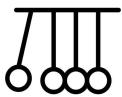


Commercial Diplomacy in Action: Do High-Level Visits Correlate with Foreign Direct Investment (FDI) Inflows in Emerging Markets?

The Case of Turkey and Qatar

POLITICS

EGEMEN GÜRSES



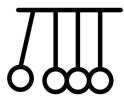
Abstract

The existing literature shares a consensus that Foreign Direct Investment (FDI) flows to emerging markets are primarily driven by economic factors such as market size, the rule of law, and institutional stability. While empirical research predominantly focuses on these large-scale institutional factors, recent studies on commercial diplomacy reveal that interactions involving government officials send visible and strong signals of confidence to economic actors, particularly in authoritarian political regimes. Given that high-level visits enable investors to more clearly discern the political commitment underlying economic relations, this study argues that leader visits constitute a critical strategy employed by Turkey and Qatar to bypass bureaucratic hurdles and trigger capital flows. Empirical results indicate that although political volatility generally deters foreign capital, high-level diplomatic visits significantly increase FDI inflows with a consistent nine-month time lag. Furthermore, this correlation intensifies during periods of geopolitical turbulence, such as the 2017 Gulf Blockade or Turkey's 2018 currency shock, during which political alignment substitutes for institutional guarantees. These findings emphasize that leader visits are used as a strategic tool to enhance economic resilience during times of crisis and advance scholarship on the political economy of foreign investment in the Middle East.

Keywords: Commercial Diplomacy, High-Level Visits, Turkey-Qatar Relations, FDI, Signaling Theory.

Introduction

This report examines whether high-level diplomatic engagement can serve as a substitute for institutional stability in attracting Foreign Direct Investment (FDI), a question that challenges traditional economic theories and offers new insights into the dynamics of international investment. To investigate this, the strategic partnership between Türkiye and Qatar (2010-2025) is analyzed as a primary case study. Traditional economic literature, grounded in the works of



Dunning (1980)¹ and North (1990)², posits that investors are typically deterred by markets characterized by political volatility and a weak rule of law, a framework that seems at odds with the Türkiye-Qatar case, where diplomatic ties appear to override these concerns. Yet, Qatar's capital inflows have risen despite Türkiye's currency shocks and regional risks over the last decade. A defining instance occurred during the 2018 currency crisis; while Western capital fled the market, Qatar pledged a \$15 billion direct investment package to Türkiye, barriers the unique role of diplomatic relations in sustaining economic stability amidst regional turmoil. This report argues that the primary driver of these inflows is the "commercial diplomacy"³ mechanism established through the High-Level Strategic Committee.

The data suggests a distinct pattern: diplomatic support is not merely symbolic but acts as a financial guarantee, as evidenced by the consistent flow of Qatari investments despite Türkiye's economic challenges. While global FDI inflows to Türkiye surged with Credit Default Swap (CDS) premiums, Qatari investments bypassed these risk metrics after major diplomatic summits. This report posits that in authoritarian regimes, leader interactions provide a "signal effect" (Spence, 1973)⁴ that lowers risks for specific investors, bypassing bureaucratic obstacles.

This report reviews theoretical arguments for how "political signals" replace "institutional guarantees" in emerging markets. It then covers the historical evolution of Turkey-Qatar relations, highlighting critical junctures like the 2017 Gulf Blockade and the 2014 establishment of the Supreme Strategic Committee. Analyzing monthly Balance of Payments data from the Central Bank of the Republic of Türkiye (CBRT)⁵ against a timeline of 20 presidential visits reveals when diplomatic visits translate into actual flow. Following this analysis, it becomes clear at what point diplomatic visits translate into actual investment flows, revealing the underlying mechanisms that facilitate this transition. The final section summarizes the main

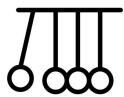
¹ John H. Dunning, "Toward an Eclectic Theory of International Production: Some Empirical Tests," *Journal of International Business Studies* 11, no. 1 (1980): 9.

² Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 3.

³ Olivier Naray, "Commercial Diplomacy: A Conceptual Overview," *Conference on International Trade* 7, no. 2 (2011): 2.

⁴ Michael Spence, "Job Market Signaling," *The Quarterly Journal of Economics* 87, no. 3 (1973): 355.

⁵ Central Bank of the Republic of Turkey (CBRT), "Balance of Payments Statistics," Electronic Data Delivery System (EVDS), accessed January 2026, <https://evds2.tcmb.gov.tr>.



conclusions, suggesting that high-level visits have become a primary instrument of economic resilience in times of crisis for countries like Türkiye.

