Research on Chinese Energy Investment in Turkey under the Silk Road Strategy

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Abstract: In the context of China's peaceful rise, the Silk Road strategy will promote China participation in Global trade and investment. The Turkish government has announced a new incentive plan to attract investor. Therefore, Chinese energy investment in Turkey is facing some precious opportunities. However, cultural differences, Turkey's domestic economic problems, political turmoil and other multiple factors bring severe challenges to China's energy investment in Turkey, which requires a constructive response.

1. Introduction
Turkey is an emerging economy following the BRIC countries after a vigorous development, enjoying the "new diamond country" reputation in the international community, which is the seventeenth largest economy in the world and one of the important members of the G20 summit. Turkey is located at the junction of Europe and Asia, along the Silk Road, surrounded by the Black Sea and the Caspian Sea, and close to the world’s largest energy consumption in Europe. In the context of Belt and Road Initiative, it is one of the key strategies for China to increase energy investment toward the countries along the Silk Road. As an important node country, Turkey has huge investment market potential for foreign enterprises. A large number of foreign enterprises invest in Turkey, and around 53,200 companies with foreign capital operate in Turkey in 2016. During the last four years, the manufacturing sector has attracted the highest amount of FDI, and 1710 millions USD dollars foreign capital invest in manufacturing sector in Turkey. Turkey needs more foreign companies to invest in the energy sector because of the need to boost national economic development. The Chairman of Turkey National Energy Council Committee told reporters of the Xinhua news agency that Turkey needs at least $70 billion energy investment, including the transformation of the existing energy system. Accord to the statistics provided by investment support and promotion agency of Turkey, approximately 12.3 billions USD dollars foreign investment flowed into Turkey. Among them, the proportion of Chinese energy investment in Turkey has risen when Chinese government proposed the Silk Road on land strategy in 2013. At present, China is one of the major actors in the global economy. Turkish government attaches importance to attracting Chinese investors.
2. Graph 1: FDI Inflow to Turkey (USD billion)

![Graph 1: FDI Inflow to Turkey (USD billion)](image)

Source: Central Bank of the Republic of Turkey

3. The situation of Chinese energy investment in Turkey

China and Turkey, both G-20 members, already establish close ties in many fields including infrastructure and technology. The economic relationship between China and Turkey has developed rapidly in recent years especially under the Silk Road strategy. China continues to be one of the foreign trade partners of Turkey. “Silk Road Economic Belt” is an important part of Chinese “The Belt and Road” strategy. Chinese “Silk Road Economic Belt” Initiative promotes a trade and infrastructure network for connecting Asian countries with Europe countries along the ancient Silk Road routes. The national development and Reform Commission of China, the Chinese Ministry of foreign affairs and the Chinese Ministry of Commerce jointly issued the “vision and action to promote the construction of the Silk Road Economic Belt and the maritime Silk Road in twenty-first Century” in 2015. It will fully rely on China with relevant countries existing bilateral and multilateral mechanisms, with the existing and effective platform for regional cooperation, in order to borrow the ancient Silk Road of peaceful development. Turkey is a country along the Silk Road and it has signed Bilateral Agreements for the Promotion and Protection of Investments with 94 countries including China. The aim of this agreement is to increase the capital flow between China and Turkey, successfully settle disputes that might occur and ensure a stable investment environment. China has already invested about $18.7 billion in Turkey from 2006 to 2016. China is strengthening investment in Turkey and collaborating with Turkey to build the Silk Road. For example, Chinese Industrial International Corporation and the Turkey hippocampus Petrochemical Group signed a contract for $ 80 million about Turkey oil refinery matching canned production line project business.

