

QUESTIONING TURKEY'S CHINA TRADE

Turkey's current foreign policy is marked by a multidimensional and proactive stance with an emphasis on economic relations both at a bilateral and multilateral level. An important component of this new paradigm is improving relations with hitherto neglected regions, and China is in this sense one of the countries that has begun to loom large in Turkey's foreign policy vision. This essay focuses on the economic relations between the two countries and suggests that four questions need to be addressed if Turkey is to develop its relations with China in a way that is not only beneficial but also sustainable and progressive in the long term. The essay concludes that there is evidence of progress in all of four areas, albeit some distance to go.

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Turkey has come a long way since the days its policymakers' approach to China¹ varied between naivety -as illustrated in the idea of "getting rich by selling one single orange to every Chinese"² -and indifference- as displayed by the words of a parliamentarian who referred to China as a country "of which no good can come since it is located 15 thousand kilometers away from us."³ After the end of the Cold War, Turkey's foreign policy gradually transformed into a more assertive, proactive and multidimensional paradigm, as part of a process that has gained momentum over the past decade. This "new" foreign policy approach has a significant economic dimension. On one hand, improving relations with the near neighborhood and regions hitherto neglected in Turkey's foreign policy is motivated by the aim to reach new markets for Turkish products. On the other, economic statecraft (i.e. the use of economic policies to pursue non-economic goals) is increasingly utilized by foreign policy-makers in order to improve the leverage of Turkey in global and regional affairs. Within this framework, China, as the rising powerhouse of the global economy, has begun to figure prominently on Turkey's foreign policy radar, as is evident from the increased dialogue between the two sides and greater frequency of official state visits.

Progress in bilateral relations between Turkey and China is derived to a large extent from expanding interaction in economic and commercial spheres. Political issues, such as those related to the ethnic Turkic population in Xinjiang Uyghur Autonomous Region that had previously plagued relations, now appear to be overshadowed by economic rationality. It is often argued by pundits that maintaining stronger ties with the world's new economic giant is simply too important to be sacrificed to politics. As a result, economic relations between Turkey and China is on the rise; and, having overcome the false dichotomy of China as a threat versus China as an opportunity, Turkey now focuses on developing sustainable economic cooperation with this country based on long-term mutual benefits. This target was explicitly affirmed during the visit of the Chinese Premier Wen Jiabao to Turkey in October 2010, when both Prime Minister Recep Tayyip Erdoğan and his Chinese counterpart declared that relations between Turkey and China are to be upgraded to the level of strategic partnership.

China is already an important partner for Turkey, and especially so in the economic sphere. As of the end of 2010, China was the third largest source of Turkey's imports (after Russia and Germany) and fourteenth largest destination for Turkey's

¹ In this essay, the term "China" refers to the People's Republic of China.

² This quote is attributed to the former President Kenan Evren, who visited China in 1982. Mehmet Ögütçü, *Geleceğimiz Asya'da mı? Yaralı Asya, Çin ve Türkiye [Is our Future in Asia? Wounded Asia, China and Turkey]*, (Istanbul: Milliyet Yayınları, 1998), p.176.

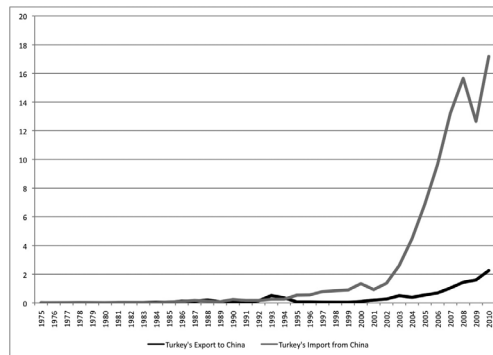
³ These are the words of Orhan Dengiz, group deputy chairman of the Justice Party, during the parliamentary debates in 1971 regarding Turkey's diplomatic recognition of China. Fikret Otyam, "Al Metreyi Eline" [Take the Ruler in Your Hand], *Cumhuriyet*, 11 August 1971, p.7.

exports. The question is how far this partnership can be taken. Viewing the issue from the Turkish perspective and focusing on the economic dimension of developing partnership with China, this essay suggests that four questions need to be addressed in order for Turkey to develop its economic relations in a sustainable and progressive way. While the first three of these questions refer to the material and technical aspects of Turkey's economic relations with China, the fourth one is related to the ideational level within which the relations are pursued.

