

Opportunities and Risks: Chinese Enterprises' Investment in Türkiye

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Abstract: Türkiye has become an important partner in the joint construction of the BRI. Chinese companies attach great importance to Türkiye's geostrategic location and therefore have made large investments in fields such as energy, infrastructure, and technology. However, these investments are also subject to ongoing economic and currency risks, as well as geopolitical risks.

Keywords: Türkiye; China; investment; risk

1. Introduction

China and Türkiye established diplomatic relations in 1971 and the bilateral relations were elevated to the level of “strategic cooperation” in 2010, with several cooperation memorandums signed in different fields of energy, transportation, and infrastructure construction. Since the “Belt and Road” initiative (BRI) was proposed, high-level visits between China and Türkiye became more frequent. The strengthening of political mutual trust has promoted the economic and trade cooperation between two countries. Türkiye's "Middle Corridor" plan and China's BRI are compatible in terms of cooperation goals and investment areas.[1] Türkiye also aimed at strengthening transportation infrastructure connectivity to enhance inter-regional trade facilitation and reduce transaction costs. In recent years, China has become Türkiye's largest trading partner in Asia and the second largest trading partner in the world; Türkiye-China trade volume has increased 30 times in the past 20 years and Türkiye's exports to China reached a record high in 2021.[2]

Straddling the Eurasian continent and guarding the Turkish Strait, Türkiye has attracted a great number of investments from Chinese companies because of its unique strategic location. Most Chinese companies investing in Türkiye assume it as a springboard to enter the EU or Middle East markets. However, due to Türkiye's high dependence on foreign investment and prominent currency risks, Chinese companies' investments in Türkiye are also facing risks. Energy, high-tech, and infrastructure are three main areas in which Chinese companies invest in Türkiye, however, they are also areas that are highly vulnerable to geopolitical risks. This article will firstly examine the current situation of China's investment in Türkiye, then analyze the opportunities and risks faced by Chinese enterprises. This article will argue that strategic location will bring both advantages and disadvantages, thus Chinese enterprises' investment in Türkiye has both opportunities, challenges and risks.

2. The Current Situation of China's Investment in Türkiye

As of the end of 2021, China's direct investment in Türkiye has totaled US\$2.145 billion. In 2021, China's direct investment in Türkiye was US\$225 million, accounting for 0.93% of direct investment in countries along the BRI[3]. From the perspective of industries, China's investment has transformed from traditional industries to emerging industries, expanding from the initial areas such as mining of minerals and textiles to finance, telecommunication, logistics, equipment manufacturing, traditional and renewable energy, electronic technology, and e-commerce.[4]

Some significant investment projects mainly include Huawei's establishment of the second largest overseas R&D center, Industrial and Commercial Bank of China's acquisition of the Türkiye's Textile Bank, a Chinese enterprise consortium's acquisition of the third largest container terminal in Türkiye – Kumport, which located in the Ambarli port area of Istanbul on the northwest coast of the Sea of Marmara. In addition, Alibaba's acquisition of shares in the Turkish e-commerce platform Trendyol is also remarkable. Recently, some Chinese mobile phone manufacturers such as Xiaomi, OPPO, Vivo have successively built factories in Türkiye.

Energy, infrastructure and high-tech are the main areas where Chinese companies invest in Türkiye. Major investment projects in the energy field include Shanghai Electric Power investing in the Hunutlu power station project, and China Chemical Engineering Tianchen Company undertaking the Lake Tuz Natural Gas Storage Project, etc. In the field of infrastructure, on December 23, 2019, a Chinese Group led by China Merchant acquired 51% of the equity and shareholder loans of the Third bridge on Bosphorus in Türkiye[5]. This bridge is a strategic infrastructure and significant land freight channel which

links Asia and Europe to Istanbul. In terms of high-tech, in 2018, Alibaba acquired Türkiye's largest e-commerce platform Trendyol. Founded in 2009 and mainly focusing on fashion sales, with more than 2,000 merchants and 16 million users, Trendyol is the largest and fastest-growing mobile e-commerce platform in Türkiye, and in the Middle East and North Africa as well. Through this acquisition, Trendyol will be able to leverage Alibaba's technology and capabilities in the e-commerce market, mobile payment and logistic systems to achieve greater growth, while Alibaba will also use this platform to expand in the Middle East market.

3. Opportunities for Chinese companies to invest in Türkiye

In recent years, with growing economic aggregate, location advantages, expanding local and overseas markets, sufficient and qualified labor force, Türkiye's investment environment are constantly highlighted. In addition, Ankara has taken measures to encourage foreign investment, including regional and project investment incentives.

