

Economic Relations Between China and Türkiye

The Alignment of the Belt and Road Initiative and the Middle Corridor Initiative

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1. Introduction

China and Türkiye established their diplomatic relations in 1971¹, but they took a low level of development up until the 2000s, when “high-level visits considerably increased”². An important step in their bilateral relations took place in 2010 during Chinese Prime Minister Wen Jiabao’s visit to Türkiye, where both countries signed an agreement to raise their relations to a “strategic partnership” and to increase the bilateral trade in the coming years³.

Furthermore, the “Modern Silk Road” project, initiated by the Chinese President Xi Jinping, in 2013, pushed their bilateral relations a step further in achieving a mutual strategic cooperation and realization of important projects in sectors such as nuclear energy and railway network development. The Belt and Road Initiative (BRI) has the objective to improve the regional interconnectivity between Europe and Asia through substantial investments in a range of infrastructure projects. Meanwhile, Türkiye with its geostrategic location in the middle of the BRI, between Europe and Asia, plays an important role in the accomplishment of the above mentioned objectives.

A subsequent progress in Sino-Turkish relations took place in November 2015, during the G-20 Leaders Summit in Antalya, where China and Türkiye signed a “Memorandum of Understanding on Aligning the Belt and Road Initiative and the Middle Corridor Initiative”. The intention of the alignment of both these initiatives is to improve the cooperation and connection between China and Türkiye by facilitating the foreign trade and the transit of cargo as well as increase investments in infrastructure and sustainable development.

Türkiye’s “Middle Corridor” Initiative, also known as the Trans-Caspian East-West-Middle Corridor, is a multimodal transport route that links China with Türkiye by passing through Kazakhstan, Azerbaijan, and Georgia and a sea transit segment at the Caspian Sea. With reference to Diagram 1 below, we can notice that this route provides an alternative transportation corridor for goods travelling to Europe that use the Trans-Siberian railway that passes through Russia and the China-Central Asia-West Asia corridor that passes through Iran. The “Middle Corridor” thus creates a route that bypasses Iran, isolates Armenia and avoids a region in a state of conflict.

¹ Ministry of Foreign Affairs of the Republic of Türkiye, “Relations between Türkiye and People’s Republic of China”

² Selcuk Colakoglu, *Turkey-China Relations: Rising Partnership*, Ortadogu Analiz, April 2013, Vol.5 Issue 52.

³ 中土关于建立发展战略合作关系的联合声明 (China-Turkey Joint Statement on Establishing and Developing Strategic Partnership), <https://www.chinanews.com.cn/gj/2010/10-09/2573573.shtml> (accessed 21 July 2022)

Diagram 1

Map of the Middle Corridor and BRI's Northern Corridor



Source: EUROACTIV infographic

Following this memorandum, the Baku-Tbilisi-Kars (BTK) railway project was also completed and is an essential part of the Middle Corridor since October 2017⁴. The BTK railroad provides a direct rail transport that connects the Caucasus region, Central Asia and Türkiye. This railway line extends the already existing three other railway lines: Chengdu-Istanbul (launched in 2016), Lianyungang-Istanbul and Lianyungang-Izmir (launched in 2015). The Xi'An – Istanbul railway line launched in 2019 also passes through the Marmaray subsea tunnel, a project built and funded by China⁵. In 2020, the Maersk Intercontinental Rail service network launched the Xi'An-Izmit railway link that further shortened the transit time between the two countries⁶.

⁴ Dr. Reza Yeganehshakib, *The Baku-Tbilisi-Kars Railroad: Peace & Prosperity Through The Revival Of The Silk Road*, Silk Road Briefing <https://www.silkroadbriefing.com/news/2019/04/15/baku-tbilisi-kars-railroad-peace-prosperity-revival-silk-roads/> (accessed 22 July 2022).

⁵ John C. K. Daly, *Chinese Use of Marmaray Subsea Tunnel Another First for Belt and Road Initiative*, Modern Tokyo Times <http://moderntokyotimes.com/chinese-use-of-marmaray-subsea-tunnel-another-first-for-belt-and-road-initiative/> (accessed 22 July 2022).

