



China: Turkey's Oldest Commercial Partner

Being located on the west and east ends of the ancient Silk Road, Turkey and the People's Republic of China ("PRC") have a long history of political, cultural and trade relations. Relations between the peoples of the two countries go back to the Han Dynasty and the Hun Empire. There were also close relations between the Tang Dynasty and the Göktürks in the 7th century. This timeframe is considered to be the most active and successful period of the historical Silk Road. In this way, trade links were enabled between Turkish and Chinese people and social and cultural relations got stronger. Today, emerging markets like Turkey and PRC are considered to be the new locomotives of global growth and have strengthened their position as being the new leading destinations for international investors.

I. Trade Volume, Export and Import between Turkey and PRC

PRC is the most populated country in the world, with a population of 1.3 billion. PRC is also the second largest country in the world, being spread over 9.6 million km². PRC is one of the five permanent members of the United Nations Security Council. Its GDP is USD 8.3 trillion. PRC enjoyed a growth rate of 7.8% in 2012.¹

In terms of rapidness of economic development, Turkey and PRC are quite similar. Both countries have been growing significantly in the past two decades. This has inevitably impacted the economic and commercial relations between the two countries and the trade volume has grown steadily. Bilateral trade, which was USD 1.5 billion in 2000, has constantly expanded and surpassed USD 28 billion in 2013. As of the end of 2013, PRC was the second most preferred import destination after Russia and Turkey's eleventh largest export partner. According to the Turkish Statistics Institute, the value of Chinese exports to Turkey is USD 24.6 billion and the value of Turkish exports to China is USD 3.6 billion in 2013.²

II. Chinese Investments in Turkey

PRC's foreign direct investment stock in Turkey was USD 26 million during 2002 - 2012.³ Main sectors of investment preferred by Chinese companies in Turkey are mining, telecommunications, high-speed railway construction, energy and assembling sectors. Direct investments reached USD 178 million, according to the statistics of PRC's Ministry of Trade. This figure was increased by 47.2% compared to the previous year. As of the end of June 2014, Chinese investments in Turkey reached USD 846 million. According to recent data published by Turkey's Ministry of Economy, more than 40 Chinese companies invested in Turkey between January 2014 and May 2014. The total number of companies in Turkey with Chinese capital is now over 600.

¹ Ministry of Economy, Countries & Regions - Southeast Asia & Pacific - China , July 2013

² http://www.tuik.gov.tr/PreTablo.do?alt_id=1046

³ Ministry of Economy, Countries & Regions - Southeast Asia & Pacific - China , July 2013

KOLCUOĞLU DEMİRKAN KOÇAKLI

- Huawei Technologies Co. Ltd., operating globally in more than 140 countries, established Huawei Telekomünikasyon Dış Tic. L.Ş. in 2002 in Turkey in the information and communication technologies sector. The Research and Development Center of Huawei Turkey started operations in 2009. This is the company's second R&D center outside of PRC, and serves as a regional R&D center for Europe.
- NARI Group Corporation, one of PRC's largest energy companies, signed a cooperation agreement with the CS Group in early 2013. Aiming to operate in different fields of the electricity sector and growing by 8% annually, the CS Group and NARI Group Corporation initially provided customers with turnkey solar energy system projects and became one of the leading companies in this field. The CS Group is currently selling wholesale power to make large-scale solar power projects investments with NARI Group Corporation in the short-term, in addition to turnkey renewable energy projects.
- Polat Madencilik, based in Konya, signed an agreement with the Chinese Zhejiang Energy Group. The two groups agreed to make an investment of over USD 1 billion to open coalmines and to operate thermal plants in Soma and Kınık.⁴
- China Railway Construction Corporation Limited (CRCC), CMC (affiliated to Genertec) Cengiz İnşaat and İttaş İnşaat completed the USD 2.27 billion worth high-speed train project between Ankara and Istanbul. The entire route of the railway project is 533 km and the great majority of the project is led by this consortium.⁵
- There are 60 Chinese companies operating mines in Turkey. Recently, China Light Resources established an affiliate in Turkey in the field of mining. The company currently carries out research for potential investments.⁶
- Turkish company Hattat Holding and PRC-based Harbin Electric International have signed an agreement to build a coal-based power plant in Amasra, Turkey. The plant is planned to have a capacity of 2,640 MW. Hattat Holding Chairman Mehmet Hattat said at the signature ceremony that approximately USD 2.4 billion will be invested in this project.⁷
- Recently, the world's largest lender by total assets, Industrial and Commercial Bank of China (ICBC), signed a USD 316 million agreement with Turkish GSD Holding for the acquisition of 75.5% of the shares in Tekstilbank.⁸ This acquisition will allow ICBC to establish new businesses in a sturdy and profitable banking sector and will ease bilateral trade between Turkey and PRC.
- In the textiles sector, Turkey could become an important gateway to trade with European Countries for Chinese companies. For instance, according to the press, Chinese textiles manufacturer Texhong plans to invest USD 70 million in a yarn production in Balıkesir.

