

## **Turkish Tales: why investors are looking again at Turkey**

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**After an eighteen-month monetary overhaul, Ankara is finally putting a lid on the price spiral that peaked above 70 percent last spring. The OECD's April survey notes that, provided interest rates remain restrictive and fiscal discipline holds, consumer inflation should sink to single digits by 2027, bringing Turkey back within striking distance of its long-forgotten 5 percent target.**



That macro reset is already feeding through to trade. Official data show goods exports exceeded US\$255 billion in 2024, a record haul and almost a tenth higher than the previous year, and this is despite flat demand in the EU. Turkish manufacturers have captured rerouted Asia-to-Europe business and attracted near-shoring orders in textiles and automotive parts, while logistics operators, such as DFDS, forecast double-digit growth in Turkey-Europe trailer traffic through 2028.

South of the border, Iraq's US\$17 billion 'Development Road' is laying rail and highway from Basra to the Turkish frontier, trimming Gulf-to-Europe transit times by days and positioning Istanbul as the natural onward hub. Meanwhile, the India–Middle East–Europe corridor agreement signed in Dubai adds a complementary sea-rail spine that likewise, converges on Turkish ports before heading into the EU market.

### **Trade arteries and logistics upgrades – from Marmara to the Gulf**

Turkey's export machine now rides on hard infrastructure rather than currency tweaks. First, the US\$17 billion Iraq-Turkiye 'Development Road' will weld Basra's Grand Faw port to Istanbul by 1,200 km of dual-use track and highway. Pilot runs under the TIR system have cut transit times to under a week, compared to around two weeks via the Red Sea. This 10-day advantage over the Suez route positions Turkey as the gateway of a new Gulf-to-Europe land corridor.

Trade volumes inside the Customs Union are rising. In 2024, EU-Turkey goods trade reached a record €210 billion, keeping Turkey as the EU's fifth-largest trading partner. Despite political tensions, demand for Turkish automotive products and white goods remains strong. Brussels and Ankara have begun a high-level dialogue to clear non-tariff snags and, importantly for corporates, tighten rules on circumvention of Russia-related sanctions.

To the south, Ankara is deepening ties with the Gulf. A free-trade agreement with the Gulf Cooperation Council (GCC) is on track for signing by the end of the year, following two rounds of negotiations. In 2023, bilateral trade reached US\$31.5 billion. Turkish defence firms and construction companies are preparing for increased project opportunities once tariffs are lifted.

### **Diplomatic chessboard – balancing Gulf, EU, Russia and China**

The thaw in relations beginning in 2023 has turned into concrete economic gains. During President Erdoğan's Gulf tour, Abu Dhabi committed US\$50 billion across finance, energy and defence. Riyadh followed with a major drone deal and project-finance pledges tied to its Vision 2030 logistics plans. For boardrooms, the Gulf now presents not only access to venture capital but also strategic entry points into Saudi and Emirati megaprojects. However, success will depend on meeting strict localisation targets and technology-transfer benchmarks imposed by both governments.

Brussels has frozen accession talks but is still pushing to update the Customs Union and advance a conditional roadmap for visa liberalisation. The trade-off is clear; Brussels expects Turkish co-operation on enforcing sanctions. During the latest High-Level Trade Dialogue, EU officials cautioned that any circumvention of Russia-related controls could delay or derail the planned Customs Union upgrade. Executives can therefore expect tighter dual-use export checks at Turkish ports and possible compliance audits on EU-bound supply chains.

Moscow still supplies just over 40 percent of Turkey's gas and remains a large tourism and metals market. At the same time, Ankara sells Bayraktar drones to Kyiv and is building a factory outside Kyiv to deepen that co-operation. This twin-track policy keeps energy flowing and the grain corridor viable, but leaves Turkish firms exposed to future US secondary sanctions if parallel-import trade expands.

China's Foreign Minister's meeting with Hakan Fidan, Turkey's FM, during Fidan's June 2024 visit, produced Belt-and-Road pledges on logistics, lithium-battery projects and a highly symbolic tour of Xinjiang, yet analysts note that mistrust and a US\$40 billion trade deficit limit momentum.

Beijing seeks a manufacturing foothold, and Ankara wants capital and technology without over-reliance.

Turkey's foreign policy operates on a transactional basis rather than fixed alliances. Businesses that blend Gulf financing, EU market access, Russian energy arrangements and selective partnerships with China can shield their operations, if they build clear geopolitical compliance clauses into all long-term agreements.

### **Industrial shift – clean energy, defence autonomy and big infrastructure**

Ankara's new 'super-permit' streamlines the renewable energy approval process, cutting timelines from four years to under two by co-ordinating environmental and forestry approvals in parallel. The government targets 120 GW of installed solar and wind capacity by 2035 (nearly four times the current 31 GW), backed by annual YEKA auctions and guaranteed dollar-based feed-in tariffs.

