



# Making Sense of Turkey's Rapprochement with China

*By Altay Atlı*

As its relations with the transatlantic community are going through difficult times, and even face a risk of serious rupture, Turkey is making efforts to nurture links elsewhere in the world. It probably comes as a surprise to nobody that China is top of the list. The past two years have witnessed real and profound improvement in the relations between the two countries; trade is flourishing, more Chinese investment is flowing into the Turkish economy, and there is a stronger and more constructive dialogue between the two sides. However, this rapprochement does not necessarily have to come at the expense of Turkey's relations with its established partners in the West. And even if Turkey intended to replace the West with China as its major partner, this would not be possible anyway.

For Turkey, China's importance is primarily economic. In the short run, as the economy continues to sail through turbulent waters, and with the lira having sunk to historical lows against major international currencies, securing external financing is crucial for Turkey. China can be an opulent option. The Ministry of Treasury and Finance recently announced the finalization of a \$3.6 billion credit line from Chinese banks to be used for the financing of energy and transportation infrastructure projects. More cases like this can be expected to follow as the government makes

serious efforts to diversify sources and instruments of external funding.

Securing external funding in dire times like this is definitely important for Turkey; however, its expectations go beyond project finance when it comes to China. Almost all of the ministries are formulating their own China Action Plan or commencing its implementation. For example, the Ministry of Trade has declared China to be one of the four priority markets for exporters along with Russia, India, and Mexico, and it has prepared a detailed road map for improving trade relations between the two countries. The Ministry of Culture and Tourism is drawing up plans to attract a larger number of Chinese visitors.

## The Belt and Road Initiative

At the heart of Turkey's longer-term vision for a more productive economic relationship with China lies the Belt and Road Initiative (BRI). The government has explicitly stated its enthusiasm for China's grand project in several instances and it continues to do so. In May 2017, speaking at the Belt and Road Forum in Beijing, President Recep Tayyip Erdoğan emphasized that the initiative "will benefit from bilateral, multilateral and regional cooperation," and that "Turkey, with its special geographical location at the crossroads of Asia and Europe, is one of the leading countries in Silk Road's geography," referring to the BRI's popular perception



as the New Silk Road.<sup>1</sup> The BRI is now inscribed in the bureaucracy's policy papers. The government's enthusiasm is shared by the business community, which is actively endorsing the project, including by bringing the major international stakeholders of the initiative together, like in the Belt and Road Commercial and Industrial Alliance summit held in October in Istanbul.

The BRI is, for the time being, more about expectations than actual outcomes for Turkey. As of the end of 2017, the volume of Chinese direct investment in the country was \$1.6 billion – a significant amount, yet one that does not fully reflect the potential Turkey has to offer to the BRI through its sizeable market and favorable geographic location connecting European, Middle Eastern and Eurasian markets. To these advantages, one can now add the attractive investment opportunities arising from the low value of the lira.

So far the single largest Chinese direct investment in Turkey has been the purchase by a consortium of Chinese companies of a 65 percent stake at Kumport, near Istanbul, which is the country's third-largest seaport in terms of container-processing capacity. This investment is of vital importance not only for Turkey's shipping and trade capacity, but also for the BRI as it allows the Chinese side to initiate a new regional service of container shipping that connects Northern European ports with those in the Mediterranean. Industrial and Commercial Bank of China, Bank of China, and the telecommunication companies Huawei and ZTE have entered the market, but other Chinese corporate heavyweights are yet to explore Turkey.

Turkey expects more Chinese investment to flow in through the BRI, while China expects to be more active in the Turkish market given the latter's key position in the BRI. Chinese companies that have for some time been in a wait-and-see mode with regard to Turkey, due to security issues such as terror attacks and the failed coup attempt, find a more favorable business environment now. Intergovernmental agreements over the past years – such as the ones

in railroad transportation and nuclear energy – have also paved the road toward greater bilateral cooperation.