⁶ Maersk Press release: *Maersk offers weekly rail service from China to Turkey*, 29 April 2020, <https://www.maersk.com/news/articles/2020/04/29/maersk-offers-weekly-rail-service-from-china-to-turkey> (accessed 22 July 2022).

The above mentioned trans-Eurasian railway lines have the purpose of filling in the gap between sea and air transport. They provide lower transport costs, shorter transport time and are considered to be an environmentally friendly transportation⁷.

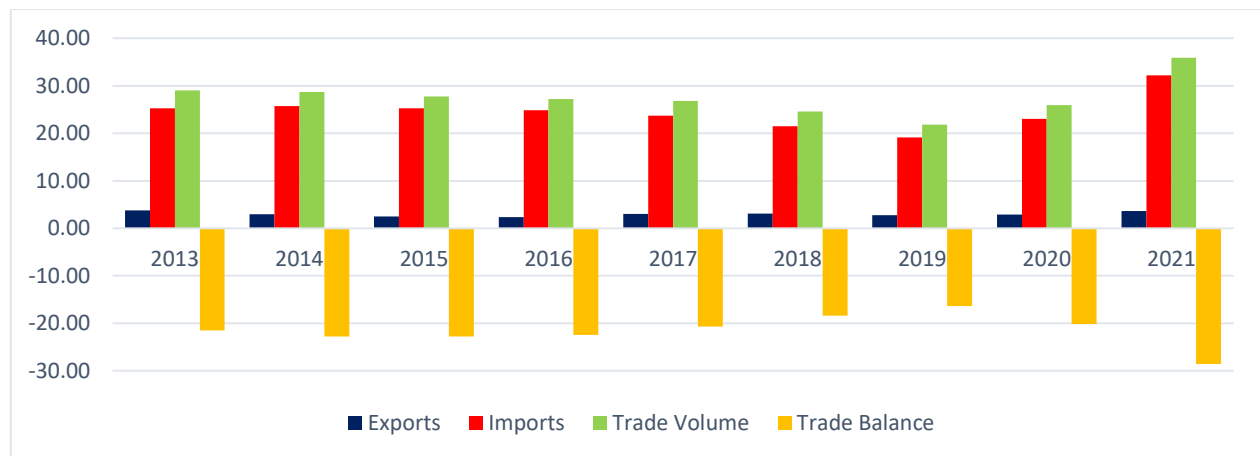
With reference to the above information, we can conclude that both China and Türkiye have a mutual interest to promote the alignment between the two initiatives in order to strengthen their bilateral economic relations. Thus, the next two parts of this paper will further elaborate on their relationship in the field of trade and investment.

2. Türkiye and China commercial relations

In 2021, China became Türkiye’s second largest trade partner⁸ and is the country with which Türkiye has the highest trade deficit⁹. The increasing number of trade between the two countries has been facilitated by the increasing number of joint infrastructure projects and opening of new railway lines under the strategic framework of the BRI. Thus, this part of the paper uses the United Nation’s Standard International Trade Classification (SITC) Revision 4 version to further analyze the development of foreign trade relations between Türkiye and China for the period 2013 – 2021.

Figure 1

Türkiye-China foreign trade in goods between 2013 and 2021 (Billion USD)



Source: Author’s own calculations based on UNCOMTRADE Rev.4

⁷ 土耳其与“一带一路”成功对接 (Turkey and the Belt and Road Initiative successfully connected),

<https://www.yidaiyilu.gov.cn/ghsl/hwksl/108957.htm> (accessed 21 July 2022)

⁸ Ministry of Foreign Affairs of the Republic of Türkiye, Türkiye-People’s Republic of China Economic and Trade Relations, https://www.mfa.gov.tr/turkey_s-commercial-and-economic-relations-with-china.en.mfa (accessed 22 July 2022)