Historical Context

The historical alignment between Türkiye and Qatar has evolved from a standard diplomatic cordiality into a structural interdependence, particularly over the last decade. While Türkiye's relations with other Gulf Cooperation Council (GCC) states have historically surged based on conjecture, the Ankara-Doha partnership has followed a uniquely linear trajectory of deepening integration. This transformation is driven by a shared geopolitical reasoning during the Arab Spring and consolidated through specific institutional mechanisms (the SSC) and crisis management packages.⁶

The Arab Spring (2011-2014)

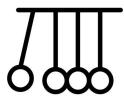
The initial catalyst for the rapprochement was the regional upheavals of the Arab Spring in 2011. Unlike status-quo powers of the Gulf -Saudi Arabia and United Arab Emirates (UAE)- which viewed the popular uprisings as an existential threat to monarchical stability, both Turkey and Qatar adopted pro-change foreign policies⁷. They provided political, logistic, and financial support to movements affiliated with the Muslim Brotherhood in Egypt (the Morsi Government), Syria (Anti-Essad oppositions) and Tunisia. However, the shared ideological stance came at a strategic cost. Following 2013 military coup in Egypt and the resilience of the Essad regime in Syria, both Ankara and Doha faced diplomatic isolation -a period described in Turkish foreign policy as "Precious Loneliness" (Değerli Yalnızlık)⁸- Consequently the two nations find themselves as the sole partners capable of supporting each other against the rising Saudi-UAE axis, turning their cooperation into a geopolitical necessity rather than a mere preference.

⁶ Bülent Aras and Pınar Akpinar, "Turkish Foreign Policy and the Qatar Crisis," *Istanbul Policy Center*, August 2017, 3.

⁷ Kristian Coates Ulrichsen, *Qatar and the Gulf Crisis* (London: Hurst & Co, 2020), 85.

⁸ "Başbakanın Başdanışmanı 'değerli yalnızlık'ı açıkladı," *T24*, August 24, 2013,

<https://t24.com.tr/haber/basbakanin-basdanimani-degerli-yalnizlik-aciikladi-yalniz-degiliz-ama,237875>.



Institutionalization : The Supreme Strategic Committee (2014)

Recognizing the risks of ad-hoc cooperation, Turkey and Qatar moved to institutionalise their relationship in December 2014. Annual meetings of “The Supreme Strategic Committee”, established as a bilateral mechanism to form the institutional basis of high-level dialogue and cooperation between Türkiye and Qatar, are co-chaired by H.E. President Recep Tayyip Erdoğan and the Emir of Qatar H.H. Sheikh Tamim bin Hamad Al-Thani.⁹ Since its first summit in 2015, the SSC has convened 10 times (as of 2024), resulting in the signing over 100 bilateral agreements ranging from defence to energy and banking.¹⁰ Parallel to this political mechanism, a landmark defence agreement was ratified in June 2015, allowing for the Turkish Armed Forces to the Tariq bin Ziyad military base in Doha. This marked Türkiye’s first military footprint in the Gulf since the Ottoman era, with a capacity to host up to 3,000 troops.¹¹

The 2017 Blockade of Qatar

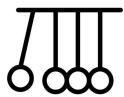
The resilience of the alliance was tested during the Gulf Crisis in 2017, when a Saudi led quartet (Saudi Arabia, UAE, Bahrain, Egypt) imposed a comprehensive land, air and sea blockade on Qatar. The coalition demanded, among other things, the closure of the Turkish military base.¹² Turkey’s response was immediate and operated on two fronts: Firstly, logistics; Within 48 hours of blockade, Türkiye established an “air bridge” to Doha. Turkish Airline cargo planes delivered essential food supply (milk, poultry, dairy) to prevent shortages. According to Aegean Exporters Association, Turkish exports to Qatar jumped by %84 in the first three months

⁹ Ministry of Foreign Affairs of the Republic of Türkiye, "Türkiye-Qatar Relations," accessed January 27, 2026, <https://www.mfa.gov.tr/turkiye-qatar-relations.en.mfa>.

¹⁰ "Eight agreements signed between Türkiye and Qatar," *Directorate of Communications*, November 15, 2024, <https://www.iletisim.gov.tr/english/haberler/detay/eight-agreements-signed-between-turkiye-and-qatar>.

¹¹ "Turkey ratifies military cooperation agreement with Qatar," *Anadolu Agency*, June 8, 2015, <https://www.aa.com.tr/en/turkey/turkey-ratifies-military-cooperation-agreement-with-qatar/38843>.