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Question One: Does an Absolute Increase in Trade Volume Necessarily Benefit Turkey?

During the Chinese premier's above-mentioned visit last year, Prime Minister Erdoğan announced that the two sides have agreed to increase the mutual trade to 50 billion dollars by 2015 and to 100 billion dollars by 2020.⁴ As of the end of 2010, the trade volume between Turkey and China was 19.5 billion dollars.⁵ This figure included 2.3 billion dollars of Turkish exports of which the bulk was metal ores, mineral products, chemicals, textile fibers, iron and steel. Over the same period, imports of Chinese goods to Turkey totaled a colossal 17.2 billion dollars, and the main import items were electrical devices, office and communication equipment, apparel and garments. Given the fact that the trade volume between the two countries has risen more than 12 fold over the last ten years, it can be safely argued that the targets announced by Erdoğan are not impossible to reach. Yet there is another side to the story.



⁴ "Türkiye Çin'le Stratejik Ortak Oluyor" [Turkey to Become Strategic Partners with China], *Radikal*, 9 October 2010.

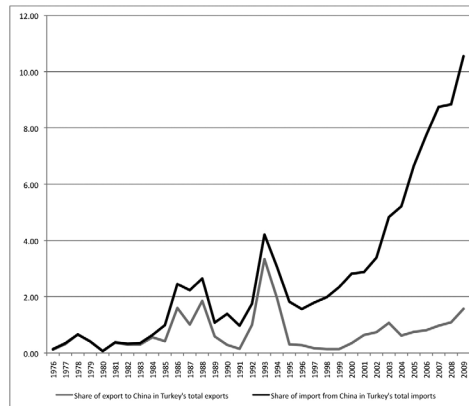
⁵ "Dış Ticaret İstatistikleri" [Foreign Trade Statistics], *Turkish Statistics Institute (TÜİK)*, http://www.tuik.gov.tr/AltKategori.do?ust_id=4.

"In the long term, narrowing down the trade deficit with China in a sustainable manner can only be possible by increasing exports to China"

Figure 1 shows the development of Turkey's trade relations with China starting from 1975, the first year after the Trade Agreement was signed between the two countries. Accordingly, Turkey has had a significant trade surplus with China only for two years (1993 and 1994), and for other years, there was always a deficit for Turkey, which has increased over the past decade. The year 1995 was the breaking point in this respect when, in one single

year, Turkey's exports to China dropped by 81.1 percent, from 355 million dollars to 67 million dollars, whereas Turkey's imports from China skyrocketed by 109.1 percent, from 258 million dollars to 539 million dollars.⁶

In 2001, there was a relative decline in the trade deficit with China, mainly due to the economic crisis that engulfed the Turkish economy. However the deficit continued to widen in the following years. In 2008 and 2009, trade was in relative decline, accompanied by an increase in the export/import ratio for Turkey. This trend can be attributed to the effects of the global financial crisis, which led to a decrease in Turkey's imports from China. It is interesting, however, that in this period, despite the crisis, Turkey's exports to China continued to grow. As of 2010, with the effects of the crisis fading away, Turkey's imports from China took a sharp increase, far outpacing the rise in exports.



Another important point is that while China's share in Turkey's total imports has been rising rapidly, this is not the case with China's share in Turkey's total exports. Figure 2 shows that during the 1980s and the 1990s, these two shares moved to

⁶ "Dış Ticaret İstatistikleri" [Foreign Trade Statistics], *Turkish Statistics Institute (TÜİK)*, http://www.tuik.gov.tr/AltKategori.do?ust_id=4.

a great extent in tandem. This has changed over the last ten years, when imports from China increased more rapidly than Turkey's overall imports, resulting in a situation wherein Turkey's deficit with China is growing faster than its overall trade deficit. Trade figures confirm this finding: Between 2000 and 2010, Turkey's overall trade deficit increased by 167.8 percent, from 26.7 billion dollars to 71.6 billion dollars, whereas over the same period the deficit with China went up by a massive 1,094.9 percent, from 1.3 billion dollars to 14.9 billion dollars.⁷

Under these circumstances, an absolute rise in the trade volume between Turkey and China would primarily mean a larger trade deficit for Turkey. In 2010, the export/import ratio in bilateral trade with China was 13.2 percent. If we assume that the same ratio will remain over the coming decade, achieving the trade volume target set by Wen and Erdoğan for 2020 will impose a burden of more than 75 billion dollars on Turkey's current account balance, all other things being equal.