Chinese companies could invest in the following four industries with a greatest investment potential: One is renewable energy. The Turkish power market is one of the largest and fastest growing in Europe but the most fragmented among G20 countries. Investors in Türkiye's renewable energy industry will benefit from future growth potential and relatively favorable development costs. The second is agriculture and catering. With good soil and climate conditions, Anatolia produces high-quality crops and food processing industry there is relatively developed. Agriculture goods are important export categories for Türkiye as the Mediterranean, the Middle East, and Europe are all potential markets. Next is the technology industry. Turkish technology companies have been on the radar of international investors over the past five years, with e-commerce and mobile games being the two most prominent areas. The final one is manufacturing. Export is one of the most important driving forces for Türkiye's economic growth, and the main industries include automobiles, chemicals, clothing, steel and electronics. Türkiye's location advantage makes it more attractive to many manufacturing industries and investors might benefit from a new round of global supply chain adjustments.

4. Risk analysis of China's investment in Türkiye

Many studies have shown that Türkiye is a high-risk country for China's foreign investment. The "China Overseas Investment Country Risk Rating Report (2022)" released by the Chinese Academy of Social Sciences includes five major indicators: economic situation, debt solvency, social flexibility, political risk, and relations with China[6]. Specific evaluation indicators of the political risk include the length of time the current government has been in power, government stability and effectiveness, corruption, democratic accountability, and military intervention in politics, as well as external conflicts. In this report, Türkiye's investment risk rating is BB, a high-risk country. Among the 56 countries in the BRI, there are only seven high-risk countries, namely Moldova, Myanmar, Ethiopia, Iran, Türkiye, Lebanon and Iraq.

In terms of economic and currency risks, Türkiye encountered a currency crisis in 2018. The lira exchange rate plummeted, triggering a slowdown in investment and consumption, and a sharp rise in daily consumer goods and energy prices. In 2020, the COVID-19 outbreak tightened global liquidity and reduced revenue in Türkiye's key sectors such as trade and tourism. In 2022, Fitch downgraded Türkiye's rating to B+, with a negative outlook[7], suggesting that Türkiye's expansionary monetary and fiscal policies may keep inflation high, increase inflation risk, and ultimately drag down investment confidence.

In terms of geopolitical risks, energy, high-tech, and infrastructure are three main areas in which Chinese companies invest in Türkiye, however they are also areas that are extremely vulnerable to investment risks, especially geopolitical risks.

In the energy field, major projects such as oil and gas pipeline construction sometimes break the balance of the original geo-interest structure. Türkiye's domestic energy resources are relatively scarce, but its unique location makes it an energy hub connecting the East and the West. On the one hand, there is competition among oil and gas resource exporting countries such as the Middle East, Central Asia and Russia, and on the other hand, Europe, the world's largest energy consumer market, is trying to get rid of its energy dependence on Russia. After the Russian-Ukrainian conflict broke out, the "Nord Stream 1" and "Nord Stream 2" pipelines were damaged, which not only proved that competition and conflicts in the energy field continued, but also showed that investment in energy storage and transportation infrastructure faces great risks.

High-tech fields have always been susceptible to intervention and hegemonic monopoly. Since the United States provoked technological competition with China in the fields of 5G, artificial intelligence, semiconductors, etc., Chinese technology companies such as Huawei have become direct victims. Some pro-Western countries have excluded Huawei from the construction of telecommunication infrastructure for the sake of information security, which sounded the alarm for Chinese technology companies' foreign investment.

In the field of transportation infrastructure, the construction of important hubs such as ports and high-speed railways

will change not only the flow of trade but also the distribution of power in the region, thus triggering geopolitical risks. Türkiye has direct competition with neighboring Greece, Egypt, Israel, Cyprus and other countries in port development and construction. Chinese companies' acquisition of Istanbul Kumport needs to balance cooperative relationships with ports in other countries.

Since 2011, the Syrian civil war and the ensuing large-scale refugee crisis, the spread of terrorism and geopolitical confrontation have had a continuous impact on the Turkish economy. The geopolitical risks faced by Chinese companies investing in Türkiye are relatively prominent.

5. Conclusion

Historically, Türkiye was the end point of Asia's ancient Silk Road and now it has become a key node country in the joint construction of the BRI. Chinese companies attach great importance to Türkiye's geostrategic location and therefore have made large investments in fields such as energy, infrastructure, and technology. However, these investments are also subject to ongoing economic and currency risks, as well as geopolitical risks.

Chinese enterprises need to strengthen their awareness of risk prevention by establishing a risk research and response system for the entire investment cycle. Purchasing overseas investment insurance is a wise choice as well. In addition, when choosing investment fields, attention should be paid to avoiding projects with potential conflicts, such as the drilling of oil and gas in the Eastern Mediterranean. Ankara has expanded the scope of exploration activities on the offshore continental shelf by signing a treaty with the Libyan Government of National Accord. However, the confrontation between Türkiye and Greece in the Eastern Mediterranean made regional energy cooperation face many difficulties, and Chinese companies shall make prudent decisions.

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