## Focusing on the Long Term

Turkey sees China not only as a source of short-term finance that would help to save the day for its economy, but especially as a major stakeholder in its long-term economic development. The country needs to get its finances right at the moment, but more importantly the economy has to be placed on a sustainable long-term growth track to be more productive and less prone to crises. This requires improving physical infrastructure, raising technological capabilities, and moving production up the value chain. What Turkey expects from China, including through the BRI, is a major contribution in this. That is the reason for the focus of Turkish companies on the outcomes of the Made in China 2025 initiative, which aims to upgrade technologically Chinese manufacturing, rather than on China's low-cost production opportunities, which rarely exist anymore anyway. This is also why Turkey wants its high-speed rail tracks and one of its nuclear plants to be built in partnership with the Chinese side. And it is why in 2013 Turkey included a Chinese company in the procurement tender for a missile-defense system since, unlike the American and European bidders, it offered the transfer of technology and co-production.

The improvement in Turkish-Chinese links is not related to Turkey's currently troubled relations with its Western partners. Relations with China (or any other country in the world) are not a function of Turkey's relations with the West. The dichotomy that it has to choose between the East and the West is a false one. Turkey's approach towards China is grounded in economic rationality rather than being the result of an ideological or political anti-Western stance. Turkey is getting closer to China, not because it has problems with the transatlantic community, but because it needs partners for its long-term economic development, and China as a major player in global economy is a natural choice for this.

<sup>1</sup> "A New Era will be Heralded in Our Region Based on Stability and Prosperity," *Presidency of the Republic of Turkey*, May 14, 2017. <https://www.tccb.gov.tr/en/news/542/75199/a-new-era-will-be-heralded-in-our-region-based-on-stability-and-prosperity>.

## Not Moving Away From, but Following the West

Turkey's rapprochement with China does not mean a move away from the West even within the realm of economics. Its economy is so strongly anchored in the West that it is simply impossible to replace the latter with China. In 2017, the share of the European Union (EU) in Turkey's exports was 47.8 percent and the share of North American countries was 6.5 percent, whereas the figure for China was 1.9 percent. In terms of the foreign direct investment stock in Turkey, as of the end of last year the European share was 76.1 percent, North America's 3.8 percent, and China's 0.9 percent. It is not possible for Turkey to replace the West with China as its major partner and it is not trying to do so. Instead it wants to diversify its economic relationships around the globe in order to support its development.

Furthermore, Turkey's approach to a rising China is not much different than that of the EU countries. At a time when China continues its strong growth performance and transforms its economy from a low-cost manufacturing one into a producer of technology, Turkish policymakers aim, as their European counterparts do, to capitalize on China's boom while avoiding excessive dependence on it. In a way, Turkey is actually following in the footsteps of its European partners in pursuing Chinese investment. Between 2000 and 2017, the United Kingdom received €42.2 billion of Chinese investment, Germany €20.6 billion, and Italy €13.7 billion – sums that are incomparably higher than the one for Turkey.<sup>2</sup>

There is also risk involved in Turkey's rapprochement with China as the issue of the Uyghur, the Muslim-Turkic ethnic minority in the Xinjiang Uyghur Autonomous Region of China, remains as the sword of Damocles over relations. Although some progress has been made toward a mutual understanding on this that would address both governments' concerns, this issue still undermines trust and confidence between them.

Turkey and China make efforts to improve their relations on a long-term basis, and the BRI is considered a useful instrument to this end. For Turkey, however, this does not necessarily imply a major realignment in foreign policy in the form of a move away from the

transatlantic community and towards Asia. Rather than making binary choices, Turkey aims through this to consolidate its position as a global player.

2 Thilo Hanemann and Mikko Huotari, "Chinese FDI in Europe in 2017," Mercator Institute for China Studies, April 17, 2018, <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe>.

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## **About the Author**

Dr. Altay Atlı is a lecturer at the Department of International Relations of Koç University, and a partner at the consulting firm Reanda Turkey. His areas of interest include international political economy, Turkey's relations with Asian countries, and the economics of Turkish foreign policy.

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1744 R Street NW  
Washington, DC 20009  
T 1 202 683 2650 | F 1 202 265 1662 | E [info@gmfus.org](mailto:info@gmfus.org)  
<http://www.gmfus.org/>