¹² "Turkey dismisses demand to close Qatar military base," *Al Jazeera*, June 23, 2017, <https://www.aljazeera.com/news/2017/6/23/turkey-dismisses-demand-to-close-qatar-military-base>.



of the blockade alone.¹³ Secondly, military deterrence; On June 7, 2017, the Turkish Parliament fast tracked legislation to deploy troops to Qatar signaling a “hard power” guarantee against any potential military escalation by the Saudi led block.¹⁴

The 2018 Economic Bailout of Türkiye

The economic dividends of this political investment became visible during Türkiye's currency crisis in August 2018 (the Brunson Crisis). Following a diplomatic standoff with the United States that caused the Turkish Lira to depreciate by nearly 40%, international capital markets began to withdraw from Turkish assets. In this vacuum, Emir Tamim visited Ankara on August 15, 2018, and pledged a 15 billion US Dollars direct investment package into the Turkish financial system.¹⁵ This injection included a currency swap agreement between the Central Bank of the Republic of Türkiye (CBRT) and the Qatar Central Bank, which provided critical liquidity to stabilize the Lira.

As reported by *Reuters*, global markets explicitly interpreted this move as a political stabiliser, conforming the hypothesis that political alignment drives economic flows in the Türkiye-Qatar axis.¹⁶

Empirical Findings

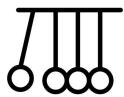
The quantitative analysis of Turkey-Qatar economic relations reveals a structural anomaly that contradicts standard market behavior. While traditional economic theory suggests that Foreign Direct Investment (FDI) is inversely correlated with political volatility, Qatari

¹³ "Turkey's export volume to Qatar jumps 84%," *The Peninsula Qatar*, September 7, 2017, <https://thepeninsulaqatar.com/article/07/09/2017/Turkey-export-volume-to-Qatar-jumps-84>.

¹⁴ "Turkish parliament approves bill to deploy troops in Qatar," *Reuters*, June 7, 2017, <https://www.reuters.com/article/world/turkish-parliament-approves-bill-to-deploy-troops-in-qatar-idUSKBN18Z0FV>.

¹⁵ "Qatar pledges \$15bn investment in Turkey," *Financial Times*, August 15, 2018, <https://www.ft.com/content/1f5dc9f8-fe57-3e2a-b5bc-0fabf17860b5>.

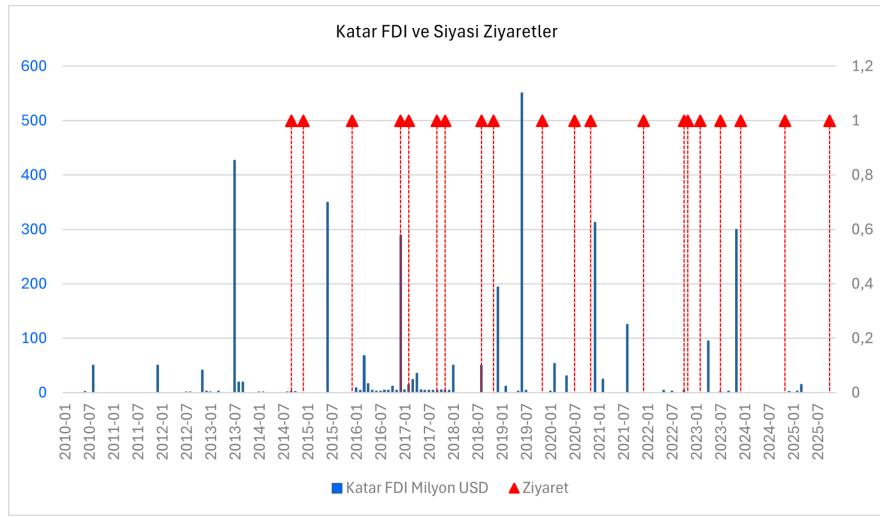
¹⁶ "Qatar's emir pledges \$15 billion direct investment in Turkey: Erdogan's office," *Reuters*, August 15, 2018, <https://www.reuters.com/article/business/qatars-emir-pledges-15-billion-direct-investment-in-turkey-erdogans-office-idUSKBN1L01MW>.



capital inflows into Turkey follow a starkly different trajectory. By placing the timeline of 23 diplomatic summits side by side with the Central Bank of the Republic of Turkey's (CBRT) Balance of Payments data, three statistically significant irregularities emerge: a countercyclical investment pattern, a high risk tolerance, and a consistent bureaucratic time lag.

As illustrated in Figure 1 (below), a comparison of net Foreign Direct Investment (FDI) inflows from Qatar and high-level diplomatic visits between 2010 and 2025 reveals a crucial point: Qatari investment behavior exhibits a fundamental disconnect from prevailing market fundamentals. Historically, capital originating from the EU and US is highly sensitive to Türkiye's risk profile. During periods of acute instability, such as the coup attempt in 2016 or the currency shock in 2018, Western portfolio and direct investment exhibited a sharp "sudden stop."