In other words, what matters for Turkey's China trade is not increasing the trade volume *per se*, but ensuring that this increase is accompanied by a narrowing trade deficit. Until recently, the strategy adopted by Turkey in its efforts to close the trade deficit with China was a passive and reactive one, relying on protective measures to curb down imports, and scapegoating China, not only for the cheap imports invading the Turkish markets, but also for the loss of market share to Chinese products in world markets. These measures, which were futile attempts of rowing against the currents of economic rationality, proved to be of little, if any, value in the efforts for closing the trade deficit.

In the long term, narrowing down the trade deficit with China in a sustainable manner can only be possible by increasing exports to China. To that end, the most significant obstacle is the lack of diversity in Turkey's export items. Turkey sells to China only a few kinds of products, as is evident in the fact that the first ten items in the list of Turkey's top exports to China as of 2009-10 make up 88.9 percent of all export items, while the share of the top ten items in Turkey's imports is considerably less, at 70.9 percent.⁸ Turkey clearly needs to enter new product markets in China, and this can only be possible by exploring niche products, rigorously studying the markets, devising appropriate marketing strategies and building up long-term trading relations. Turkey's trade bureaucracy has begun to develop multi-dimensional plans to improve both the volume and the content of Turkey's exports to China. The China Country Strategy developed by the Undersecretariat of Foreign Trade⁹ in 2006 is a valuable first step, of which the outcome remains yet to be seen.

⁷ "Dış Ticaret İstatistikleri" [Foreign Trade Statistics], *Turkish Statistics Institute (TÜİK)*, http://www.tuik.gov.tr/AltKategori.do?ust_id=4.

⁸ "Çin Halk Cumhuriyeti" [People's Republic of China], Undersecretariat of Foreign Trade (DTM), <http://www.dtm.gov.tr/dtmadmin/upload/ANL/AsyaDb/chc.pdf>, accessed on 9 June 2011.

⁹ As of June 2011, the Undersecretariat of Foreign Trade was incorporated into the newly established Ministry of Economy.

Question Two: Is Bilateral Trade the Only Mechanism for Turkey to Strengthen Links with China?

While this is a rhetorical question that is by all means answered in the negative, Turkey's record nevertheless shows that trade has remained in the foreground of economic relations with China ever since the establishment of diplomatic relations back in 1971. Today, whereas China is an important trade partner for Turkey, it ranks much lower in investment and finance relations.

China is a global giant in foreign direct investment (FDI), both as a source and destination. In 2009, mainland China was the second largest recipient of FDI with 95 billion dollars, and the sixth largest source of FDI with 48 billion dollars.¹⁰ If the investment figures from Hong Kong Special Administrative Region are included, China climbs up to the first place in inflows and to the third place in outflows. However, Turkey, despite being a significant investor and receiver of investment itself, does not loom large in this picture. The cumulative amount of investment from Turkey to China until the end of 2009 was 25.6 million dollars, only a fraction of the 10.2 billion dollars invested by Turkish enterprises in the entire world.¹¹ There is a similar story with respect to Chinese investment in Turkey. According to Chinese sources, China's outward investment stock between 2003 and 2009 totaled 24.6 billion dollars, of which only 38.6 million dollars was invested in Turkey.¹² It has to be noted that in addition to FDI, Chinese corporations are also undertaking contracting projects in Turkey, such as the high-speed railway linking Ankara and Istanbul, as well as coal mining and hydropower projects.

FDI is a key component of economic globalization and the optimal way for establishing presence in other nations' economies. In contrast with the short-term returns of mutual trade, direct investment serves the aim of establishing and maintaining longer-term economic relations. As seen in the figures above, investment relations between Turkey and China are still at an infantile stage, although both countries are large investors and investment receivers on a global scale. There are, however, signs that the situation is changing.

From the Turkish perspective, the most important change relates to how policymakers are viewing the issue. In this respect there is a clear shift of emphasis from attempts to increase trade to both encouraging Turkish investment in

¹⁰ *World Investment Report 2010* (Geneva: United Nations Conference on Trade and Development, 2010), pp.167-71.