⁹ Daniel Workman, *Turkey’s Top Trading Partners*, <https://www.worldstopexports.com/turkeys-top-import-partners/> (accessed 22 July 2022)

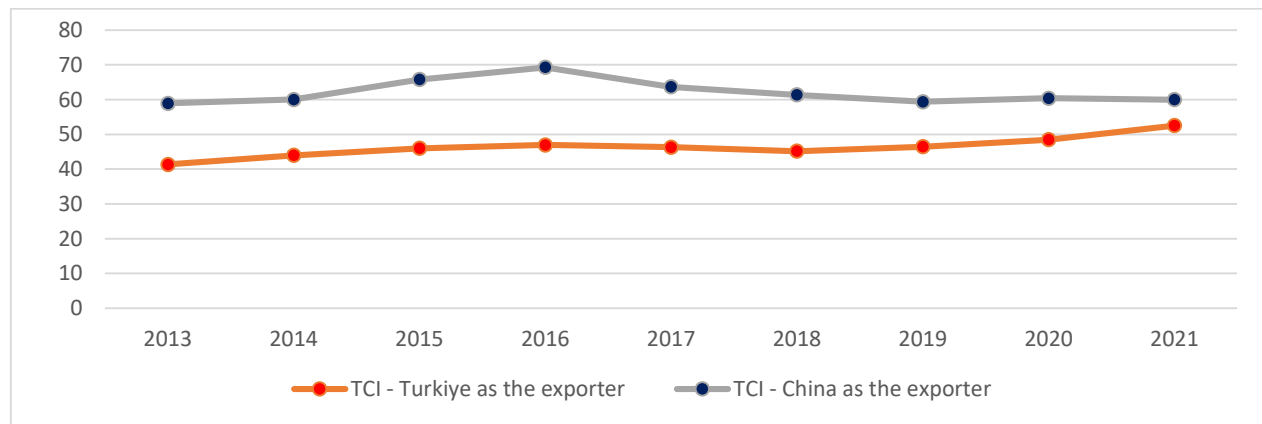
Figure 1 illustrates the total trade in goods between Türkiye and China. In 2013 their bilateral trade volume amounted to \$29.02 billion and to \$35.90 billion in 2021. Meanwhile, it can be easily seen that Türkiye has a huge trade deficit with China, amounting to \$21.51 billion in 2013 and to \$28.58 billion in 2021, hinting that “the gap between import and export will not be balanced”¹⁰ even in the next few years. This has been caused by the large import volume of goods coming from China. During the period 2013 and 2021, the exports from China to Türkiye have increased by 27.63%, while the exports from Türkiye to China have decreased by 2.47%.

The four main product categories which China exports to Türkiye are Chemicals and related products, n.e.s (SITC 5), Manufactured goods classified chiefly by material (SITC 6), Machinery and transport equipment (SITC 7) and Miscellaneous manufactured articles (SITC 8). Meanwhile, Türkiye has two main export product categories: Crude materials, inedible, except fuels (SITC 2) and Animal and vegetable oils, fats and waxes (SITC 4). As a result, in terms of factor intensity, Türkiye mainly exports resource-intensive products to China and imports capital-intensive and labor-intensive goods.

To get the full picture of the prospects for intraregional trade between China and Türkiye I have further examined their trade complementarity. This has been accomplished by using the Trade Complementarity Index (TCI) introduced by Michaely (1996)¹¹. This index shows to which extent one country’s exports overlap with what another country imports and it takes the values from 0 to 100. If the index is zero this indicates that there is no overlap in the export and import pattern between the two countries, while if the index is 100 this means that they are a perfect match.

Figure 2

Development of trade complementarity in goods between Türkiye and China between 2013 and 2021



Source: Author’s own calculations based on UNCOMTRADE Rev. 4

¹⁰ Bahri Yilmaz, *Trade Relations between China and Turkey: A Comparison with the European Union*, Berlin:Stiftung Wissenschaft und Politik, May 2022 (Centre for Applied Turkey Studies [CATS]), WP NR.01:5, doi:10.18449/2022WP03.