At present, the production of electricity in Turkey is not enough to meet domestic demand. The relative shortage of energy and lack of energy supply means that Turkey need to rely heavily on imports. Turkey aims at fully utilizing its limited resources to meet the rapidly growing electricity demand. An official in Turkey said that it is expected to invest more in the coal industry to meet the country’s huge demand for energy. In this context, CLP electric (Nanjing) photovoltaic Co., Ltd has seized the opportunities offered by the Turkish government for developing wind energy and solar energy and other new energy and invested and established factories in Istanbul in 2013. China is promoting a new coal investment project in Turkey. At the end of 2013, China's direct investment in Turkey was $642 million, involving transportation, shipping, energy, communications, mining, tourism and other fields. Now more than six hundred Companies in Turkey have Chinese capital, such as a Chinese company’s production of solar panels in Istanbul and Harbin Electric’s coal-based power plant in north-western
Turkey. Another example is Turkey Industrial Park. It is an industrial park project, which was built by Chinese community in Turkey and Shanghai investment limited corporation. The construction of Turkey Industrial Park has approved by some government departments in Turkey. Turkey Industrial Park is targeted at the fields of electronics, light industry, textile, heavy industry, high-tech and new energy resources.

4. The main advantages of Chinese energy investment in Turkey

Turkey has a lot of advantages to attract investors including foreign energy investors, which can be briefly summarized as follows.

Firstly, Turkey has a unique geographical location, spanning Eurasia, southwest Asia and Southeast Europe, as well as being adjacent to eight countries. The transport of water, land and air are very convenient in Turkey, and the radiation effect of Turkey on the neighboring countries is relatively large, especially in central and Eastern Europe. The Chinese economic spillover effect on Turkish energy investment is remarkable, which is conducive for China to further develop the European market and the construction of the Silk Road. Turkey has a large amount of coal reserves in the Middle Eastern countries besides Iran. In addition, Turkey has considerable reserves of metal minerals and oil and gas. Now Turkey is becoming an energy hub in the world. Mineral products and chemical products in Turkey have been the main products which are exported to China. Turkish labor force is also the main factor for attracting foreign investment. Turkey is the third largest country in Europe, with a large number of young workers. Compared with the European Union countries, Turkey has fifth major labor groups. The population quality of Turkey is relatively high, and Turkish workforce has a strong work ethic. Turkey has 450 thousand people, graduating from nearly 150 Universities. The skilled labor force is a natural incentive for investors. Otherwise, Turkey has signed Social Security Agreements (SSA) with 26 countries, making it easier for expatriates to move between countries. Turkey has a workforce of about 28 million, accounting for approximately 36% of the total population. By 2050, Turkey's population is expected to be more than 93 million people. According to the average and median age, the number of people aged over 35 in Turkey is expected to reach half of the total population by 2023. Under such circumstances, the rich high quality workers provide unique labor advantages for the lasting development of Chinese investment enterprises in Turkey.

Secondly, the Turkish government attaches importance to attracting energy investment and improving the investment environment. The Turkish government has announced a new incentive plan to attract investor, which covers many expenses varying from tax relief to direct support by the government. Otherwise, Turkey has Customs Union and Free Trade Agreements (FTA) with 37 countries including Albania, South Korea, Bosnia and so on, creating a free trade area in which the countries agree to quotas, eliminate tariffs and preferences on most goods and services traded between them. This framework explains why many global companies are now using Turkey as a second supply source and manufacturing base. Investor visas have been a huge success in many countries. For example, since launching its investor visa program in 2013, Greece has attracted at least €335 million in investment since launching its program. Turkey has upgraded investor visa scheme to propose a plethora of enticing factors, granting full residency for high net worth individuals (HNWI) who invest $1 million to $3 million in either real estate, shares in Turkish companies or government bonds, and maintain that investment for three years. The Turkish government initiated the "New Silk Road" program in 2008, which aims to simplify customs procedures and facilitate trade facilitation along the Silk Road area. The Silk Road project will strengthen cooperation between Customs and enterprises to achieve mutual contact. Turkey's New Silk Road initiative and the Chinese Silk Road strategy have the same content. Therefore, Turkey and China can achieve strategic docking and increase cooperation opportunities to build one belt and one road. Since the establishment of strategic cooperation in 2010, the relationship between China and Turkey has entered a new stage of all-round development. Turkish Economy Ministry has recently launched “China Action Plan”. As an energy hub connecting Europe and Asia, Turkey has a lot of multinational oil pipelines including Baku - Tbilisi - Erzurum natural gas pipeline (BTE). The Iraq-Turkey pipeline transports about 400 thousand barrels of crude oil every day which
arrives in the southern port city of Turkey. Turkey has set ambitious infrastructure development plans. Now Turkey is promoting a number of infrastructure projects, including the renovation and transformation of the oil refinery, liquefied natural gas liquefaction plant and energy storage facilities. The Turkish government will invest $110 billion in energy projects in order to solve the power supply and demand gap. According to the Turkish energy market management committee statistics, there are currently 615 power generation companies and 160 electricity suppliers in Turkey. Turkey also has developed its first National Renewable Energy Action Plan, targeting 30% of its energy from renewable sources by 2023. Of this total, Turkey hopes to realize 5 GW of PV.[4] The government plans to attract foreign investment in infrastructure construction. Among them, the development and utilization of solar energy, wind power, geothermal energy, nuclear power and other new clean energy has spawned a lot of investment opportunities. The president of the Turkey Committee of the World Energy Council said that Turkey needs at least $70 billion in investment in the energy sector, including the construction of nuclear power plants and the transformation of existing energy systems.[5] Chinese enterprises can enter the Turkish market through the establishment of branches of joint-stock companies, limited liability Companies and representatives, as well as the collective form of company or limited partnerships to carry out business activities in Turkey.[6]

