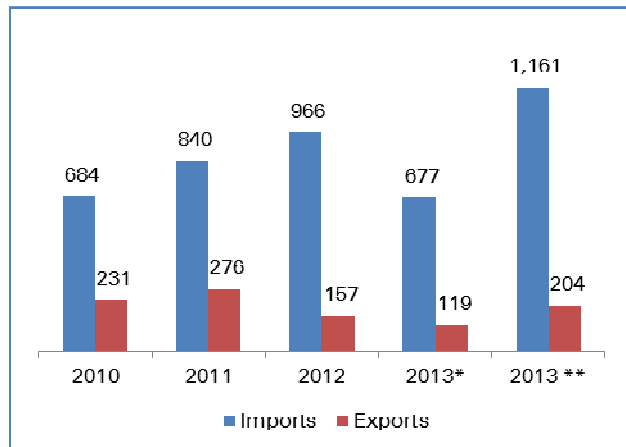


Lebanon's Imports & Exports to Turkey, in \$M



2013 *Actual values up to July
 **Annualized values
 Source: Lebanese Customs

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Tourists Flows to Turkey from Western Asia

	2010	2011	2012
Syria	899,494	974,054	730,039
Iraq	280,328	369,033	533,149
T.R.N Cyprus	191,993	203,272	211,828
Saudi Arabia	84,934	116,711	175,467
Lebanon	134,554	137,110	144,491
Jordan	96,562	94,914	102,154
Israel	109,559	79,140	83,740
Kuwait	27,281	41,617	65,167
U.A.E.	30,480	35,579	48,071
Other W. Asi an countries	10,093	11,445	14,286
Qatar	6,043	7,661	13,971
Bahrain	9,375	9,712	13,342
Yemen	6,344	8,066	11,826

Source: Turkey's Ministry of Tourism

Once part of the 400 years old Ottoman Empire, Lebanon has retained a rather critical political relationship with the Empire' successor state, Turkey. The flight of Armenians in 1915 from the Ottoman atrocities to take refuge in Lebanon also meant more cultural rivalry was present towards the old ruler. However in the past 10 years, the bilateral relations between Lebanon and Turkey gained momentum and several initiatives were made to build a re-polished image of Turkey in Lebanon. In the meantime, the commercial ties between the 2 countries were steadily growing, but remained imbalanced.

The Turkish Republic has a population of around 75 million and an estimated GDP of \$794 billion¹. Growth prospects are good, being at 2.6% and 3.4% for 2012 and 2013, and spillovers from war in neighboring Syria are insignificant. In parallel, and even though Lebanon's GDP is only about 5% of Turkey's, the two enjoy almost the same level of GDP/capita, standing at \$10,310 and \$10,609 respectively.

The main focuses of Lebanon's commercial relationship with Turkey have been foreign trade, direct investments and tourism.

¹ According to the International Monetary fund, 2012 estimates

As a trading partner, the size of the Turkish market is quite appealing to any regional state. In fact, Turkey's volume of bilateral trade with Middle Eastern countries reached around \$65 billion by the end of 2012, of which less than 2% represent the traded volume with Lebanon.

Turkey is the 6th largest source of imports for Lebanon, sending around \$965 million worth of goods in 2012, according to the Lebanese Customs. At the same time, Lebanon ranked 37th on Turkey's largest export destinations in 2012. Turkey is especially favored by Lebanon for imports of iron and steel, articles of apparel and clothing accessories, textile products, cereals, and coal and petroleum products.

As a market for Lebanese exports, Turkey ranks 7th in importance, receiving \$176 million² worth of goods in 2012, but Lebanon ranks further behind as the 76th largest supplier for Turkey. Top goods from Lebanon are metallic-ferrous ores and metal scrap, inorganic chemicals, hides, skins and fur skins, and non-iron metals.

In 2012, trade deficit with Turkey surged by 41.5% to \$789 million³. This was the result of more quantities being imported to substitute the lost products from war-torn Syria, while the regular volumes usually exported by land through Syria were depressed. Figures into 2013 are available up to July only, but when annualized, trade deficit for the year is projected to widen by another 18%.

The disrupted trade routes to Turkey through Syria mostly disadvantaged the Lebanese exporters, who faced increased costs to find alternative routes and reach their goods to destination. Using the Lebanese customs figures, a 20% rise in exports to Turkey was recorded in 2011, only to be followed by a severe drop of 43% in 2012 to \$157 million. However in 2013, cleared ways re-enhanced exports which reached \$119 million up to July. This accounts for a projected increase of 30% to \$204 million for the whole year of 2013.

Conversely, imports from Turkey fared much better in 2012. A 15% rise to \$965 million was recorded in 2012 and another 20% increase to \$1.16 billion is projected in 2013, provided the current statuses hold. The surge in imports during 2013 was driven by Machinery and Electrical Equipment as well as Prepared Foodstuff. The former rocketed to \$254 million in just 7 months of 2013 compared to mere levels of \$50 million in the previous 3 years. As of July 2013, Machinery and Electrical Equipment represented 37% of total imports from Turkey.

On the other hand, iron and steel imports from Turkey to Lebanon reveal a 37% drop to \$216 million when 2013 is annualized. Dependency on Turkey for mineral products also reduced by 54% in 2013, continuing from a decline of 22% in 2012. Oil imports totaled \$157 million in 2012 going down to \$42 million by July 2013, or an estimated \$72 million for the whole year. Textile imports also compacted in 2013 after rising 26% in 2012 going from \$91 million to a projected \$81 million in 2013.