In 2024, solar output edged ahead of gas-fired power for the first time. Nine out of ten megawatts in the 13 GW construction pipeline are low-carbon or nuclear. Akkuyu-1 is on track for grid connection in 2026, while utility-scale batteries (target 80 GWh by 2030) will smooth intermittence. The shift promises to trim the US\$40 billion annual fossil-fuel import bill but will squeeze LNG suppliers already feeling the pinch from lower Turkish uptake.

The Medium-Term Program sets defence spending at 1.8% of GDP, with funds directed toward key projects like the TF-X "Kaan" fighter, SIPER long-range air defence system, and a new drone line tailored for Gulf buyers. Defence exports reached US\$5.5 billion in 2024, twice the 2021 figure. Saudi Arabia's US\$3 billion UCAV deal includes technology-transfer terms, aligning Turkey's defence industry with Gulf security priorities.

The same programme earmarks roughly US\$100 billion for metro extensions in Istanbul and Ankara, hyperscale data centres on the Asi-Marmara electricity corridor, and port upgrades at Mersin and Çandarlı. Projects are lira-denominated but import-heavy, leaving contractors exposed if the currency stumbles once capital controls ease.

### **Geopolitical shockwaves – Israel-Iran war and Turkey's risk posture**

Within days of the first Israeli strikes on Iran, Ankara redeployed drones and additional battalions along its 560-km frontier, yet defence officials reported "*no increase*" in attempted crossings, evidence that Turkey's containment measures hold well.

Publicly, Ankara condemns Israel's operations as breaches of international law, but it has stopped short of siding with Tehran and has ruled out involving itself in combat.

Turkey wants neither a nuclear-armed Iran nor unchecked Israeli military primacy. As the Washington Institute notes, its statements have been notably muted, signalling a preference for strategic equilibrium that keeps energy pipelines, and the embryonic Basra-to-Istanbul 'Development Road', shielded from sanctions or sabotage.

Airspace closures over Iran, Iraq and Israel lengthen Asia-Europe sectors by up to three hours and raise fuel bills, most flag carriers are detouring via Egypt or the Caspian arc. At sea, war-risk premiums for voyages to Israeli ports have tripled, while VLCC freight rates on the Gulf-to-Asia run have jumped more than 20 percent. Overland routes are gaining traction. Freight forwarders report increased interest in truck-rail corridors through Turkey that avoid the Suez and Hormuz chokepoints, strengthening Ankara's role as a strategic logistics alternative.

#### **Forward trends – medium-term scenarios to 2027**

Benchmark interest rates remain positive in real terms, and fiscal tightening is set to outweigh reconstruction spending. On this path, inflation is expected to fall below 10% by late 2026, GDP growth should average 3-4%, and public debt will hold steady around 45% of GDP. Meanwhile, progress continues slowly on EU customs union reform and a free trade agreement with the GCC.

If the 'super-permit' keeps utility-scale projects moving and solar-wind additions stay above 8 GW a year, Turkey could push renewables capacity past 60 percent of the mix by 2028, narrowing its US\$40 billion energy import bill and tipping the current account toward surplus. Parallel gains would flow from the Basra-to-Istanbul Development Road and linked Gulf rail upgrades, even a five-day cut in transit times could redirect enough Asia-EU freight to add 0.4 pp to annual GDP, and attract battery and logistics FDI keen on shorter supply loops.

A premature rate cut or external shock (such as Brent crude rising above US\$120 per barrel) could widen the current-account deficit, fuel dollar demand, and pressure Turkey's still-recovering reserves. ING cautions that a sharp rise in commodity prices would threaten disinflation efforts, potentially forcing the central bank into emergency rate hikes or capital controls. Either scenario could disrupt major public investments planned for 2026–27, including metro expansion, port upgrades and defence projects.

## Conclusion

Turkey offers a mix of genuine opportunity and conditional risk. Inflation is being brought under control, reserves have started to recover and export revenues are rising as trade routes shift from sea to land. This momentum is reinforced by a growing logistics network and a foreign policy that spreads exposure across the Gulf, Europe and Russia without leaning too heavily on any one partner.

The investment landscape *is* changing. The fast-tracked renewable permit system and expanding energy pipeline create space for green capital to move quickly. Major trade corridor projects and efforts to modernise the EU Customs Union could redraw freight patterns and influence how future regulations take shape. However, none of this is guaranteed. If energy prices surge or interest rates are cut too soon, the economic gains could unravel. Reserves would come under pressure, and capital controls might follow stalling construction and key infrastructure rollouts.

Capital commitments should be linked to signs of macro stability and reserve health. Contracts must allow for currency flexibility and the possibility of sanctions exposure. Overland routes should be built into logistics plans in case maritime choke points close again. With the right safeguards, it is possible to benefit from Turkey's strategic location and growth ambitions without becoming overexposed if reforms lose momentum.

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