¹¹ This figure includes only registered direct capital exports, and does not cover retained earnings and investment through subsidiaries in third countries. Taking these factors into consideration, the Turkish-Chinese Business Council estimates Turkish FDI in China at 100 million dollars. This figure is likely to increase in the near future, as a number of projects are under way, including a shopping mall investment in Shenyang with an investment value of 250 million dollars.

¹² *2009 nian Zhongguo duiwai zhijie touzi tongji gongbao zhongwen* [Statistical Bulletin of Chinese Outward Direct Investment in the Year 2009] (Beijing: Ministry of Commerce of the People's Republic of China, 2010), pp.39-40.

China and attracting Chinese investment to Turkey. The words of State Minister Zafer Çağlayan clearly illustrate this tendency: “What are we selling to China and what else can we sell? Take hazelnut, a population of 1.2 billion, and if each of them consumes one single hazelnut... No, this will not work. We have to get involved in its industry.”¹³ Çağlayan’s statement reveals a clear transition to the idea of prioritizing investment relations with China as opposed to trade. In the meantime, while Turkish companies are encouraged to invest in China, the Chinese are also encouraged to invest in Turkey, mainly through the efforts of the Turkish Investment Support and Promotion Agency and private sector organizations. Several large-scale Chinese companies have expressed interest in investing in Turkey, a recent example being four corporations from automotive and machinery industries that have announced plans for a total investment of 400 million dollars.¹⁴ To what extent these plans will materialize remains to be seen.

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Turning to the financial side of the investment sphere, one can see again plans, good intent and some initial steps taken, but whether these will bear fruit depends on several factors. Minister Çağlayan invited the Chinese government to buy treasury bills and Eurobonds from Turkey, however it is too early to tell whether Beijing will honor Çağlayan’s call. On the other hand, following the decision by Turkey and China to conduct bilateral trade using their own currencies, a number of Chinese banks including the Industrial and Commercial Bank of China expressed interest in entering the Turkish market. However, no concrete steps have been taken yet. In short, Turkey is aware of the importance of developing investment relations with China, both in financial and non-financial realms, yet with a few exceptions, projects are still at the idea stage.

Question Three: To What Extent do the State and the Business Community Coordinate and Cooperate in Turkey?

In today’s global economy dominated by liberal market ideology, state-business relations are a crucial aspect of international economic transactions. It is not only about the business community communicating its opinion and needs to the state or applying pressure on the government with regard to issues of interest, but

¹³ “Çin’e İhracatta Yeni Strateji ‘Tavuk Ayağı’” [‘Chicken Feet’ as the New Strategy for Export to China], *Yeni Şafak*, 30 August 2009.

¹⁴ “Çin, Türkiye’de Vites Büyütüyor” [China Shifting Up in Turkey], *Sabah*, 1 December 2010.

business is also increasingly taking part in the formulation and implementation of policies. The fact that China retains a unique form of capitalism with a central position for the state makes state-business coordination and cooperation even more important for countries pursuing economic relations with China. As private sector companies entering into the Chinese market in most cases have to work with Chinese state-owned enterprises as counterparts and/or face Beijing's red tape at each step they take, it becomes crucial for them to rely on the support of their own state.

In Turkey, there are two important developments in this respect. First, the business community involved in commerce with China is becoming increasingly institutionalized. The Turkish-Chinese Business Council operating since 1992 under the umbrella of the Foreign Economic Relations Board (DEİK), a voluntary business association, continues to act as a bridge between the state, both Turkish and Chinese, and the businessmen. In addition to the Business Council, two other national business associations, Turkish Industry and Business Association (TÜSİAD) and Turkish Confederation of Businessmen and Industrialists (TUSKON) have opened offices in Beijing. Moreover, there is a myriad of specialist associations such as the Association of Turkish Chinese Industrialists and Businessmen (TÜÇSİAD), Turkish Chinese Businessmen Friendship and Solidarity Association (TÜÇİAD), Turkish Chinese Business Matching Center (TUCEM), Turkish Chinese Chamber of Commerce, as well as regional associations established by Turkish entrepreneurs in China, such as the Guangdong Turkey Businessmen's Association (GUTİAD).

