even more important after the global crisis.

As it is mentioned above, besides economic and political stability, legal and economic environments, abolition of restrictions on foreign equity participation, improvement of laws, regulations, and intellectual property rights, relaxation in the bureaucratic procedures, since Turkey is a bridge among Europe, Asia (Caucasus, the CIS), the Middle East, North Africa and the Balkans, many multinational corporations perceive it as a dependable base for the growing neighboring markets. It is clearly seen that a strong government which is providing political and

economic stability is the essential reason for foreign investors that has enabled Turkey to be an attractive country for the last ten years.

Consequently, as one of the seven emerging markets in the world, Turkey can certainly become a trade-hub and gateway to global trade especially between Europe and Asia, the Middle East and North Africa and that it already is such. Nevertheless, Turkey can certainly improve and increase its this indisputable role and certainly become a gateway from Europe to the Black Sea, the Caucasus, Central Asia, the Middle East and North Africa – from Asia and the Middle East to Europe and from there to global trade by using its brilliant macroeconomic indicators, strategic location, growing and large market, strong interaction and links with the Central Asia and the Middle East, EU accession negotiations and Custom Union, attractive law and regulatory system, transit and distribution role and energy role.

Export is one of the most important instruments of Turkey's growth, and export can be increased by high competitive products. Therefore; Turkey should continue to invest its infrastructure to increase its international competitiveness.

Being in the stage of transition from efficiency-driven economy to innovation-driven economy, Turkey's economy has been performing impressively more than a decade, and its goal is join the top ten economies of the world by 2023. And to achieve this ambitious goal, Turkey initiated some programs and policy actions.

For example, according to Turkey's New Innovation and Investment Incentive Programs, export-oriented growth strategy is deemed as vital. And Turkey targets devoting at least 3% of its GDP (\$60 billion) to R&D activities by 2023 and encouraging strategic investments with high R&D content, and steer savings into high value added investments. This new vision also focuses on competitive sectors with strong potential such as automotive, machinery, energy, water, food, security and space.

In fact Turkish Governments has long been applying various forms of investment incentive programs and export incentives, but their efficiency and success is doubtful, because Turkey's economic performance is still way behind the world's innovative economies and its industrial model is still based on low labor costs and price competitiveness. Also, for decades Turkey focused on sectors that produce with standard/low technologies, but now it is losing its importance in global markets, because it now faces the risk of losing its ability to effectively compete with low-tech, low-wage countries. Moreover, another considerable hurdle for Turkish economy is "middle-income trap": Turkey's per capita income has recently stagnated around \$10.000 level and cannot increase it through classical development policies. However, we know that contemporary world's competition depends on productivity, and competitive advantage based solely on the costs, scale or price as in the past is not sustainable anymore.

As a conclusion, since the innovation is the only driving force that can stimulate a sustainable growth in a highly competitive global economy, Turkey should shift its economy's basis of competition, which is not yet driven by high technology and innovation. In this respect Turkey should follow a robust policy to support continuous productivity growth and innovation; otherwise the attainability of its goals to be a top-ten economy can hardly be achievable.

Turkey at present with its enormous tourism potential and a great diversity of its natural resources, historical treasures, cultural values and activities, life style, attractions and with its efficient, dynamic tourist industry offers wide selection of products that can satisfy the demand of different market segments including the most sophisticated and demanding traveler (Tursab, 2014).

In Turkey 2015, tourism accounted 6.2 per cent of GDP. Tourism incentives are other important development instruments to meet capital needs. Turkey must increase a number of incentives to encourage foreign investors to set up shop in the country, make tax reduction schemes to access to tourism development funds and a land allocation programme (Lobo, 2014).

Turkey should develop alternative tourism such as health, thermal, winter, gastronomy, golf, sea adventure, rural, yacht tourism, religious tourism, ecotourism, plateau tourism, conference expo tourism activities. Because Turkey has capability to make them.

Islamic finance products such as *sukuk* (Islamic bonds), and *takaful* (insurance) are offered by financial institutions (participation banks) whose activities are in compliance with the Islamic rules. These institutions are governed by the same legislation as conventional banks and their activities are overseen by the same authority (Banking Regulation & Supervision Agency and the Savings Deposit Insurance Fund). The scope of Turkey's Islamic finance market is widening and the growing presence of Islamic banking needs to be accompanied by the development of effective regulation and supervision (Mondag, 2015).

A legislative framework which will promote the growth of the industry by solid legal guarantees and tax related or other kinds of incentives are necessary for the growth of such an industry. Turkey, by assuring the presence of all these three factors has managed to create a growing Islamic banking industry operating in a course of stable growth (Herdem, 2015).

V) CONCLUSION

Turkey's economy has been performing impressively more than a decade, and its goal is to join the top ten economies of the world by 2023. It seems difficult to achieve the goals of 2023 vision, but Turkey has industrial infrastructures, geographical and geopolitical advantages, young dynamic population, and a gateway of the global trade between the East and the West. Turkey should shift its economy's basis of competition, which has not driven by high technology and innovation. In this respect It should follow a robust policy to support continuous productivity growth and innovation. It can improve their finance policy to attract more and more islamic finance and alternative models of tourism. Turkey can develop sectoral and country based on diversification strategy in export composition.

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