¹¹ Michael Michaely (1996), “Indices of Compatibility”, *Trade Preferential Agreements in Latin America and Ex-Ante Assessment*, The World Bank, November 1999.

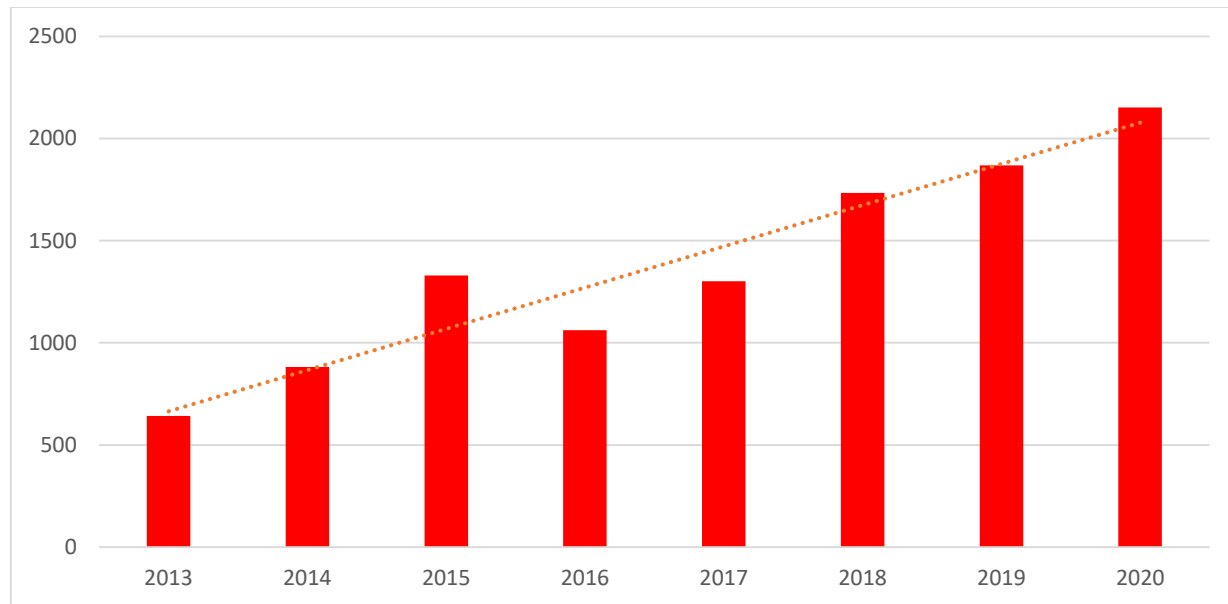
From Figure 2, we can easily notice that the values for both countries are not quite similar, with China’s exports having a much higher complementarity value than Türkiye’s exports. During the investigated period (2013-2021), China has an average TCI value of above 60 compared to Türkiye’s average TCI value of around 45. These results suggest that Türkiye’s exports cannot fully complement China’s import profile to the extent to which China’s exports complement Türkiye’s import needs. Given the not so high values on both sides, we can conclude that there is still a potential for increasing the trade flow between the two countries, but at the moment China is in the lead.

3. Türkiye and China investment relations

According to the International Investment Agreement Navigator of the United Nations, China and Türkiye had signed a Bilateral Investment Treaty (BIT) already in 1990 that was later replaced with a new one in 2015 and is in force since November 2020¹². In this section of the paper, we will briefly focus on the Türkiye and China existing and planned cooperation in different investment projects.