Thirdly, Turkey has a sound and effective banking regulatory environment, which is conducive to maintaining financial market confidence, stability and competitiveness, and protecting the interests of investors. According to an international survey, Turkey's financial and banking regulatory competitiveness is ahead of its comparable European countries. Turkey has an effective and sound financial supervision mechanism and Muslim financial system which works very well. There are a large number of Muslim countries along the Silk Road. Islamic finance has emerged as an effective tool for financing development worldwide. Major financial markets are discovering solid evidence that Islamic finance has already been mainstreamed within the global financial system.[7] The World Bank announced that an Islamic Finance Research Center had been formally established in Istanbul in 2013. Before the opening ceremony of the fourth session of the financial summit held in Istanbul, The Istanbul Stock Exchange Management Institute researcher confirmed to the media that Islamic Finance Research Center is located in Istanbul and the city will further become a part of the strong development trend of the world financial center. This is the first Islamic Financial Research Center located outside the United States, which has brought great honor to Istanbul. The researcher also told reporters that since the Turkish government is committed to regulate the energy price in Istanbul, the stock exchange will launch Istanbul energy securities at the end of this year.[8] There is no obvious restriction on trade by lira in Turkey. More than 50 thousand U.S. dollars of funds transfer should be reported to the central bank within 30 days. However, this information disclosure is only applicable to the transfer of foreign exchange deposits, which is not applicable to the intangible asset transactions, import and export trade. Companies in Turkey can also offer loans to other companies set up in foreign countries in the form of lira or other foreign currencies. Therefore, Chinese multinational companies may consider establishing a pool of funds.

Fourthly, Turkey has a stable macroeconomic and very liberal investment environment. Turkey has established a customs union with the European Union and signed a free trade agreement with 27 countries and regions (FTA) since 1996. Now Turkey is the world's 17th largest economy and gross domestic product reached $882 billion in 2013. After the financial crisis in 2008, many countries have yet to recover from the global economic crisis, but Turkey has a rapid economic growth, making it one of the most prominent economic developments in Europe. Turkey's average annual GDP growth rate has been 4.7% over the past ten years and has attracted substantial foreign direct investment. We can get some information about the gross domestic product of Turkey from the following table.

The government of Turkey is developing the “2023 development plan”, which is a national strategy with the aim of making gross domestic product more than 2 trillion dollars and reducing the rate of inflation to one-digit. The government of Turkey hopes to become the world's tenth largest economy and join the EU in 2023. Turkey provides a number of preferential policies for foreign enterprises including Chinese enterprises. Turkey will formulate economic strategies including public finance policy, tax
policy, public investment, financing policy, monetary policy, and deficit reductions targets, as well as create jobs and increase exports etc. At present, Turkey has set up six economic development zones, the local government where the development zone is also based on their actual situation, the implementation of regional preferential policies for foreign companies. At the same time, the Ministry of industry and technology of Turkey will also provide R & D and technical support for foreign companies. There are three types of special investment areas in Turkey for supporting different economic sectors and attracting foreign investment. Corporations in those special areas can enjoy tax incentives including all or part of the exemption from corporate income tax. The first type of special investment area is technology development zone. With the development of regional technology, the technology development zone can support R & D activities to attract high-tech industry investment. The second type of special investment area is mature industrial park. Mature industrial park is an organized industrial zone, which is designed to create a more investment friendly area for the company with perfect infrastructure and public facilities. Another type of special investment area is the free trade area. The free trade area is a special economic area outside the scope of the customs supervision. Otherwise, Turkey’s investment legislation offers equal treatment for all investors including Chinese investor. The backbone of the investment legislation is made up of the Encouragement of Investments and Employment Law No. 5084, Foreign Direct Investments Law No. 4875, the Regulation on the Implementation of the Foreign Direct Investment Law, multilateral and bilateral investment treaties and various laws and related sub-regulations on the promotion of investments.[9]