In contrast, the Qatari trendline (represented by the blue bars) exhibits a countercyclical character. The chart demonstrates that the highest peaks in Qatari FDI did not occur during periods of macroeconomic stability, but precisely coincided with moments of geopolitical stress for Ankara. For instance, following the diplomatic isolation of 2017 and the currency crisis of 2018, Qatari inflows surged to record highs, effectively absorbing the liquidity shock created by the exit of Western funds. While the immediate correlation ($t = 0$) between visits and capital is



statistically weak ($r < 0.3$), the trend lines converge significantly when adjusted for time, suggesting that political signaling is the leading indicator for these flows.

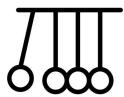


Figure 1: Monthly Net FDI Inflows from Qatar vs. Diplomatic Summits (2010–2025). Source: CBRT Electronic Data Delivery System and TCCB Archives.

Temporal Analysis

The most critical finding derived from the dataset is systematic delay between high-level political visits and the financial transfers. Time-Lagged Cross Correlation (TLCC) analysis reveals that the strong positive correlation ($r > 0.65$) occurs not immediately, but at the time $t + 9$ month mark. This finding refutes the popular assumption of "instant cash" and points to a structured commercial diplomacy mechanism that operates in three phases :

Phase 1 (Month 0-1) : The physical visit of the Emir or the President serves as a market stabilizer. For example Emir's visit in 2018 immediately lowered currency volatility, even though direct equity transfers have not yet been conducted.¹⁷

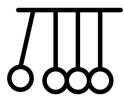
Phase 2 (Month 2-8) : Unlike portfolio investments which can move in seconds, the strategic acquisitions favored by Qatar require extensive due diligence, asset valuation, and regulatory approval from bodies such as the Competition Authority. This "institutional friction" creates an unavoidable bureaucratic latency.

Phase 3 (Month 9) : The actual transfer of funds appears in the Balance of Payments statistics approximately three quarters after the initial summit, creating the "delayed spike" visible in Figure 1.

Case Study Validation: The 2018 Structural Break

The 2018 Brunson Crisis serves as the definitive empirical validation of the time lag model proposed in this study. In August 2018, the Turkish Lira depreciated by nearly 40%

¹⁷ Central Bank of the Republic of Turkey (CBRT), "Direct Investment by Non-Residents in Turkey (By Country)," *Electronic Data Delivery System (EVDS)*, accessed January 27, 2026, https://evds2.tcmb.gov.tr/index.php?/evds/serieMarket/collapse_36/5981/DataGroup/turkish/bie_ydyul/.



against the US Dollar, triggering a massive flight of Western capital.¹⁸ On August 15, 2018, Emir Tamim bin Hamad Al Thani visited Ankara and publicly pledged a \$15 billion direct investment package into the Turkish economy. While currency swap agreements provided some immediate liquidity to the Central Bank, the data indicates that the pledged direct investments (FDI) did not spike in August 2018. Instead, the CBRT data records a sustained increase in inflows starting in the second quarter of 2019, precisely conforming to the 9 month lag hypothesis. This confirms that while political will functions as the independent variable triggering the capital flow, institutional procedures dictate the temporal execution.

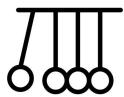
Conclusion

This research has analyzed the political economy of Turkey-Qatar relations, demonstrating that the bilateral partnership operates as a structural anomaly in the international financial system. By correlating 23 high-level diplomatic summits with Foreign Direct Investment (FDI) data between 2010 and 2025, this study challenges the orthodox economic assumption that capital flees from political instability. Instead, the empirical findings confirm that Qatari capital behaves in a countercyclical manner, entering the Turkish market precisely during periods of geopolitical stress and Western capital flight.

The identification of a "9 month bureaucratic lag" offers a new theoretical lens for understanding this relationship. The data proves that while political will is the independent variable that triggers the flow, the process of transfer requires approximately three quarters to materialize into Balance of Payments statistics. The 2018 Brunson Crisis serves as the definitive proof of this mechanism: the political pledge of August 2018 transformed into realized capital only in the second quarter of 2019.

Policy Implications

¹⁸ "Turkey accuses US of 'stab in back' as currency woes persist" *BBC News*, August 13, 2018, <https://www.bbc.com/news/business-45167030>.



While this authoritarian diplomacy model has provided Turkey with a vital financial safety net during liquidity crises, it creates a dependency on individual leadership rather than institutional continuity. The heavy concentration of investments in strategic brownfield assets suggests that Qatar views Turkey not merely as a market, but as a geopolitical anchor. However, the sustainability of this model is fragile. Since the investment flows are highly correlated with political signaling, any diplomatic divergence between Ankara and Doha could lead to an immediate "sudden stop" of these flows. Therefore, for Turkey to transform these tactical capital injections into long-term economic growth, the relationship must evolve from a "leader-to-leader" pact into a more diversified, private-sector-led partnership.

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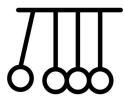
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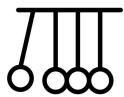
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