Figure 3

Chinese OFDI stock in Türkiye between 2013 and 2020 (Million USD)



Source: 2020 Statistical Bulletin of China’s Outward Foreign Direct Investment

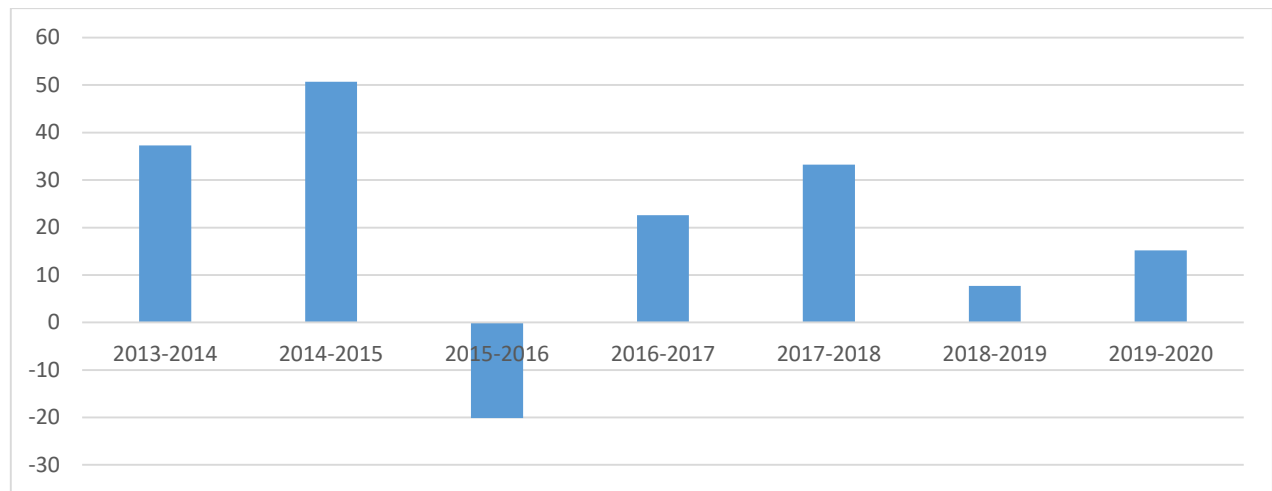
Figure 3 illustrates the Chinese outward foreign direct investment (OFDI) stocks in Türkiye per year. China’s OFDI stocks in Türkiye increased from \$642.31 million in 2013 to \$2151.87 million in 2020, which is a significant increase in terms of volume. Furthermore, it can

¹² United Nations Investment Policy Hub, <https://investmentpolicy.unctad.org/international-investment-agreements/treaties/bit/3588/china---turkey-bit-2015-> (accessed 15 July 2022)

be noted that after 2016 they have kept a steady upward trend. It is important to indicate that even though we see an upward trend in Chinese OFDI stocks in Türkiye this doesn't give the full picture of the investment performance during the investigated period. From the perspective of investment performance, the year-on-year growth rate for the period 2013-2020 has been calculated and illustrated in Figure 4.

Figure 4

Year-on-Year growth rate of Chinese OFDI stocks in Türkiye (%)



Source: Author's own calculations based on 2020 Statistical Bulletin of China's Outward Foreign Direct Investment

With reference from the above Figure 4, it is visible that the upward trend from the previous figure is not as stable as it seems. We can notice that the Chinese OFDI stocks in Türkiye have a rather up and down trend with quite a low year-on-year growth rate increase in the last couple of years. In 2020, Türkiye's share in China's entire OFDI stocks is less than 1%. This share could potentially be increased through more bilateral agreements under the strategic framework of the BRI.

In spite of this unstable growth rate, according to the American Enterprise Institute and the Heritage Foundation (2022), since the launch of the BRI in 2013, China has invested \$9800 million in Türkiye in a variety of sectors (investments over \$100 million). More than half of these investments went into the energy sector (67.76%) followed by a significantly lower amount of investments to the chemical sector (11.22%) and to logistics (9.39%). The finance, real estate and technology sectors each accounted to less than 5%.