5. The challenges for Chinese enterprises invest in Turkey
As mentioned above, Turkey has many advantages in attracting foreign investment, such as a sound investing environment, but the challenges for Chinese enterprises to invest in Turkey cannot be ignored. Chinese investors should be fully aware of the following potential risks before investing in Turkey. Foreign investors face a lot of challenges in Turkey, which can be summarized as follows.

Firstly, there are some economic problems in Turkey. The external dependence of the economy of Turkey is too strong. With the global economic recovery, the economy has embarked on the road to recovery. The imbalance of fiscal revenue and expenditure and the relatively poor credit rating have affected the long-term stable development of the economy in Turkey. Since the global financial crisis has not yet completely ended, the economic recovery of Turkey is still uncertain. Turkey’s inflation rate has been rising for several years and continues to rise. In addition, according to the current domestic situation in Turkey, the Turkish government needs to further encourage innovation, improve the efficiency of government departments such as taxation. In the long term, Turkey needs to seek more cross regional development on the basis of the existing traditional economic centers.[10] But Turkey has launched a number of anti-dumping investigations against china. The number of trade disputes and trade frictions between China and Turkey has increased sharply with the rise of the deficit. Therefore, it is necessary to explore a new way to expand bilateral trade and investment on the basis of cooperation, and direct investment in Turkey is undoubtedly a choice to circumvent trade barriers. Chinese enterprises are faced with unpredictable risks in transnational operations. The most important risks in the operation process are the operational problems of foreign exchange, legal, tax, visa, labor and other legal compliance.

Secondly, religious and cultural factors have indirect effects on investments in Turkey. Modern Turkey has a diverse culture, integrated from Anatolia, Mediterranean Europe with Mesopotamian civilization elements. Therefore, the uniqueness of Turkey culture comes from the collision and exchange of various cultures. Like other Muslim countries along the Silk Road, Turkey has a unique Islamic Culture, the vast majority of the people of Turkey believe in Islam, although the social atmosphere is more open. The unique culture and customs of Muslims for economic development cannot be ignored. But many Chinese entrepreneurs are not Muslims. There are communication difficulties and cultural differences between Chinese entrepreneurs and local employees. Diverse thinking patterns and various value orientations in different nations frequently constitute obstacles in intercultural communication. Cultural differences exist in cross-cultural management and may cause
culture conflict, which will have a negative effect on Chinese investment in Turkey.

Last but not least, political instability will be detrimental to Chinese investment in Turkey, which is mainly caused by the following reasons. Firstly, the disputes between political parties are the main reasons for political instability. The difference between the ruling party and the opposition party is serious, and the struggle is also fierce. The essence of the struggle is whether the country adheres to the secular development path, which is directly related to the development direction of Turkey. The second reason for it is the complexity of military and political relations. In recent years, the army has been limited in political life. However the threat to the ruling party still exists. Complex military and political relations threaten the stability of the domestic political situation. The third reason for it is domestic social problems. The Kurdish issue is unresolved, and the tendency of the Kurds is still serious, which threaten national security. In addition, The Turkey exclusion incident has occurred in 2017, which is a serious threat to the safety of overseas Chinese, risking investment in Turkey.

To sum up, Turkey is one of the important nodes in the construction of the Silk Road and an important partner in Chinese energy investment strategy. Chinese Energy investment in Turkey is attractive and can enhance mutual trust between China and Turkey, but the risk of investing cannot be ignored.

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