Overall, nearly all of the trades between Turkey and Lebanon are in favor of Turkey, but some exceptions hold. Pearls and precious metals, lead exports of Lebanon, realized a net trade surplus of \$1.7 million during 2012 but will probably achieve less in 2013 with only \$534 thousands

² *Based on Turkey's official imports' figures. In fact we noticed that exports of both countries seemed to be understated when compared to the other's declared imports. This anomaly could be due to technical reasons; therefore we used the imports figures from each country for a more accurate measure.*

³ *Calculated based on import's figures from each country.*

recorded up to July. Still, exports of pearls and precious metals recorded \$2million in 2012 and are expected to grow as they already posted \$1.8 million during the first 7 months of 2013. To note that Pearls, stones and precious metals constitute one of Turkey's most important exports, making it a competitor to Lebanon rather than a possible net importer.

The investment scene between Lebanon and Turkey portrays a similar picture to that of the trade. Turkey's interest in investing in Lebanon is quite unpronounced. Turkish firms have undertaken 9 projects in Lebanon with a limited value of \$347 million up to May 2013, compared to projects in the Middle East that exceeded \$65.8 billion by the end of 2012. According to Lebanon's ministry of economy and trade, 7 Turkish firms were registered in Lebanon between 2009 and 2011 mostly working in contracting, real estate and infrastructure development. More recently, 2 Turkish barges were leased by the ministry of Energy to supply power to Lebanon, but repeated contracts' breaches may end up costing the owning Turkish firm around \$5.5 million in penalties for various delays.

Regarding Turkey's foreign direct investments (FDI) in Lebanon, barely \$21 million were recorded in 2012, in a time when total FDI to Lebanon exceeded \$3.7 billion based on UNCTAD figures. Lebanon ranked 3rd in the Middle East on the list of largest recipient of FDI, and the new gas discoveries are expected to attract further FDI in oil exploration.

On the other hand, Lebanon's FDI in Turkey were much more important increasing by 2.5x in 2012 to \$525 million from \$210 million in 2011. The 2012 investments persisted in spite of the deterioration of political relations during this year, and a general decline of 25% in FDI to Turkey. Moreover, the Lebanese banking sector has established presence in Turkey through 2 of its banks. Bank Med currently holds a 50% share of Turkland Bank (known as T-Bank), which he first acquired alongside Arab Bank in early 2007. Bank Audi Sal-Audi Saradar Group has also expanded to Turkey in January 2013 through its fully owned subsidiary Odeabank. The latter was the first new bank to receive a license in Turkey after a 12-year hiatus.

Looking back at the political developments, the 2012 tensions between Lebanon and Turkey were considerable, however the diplomatic affairs remained intact as the official sides chose to cooperate to solve the rising issues.

In detail, 11 Lebanese pilgrims were kidnapped in May 2012 near Aleppo by the Syrian rebels. Families of the abducted held Turkey responsible for the detention of their relatives accusing it of protecting the rebels' actions. In August 2012, two Turkish citizens were kidnapped, one by the Lebanese Meqdad clan and another by an undefined party.

The two Turks were later released against the release of 2 of the previously held Lebanese pilgrims. More recently and after a year of the unresolved case, another 2 Turk pilots were kidnapped in August 2013 near the Lebanese airport. Threats of escalation were voiced among the Lebanese families of hostages but both countries' diplomacies chose to avoid conflict or state confrontations. Nevertheless, Turkey decided to withdraw its troops by early September from UNIFIL, the peacekeeping troops working in South Lebanon, reversing its initial decision last month to renew their mandate for another year.

The above events materialized on the touristic flow between the two countries. With threats of kidnappings escalating, Turks had less reason to head to Lebanon. In parallel, Lebanese feared vengeful acts and avoided Turkey during the peaking of crisis.

Nevertheless, figures show that around 144,491 Lebanese visited Turkey in 2012, a 5.38% increase over 2011. This represents a share of 0.45% of the 31.7 million+ foreigners that visited

Turkey during the year. The available data up to July 2013 show a 4.5% yearly increase to 72,923 visitors, whereas the same period of 2012 posted an annual decline of 2.13% to 69,785 visitors.

Turkey follows Spain as the hottest destination in the Mediterranean basin, with the latter hosting more than 34 million tourists between Jan and July 2013. It is also the 6th most popular destination in the World according to the United Nations world tourism organization.

In addition to Turkey's popularity, the abolishment of visa requirement for Turkish and Lebanese citizens signed in 2010 has encouraged more Lebanese to head to Turkey, but Turks seem to have been less enthusiastic. The records for Turkish tourists to Lebanon are less evident and incomplete, but on average, only 20% of the visits paid by Lebanese to Turkey were returned by Turks. Of the 1.36 million recorded tourists to Lebanon in 2012, an underestimated number of 27,516 visitors were from Turkey, and a fewer figure of 17,514 Turks was recorded by July 2013.

Finally, Lebanon's initiatives in Turkey are multiplying. Even real estate is now being promoted to Lebanese investors. But stimulating demand from Turkey is also necessary. Raising interest in Lebanese tourism, businesses and products would return large benefits. The Turkish market holds a lot of potential and can be a good regional hedge against the close correlation Lebanon runs with Syria and Israel. Turkey's openness to Europe can also be a source of later welfares for Lebanese businesses and investments. Several memorandums of understanding in fields such as agriculture, forestry, military, health and others were signed, but much remains to be done on the level of tourism and investments.

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