Table 1**Timeline of Chinese investments in Türkiye’s energy sector, 2013 – 2019**

Year	Value of Chinese Investments in Türkiye’s Energy Sector (Million USD)	Subsector	Chinese Investor
2013 ^a	460	Hydro	China General Technology (Genertec)
	2400	Coal	Harbin Electric
	220	-	China National Machinery Industry (Sinomach)
2015 ^a	380	-	China National Machinery Industry (Sinomach)
2016 ^a	660	Coal	Dongfang Electric Corporation
2017 ^a	1090	Coal	Power Construction Corp. (PowerChina)
2019 ^a	1320	Coal	State Power Investment Corporation, Aviation Industry Corp. (AVIC)
	110	Alternative	China Electronics Technology

Source: Processed by the author according to the data from the American Enterprise Institute and the Heritage Foundation (2022).

Note: The above data covers Chinese investments over 100 million USD; a: BRI investment projects; “-”: no available data.

Considering the large share of Chinese investments in Türkiye’s energy sector, Table 1 summarizes Chinese investments and construction projects in this sector that also belong to the BRI. It can be seen that most of these investments are in the coal subsector. However, in the last couple of years Chinese companies have also participated in joint projects with Turkish companies for the development of sustainable development projects in the energy and infrastructure sector. Both countries have a mutual interest to promote these types of projects. On the Turkish side, they can provide an upgrade to the infrastructure, increase trade and promote sustainable and green energy development. On the Chinese side, they provide the opportunity for the Chinese companies to expand their market to overseas and sell Chinese equipment, all of which could be observed from previous overseas projects.¹³

From the infrastructure or construction point of view, there are quite a few important joint projects between China and Türkiye. One of these projects is the China-funded Phase 2 of the Ankara-Istnabul High-Speed Railway line worth \$720 million, a project that was completed in 2014¹⁴. Another Chinese investment in this sector is in the construction of the Yavuz Sultan Selim bridge and the Northern Marmara Highway project (loan worth \$2.7 billion)¹⁵. These are

¹³ James Kynge, *Chinese Overseas Lending Dominated by One Belt, One Road Strategy*, Financial Times, June 18, 2015.

¹⁴ 中国铁建承建的土耳其安伊高铁二期主体完工 (The main body of Phase 2 of Türkiye’s Ankara-Istanbul High-Speed Railway constructed by China Railway Construction is completed), <http://ccnews.people.com.cn/n/2014/0117/c141677-24155857.html> (accessed 22 July 2022).

¹⁵ China’s ICBC authorized to refinance \$2.7B loan for two Turkish megaprojects, <https://www.dailysabah.com/economy/2018/07/30/chinas-icbc-authorized-to-refinance-27b-loan-for-two-turkish-megaprojects> (accessed 22 July 2022).

significant projects facilitating the infrastructure connectivity between Europe and Asia as well as contributing to the development of the logistics network along the BRI and the “Middle Corridor”. Furthermore, they could potentially diversify the trade routes as well as reduce the transportation time and cost.

In September 2015, China Merchants Group, China Investment Corporation and China Ocean Shipping (COSCO) acquired 65% of the Kumport Terminal in Türkiye for \$940 million, which is a strategic trade route for the BRI¹⁶. This port plays an important role in the expansion of the logistics network of China’s BRI harbor projects in the Aegean and the Mediterranean regions. In spite of its advantages, the lack of a rail connection and a convenient nearby logistics center is a weakness to this port. Nonetheless, this weakness could be used for the promotion of future cooperation projects between both countries in connecting the port and the land routes.

Furthermore, an increasing number of Chinese companies invest and contribute to Türkiye’s green and sustainable energy development. These companies focus on Türkiye’s photovoltaic, hydropower and natural gas storage facilities projects.

A more recent example of Chinese investments in Türkiye’s photovoltaic energy projects is Huawei’s investment of \$71 million in the Tosyali Solar project. The company contributed to the construction of the world’s largest rooftop solar power plant in Osmaniye.¹⁷ The first phase of this project is expected to be completed in 2023 and will potentially contribute to the cutting of carbon emissions in Türkiye.