Secondly, the state itself is now providing a more efficient platform where it can coordinate and cooperate with the business community. Until recently, the only institutionalized form of state-business coordination in issues related to Turkish-Chinese economic relations was the single seat reserved for the representative of the Turkish-Chinese Business Council in Intergovernmental Joint Economic Commission meetings. In recent years, however, representatives of the business community are taking part in "working groups" organized by public institutions such as the Ministry of Foreign Affairs and the Undersecretariat of Foreign Trade, where they can contribute to the policy formulation process. As an example, the most recent meeting of the Working Group on Turkish-Chinese Economic Relations was held by the Undersecretariat of Foreign Trade on 25 January 2011 with the participation of representatives from relevant public institutions, business associations, as well as universities and think tanks. While the state has always the final word on issues related to foreign economic policy, greater participation of the business community and other stakeholders in the policy making process under such institutionalized settings is an important development.

Question Four: Does Turkey Really Know China and Base its Decisions on Sound Information?

The Chinese economy is a complex case with unique features where the application of conventional models of diplomacy and business do not always produce the desired results. Without adequate and timely information on the dynamics driving the Chinese economy, relations with this country are unlikely to develop on solid foundations. Moreover, interaction with China and the Chinese is prone to be disrupted due to problems of communication, such as language barriers and cultural differences. From the Turkish perspective, making decisions *vis-à-vis* relations with China requires sound information and knowledge, which are also a *sine qua non* condition for addressing the three questions discussed above.

The fact that Turkey's economic relations with China are defined by rapidly rising imports for Turkey and low levels of mutual investment is a reflection of the lack of knowledge on China on behalf of the Turkish side. Exporting to China and/or investing there are profitable in the long term but require sound information on the market, its dynamics, actors, regulations, and *de facto* laws, without which the enterprise would be doomed to failure. While importing is by no means an easy process either, it provides short-term benefits and requires relatively less information and knowledge. As a Turkish businessman involved in the Chinese market for more than two decades stated in a private interview with the author of this essay, "scores of Turkish businessmen went to China with the idea of exporting to a large market. They realized that exporting will not be an easy task, changed their mind and returned home as importers." Lack of information and knowledge creates a lacuna, which is inevitably filled by myths and hype (such as 'China is a huge homogeneous market of more than one billion customers'), prejudices (such as 'it is impossible to sell anything to the Chinese'), and by reliance on information from third party sources.

An important development is that China has recently begun to be studied seriously by Turkish academia and think-tanks, and to some extent by business associations, all of which are increasingly taking part in policy process, whether through the working groups mentioned above or other forms such as participation in official state visits to China. Several universities have Chinese language programs, some of which are open to the public. At the graduate level, two universities, Middle East Technical University and Boğaziçi University offer degree programs in Asian studies, which have major China components, and the latter institution is home to the only Asian Studies Center at a Turkish university.

At the think-tank level, a number of institutions, namely the International Strategic Research Organization (USAK), Turkish-Asian Strategic Research Center (TASAM) and Wise Men Strategic Research Center (BİLGESAM) have Asia-Pacific

departments working in cooperation with counterparts in China. At the same time, reports compiled by business associations offer important insights on the business environment in China. As universities train qualified personnel with language skills, reports and other publications issued by think tanks and business associations provide valuable contribution to the accumulation of knowledge on China in Turkey.

Conclusion

At the dawn of the second decade of the century, Turkey's foreign policy paradigm is marked by a multi-dimensional and proactive stance, and greater emphasis on economic relations both at bilateral and multilateral level. Within this setting, China's place in Turkey's vision for the future cannot remain as a source of cheap import products.

In 1995, Mehmet Ögütçü criticized Turkey's approach to economic relations with China stating, "it seems like our economy administration is still working on the same China dossier, without bringing in any innovation or strategic approach that would parallel both the changing conditions in Turkey and China, and the developments in mutual relations."¹⁵ This is now changing. Turkey has already shelved away the old China dossier, but the new one is yet to be written. It needs to be written carefully, and the good news is that the state is not the sole author – other involved parties are taking part in the process.

¹⁵ Mehmet Ögütçü, *2000'li Yıllara Doğru Yeni Ekonomik Süpergüç: Çin [A New Economic Superpower Towards the 2000s: China]*, (Istanbul: TÜSIAD, 1995), pp.57-