⁴ Çin'den Türkiye'ye Tarihi Yatırım, Hürriyet Newspaper, 30 September 2011

⁵ Embassy of the People's Republic of China in Turkey, *Geleneksel Dostluk Sürmekte, İş Birliği Derinleşmekte*, 17 October 2014

⁶ <http://www1.chinalight.com.cn/english/CompanyProfile.aspx?id=633>

⁷ Prime Ministry Investment Support and Promotion Agency, *Turkish and Chinese Companies ink USD 2.4 billion Coal-Based Power Plant Deal*, 15 May 2013

⁸ <http://online.wsj.com/articles/SB10001424052702304163604579531482649558654>

III. Turkish Investments in PRC

Turkish companies first became interested in PRC in the second half of the 1990s. Thanks to economic developments in the last two decades, PRC has now become a center of attraction for major Turkish conglomerates such as Sabancı, Koç and Zorlu as well as for small and medium-sized enterprises in Turkey. Approximately 500 Turkish companies operate in PRC.⁹ Some of the Turkish companies operating in PRC are as follows:¹⁰

- Arçelik, a Koç Holding company, shifted some of its purchase activities to the Far East in 1999 and based these activities in PRC. Arçelik acquired PRC-based Casa-Shinco (washing machine manufacturer) and currently carries out significant manufacturing activities in PRC.
- Ford Otosan, the R&D leader of the Turkish automotive sector, has recently achieved a major success with the conclusion of chassis and cab license agreements for heavy trucks, and a heavy truck manufacturing license agreement with Jiangling Motors Corporation Limited (JMC) and JMC Heavy Duty Vehicle Co. Ltd. in addition to the engine technology license agreement for manufacturing Ecotorq engines in April 2013. JMC will initially pay EUR 8 million to Ford Otosan as a license fee.¹¹
- Aksa Jeneratör, a Kazancı Holding company, opened a generator factory with the world's highest manufacturing capacity in Changzhou, Jiangsu, in the East of PRC.¹² Aksa Group has been manufacturing diesel generators since 2007 at its plant in Changzhou, PRC.
- Fiba Holding completed the construction of "Star Mall" and opened it in 2009 in Northern PRC. This is the largest Turkish investment in PRC.¹³
- Fabeks Dış Ticaret, well-known for its "Silk & Cashmere" brand, has been operating in PRC for more than 20 years. The company established a plant in 1993 and manufactures silk and cashmere in Inner Mongolia, considered as the homeland of cashmere. It exports its products to many markets including the USA and Europe and sells its products in 27 shops across the world.

PRC and Turkey intend to go further in bilateral investments and trade. For instance, the Turkish Central Bank and the Chinese Central Bank signed a three-year currency swap agreement worth USD 1.6 billion, in order to ease the bilateral trade and investment between countries.¹⁴ In the energy sector, Turkish Elektrik Üretim A.Ş and Chinese State Nuclear Power Technology Corporation, together with Westinghouse Electric Company, announced a multi-party agreement to enter into exclusive negotiations to develop and construct the third nuclear power plant in Turkey.¹⁵ Further, Chinese heavy commercial vehicle manufacturer Sinotruk apparently considers an investment in Turkey.¹⁶ In 2012, a goal to improve bilateral trade between Turkey and PRC from USD 24 billion to USD 100

⁹ Maris Global, *Çin'deki Türk Şirketleri*, 5 June 2009

¹⁰ Maris Global, *Çin'deki Türk Şirketleri*, 5 June 2009

¹¹ *Trucks Licensed Ford Otosan will be Manufactured in China*, Sabah Newspaper, 25 July 2014

¹² *Aksa Made China, Station Of Generator*, Milliyet Newspaper, 28 May 2012

¹³ <http://www.fibaholding.com.tr/yatirimlar/finans-disi-faaliyetler/star-mall-real-estate-development-shenyang-co-ltd.aspx>

¹⁴ *China Busy Signing Currency Deals*, Forbes, 26 June 2012

¹⁵ *Turkey to Build Nuclear Reactor with China, US Company*, World Bulletin, 25 November 2014

¹⁶ Prime Ministry Investment Support and Promotion Agency, *Chinese Truck Maker Considers Investing in Turkey*, 21 March 2014

KOLCUOĞLU DEMİRKAN KOÇAKLI

billion within the coming eight years has been declared by the senior government officials of the two countries.¹⁷

IV. Bilateral Treaties between Turkey and PRC

Some of the major bilateral treaties between Turkey and PRC are shown in the below table:

Trade Agreement	1974
Economic, Industrial and Technical Cooperation Agreement	1981
Investment Promotion and Protection Agreement	1990
Double Taxation Prevention Agreement	1995

In addition to bilateral treaties listed above, the year 2010 marked a crucial change in relations between Turkey and PRC, which was followed by the Memorandum of Understanding on Initiating Joint Study for Medium and Long Term Development Plan on Bilateral Trade and Economic Cooperation between Turkey and PRC; the Memorandum of Understanding on Enhancing Cooperation in Infrastructure Construction and Technical Consulting Services in Third Countries Between Turkey and PRC; and, finally, the Memorandum of Understanding on the Composition of the Joint Working Group on New Silk Road Connection.

Considering Turkey's ambition to become one of the strongest economies in the world, it appears that both economic and social relations between PRC and Turkey are expected to be stronger in the future.

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¹⁷ *Turkey, China set eyes on \$100 bln in mutual trade*, Today's Zaman, 22 February 2012