In 2019, China’s Shanghai Electric Power (SEP), a subsidiary of the State Power Investment Corp (SPIC), one of China’s top power producers, invested \$1.7 billion in the Hunutlu Power Plant project in Adana. This is the largest Chinese direct investment in the country and is a key construction project in the alignment of the BRI and the “Middle Corridor”¹⁸. It is a joint venture between SEP (78.21%), AVIC-International Project Engineering Co., Ltd (2.99%) and Turkish partners (18.8%).¹⁹

Power Construction Corporation of China (PowerChina), a leader in China’s hydropower industry, established headquarters in Istanbul and has a contract of \$3 billion for the construction of nine projects in Türkiye: Karacaoren Hydroelectric Power Plant, Burcebendi Dam, Feke-1 Dam, Feke-2 Dam, Ebru Dam, Karakuz Dam, Silopi Coal Fired Power Plant, Kazan

¹⁶ Presidency of the Republic of Türkiye, Investment Office, Chinese consortium buys into Turkish port with USD 940 million investment, <https://www.invest.gov.tr/en/news/news-from-turkey/pages/280915-cosco-pacific-buys-turkish-kumport.aspx> (accessed 22 July 2022).

¹⁷ 土耳其启动全球最大屋顶太阳能发电项目 (Turkey launches world’s largest rooftop solar power project), <https://www.energytrend.cn/news/20220317-103175.html> (accessed 22 July 2022).

¹⁸ 中国在土耳其最大直接投资项目开工 (Construction of China’s largest direct investment project in Turkey starts), http://www.jjckb.cn/2019-09/24/c_138416555.htm (accessed 22 July 2022).

¹⁹ Emba Hunutlu coal power plant, Bank Track, https://www.banktrack.org/project/emba_hunutlu_coal_power_plant/0/www.cebbank.com (accessed 22 July 2022).

Congeneration Power Plant and Iskenderun Coal-Fired Thermal Power Plant²⁰. It can be seen that these projects under construction include five hydropower stations and four thermal power projects, thus further contributing to Türkiye's sustainable development.

China Tianchen Engineering Corporation also assisted Türkiye's Petroleum Pipeline Corporation (BOTAS) in the construction of the 1-billion-cubic-meter gas depository under Lake Tuz that will ensure the proper management of natural gas²¹. Currently, it is considered to be the largest natural gas storage in the world.

The above mentioned joint projects demonstrate the commitment and cooperation of China and Türkiye in promoting and developing the connection between the Belt and Road Initiative and the "Middle Corridor". In addition, these projects also encourage the improvement of the clean energy sector in Türkiye.

Conclusion

The alignment of the Belt and Road Initiative and the Middle Corridor Initiative is a subsequent step of the Sino-Turkish economic relations that aim to improve the connectivity networks and enhance linkages through the realization of alternative routes for the transportation of goods for the participating countries. The cooperation between ports and land roads along the BRI and the "Middle Corridor" facilitate and increase the connectivity with all participating countries along these routes and could potentially lead to higher volumes of direct investments and trade.

The observed period in this paper illustrates that China and Türkiye currently have stable economic relations that still have a great potential for development. It is reasonable to expect that the geo-economic interdependence between both countries will grow with time.

Türkiye could benefit from the Chinese investments in advancing its own infrastructure and increase its trade potential as well as its position in the Europe-Asia connectivity. While, China could take advantage of Türkiye's geostrategic location to establish efficient and less risky rail, road, sea and air connections between Asia and Europe, as well as assist its companies in the expansion of their overseas market accessibility.

Nonetheless, in order to achieve a positive outcome of this geo-economic interdependence, it is essential to possess a shared vision for development, a common strategic plan and to look beyond the presently maturing joint projects in the transportation and logistics sector.

²⁰ A Grand Blueprint – PowerChina pushes forward globalization, http://www.bjreview.com/Business/201707/t20170710_800100051.html (accessed 22 July 2022).

²¹ 天辰公司总承包的世界最大天然气储库项目正式交付 (The world's largest natural gas storage project contracted by Tianchen Company was officially delivered), The oriental Pro-Energy Consulting Organization, http://www.petroequipsourcing.com/cnt_1511.html (accessed 22 July 2022).