The Asian Infrastructure Investment Bank (AIIB) Loan Projects: Analyzing the People’s Republic of China’s Multilayered Multilateralism Strategy to Turkey (2016-2018)

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ABSTRAK


Kata kunci: AIIB, Tiongkok, Turki, BRI, Multilayered-Multilateralism
ABSTRACT

The establishment of Asian Infrastructure Investment Bank (AIIB) was first marked with the proposition made by People’s Republic of China (PRC) President Xi Jinping in 2013. Many since then believes that the establishment of the AIIB is part of PRC’s bigger plan that is the Belt and Road Initiatives (BRI). The significance of Turkey strategic position for the implementation of BRI, it is very crucial for PRC to maintain a steady flow of cooperation with Turkey. Out of 93 members that has joined as a part of AIIB, Turkey stands as the second-largest loan receiver by the end of 2018. This article argues that PRC has been using AIIB as part as their BRI plan through its multilayered-multilateralism strategy to Turkey. This article analyzes the loan policies that has been made by PRC and AIIB to Turkey from 2016 to 2018.

Keywords: AIIB, China, Turkey, BRI, Multilayered-Multilateralism

1. Introduction

The establishment of Asian Infrastructure Investment Bank (AIIB) was first marked with the proposition made by the People’s Republic of China (PRC) President Xi Jinping in 2013 (Liqun, 2016). A year after President Xi Jinping expressed his intention to establish the new international financial institution, five official meetings with interested Asian developing countries were conducted to discuss the mechanism and framework of the AIIB. These official meetings reached an agreement with the proceeding of Memorandum of Understanding (MoU) on 24 October 2014 (Asian Infrastructure Investment Bank, 2015b). The establishment took less than a year before the interested member parties, totaling up to 57 nations, agreed sign the Articles of Agreement in 2015 (Asian Infrastructure Investment Bank, 2015c). The pace of establishing the AIIB was comparable or even slightly faster than the establishment of its peer institution in Asia, Asian Development Bank (ADB), which took almost 3 years from its design to realization (Hubbard, 2016).

Due to its initial stature, AIIB was often perceived as one of PRC’s tool to challenge the dominancy of United States economic hegemony. In the beginning, AIIB was compared to US led International Financial Institutions (IFIs), which are the World Bank and International Monetary Fund (IMF) (Perlez, 2015). Critics were particularly quite strong in terms of perceiving AIIB relation as a key supporting institution in providing the funding of PRC’s national interest in One Belt One Road (OBOR) Initiative (Perlez, 2015). Despite of the initial circulating opinion, by December 2018, AIIB membership has reached 93 member countries with 14 countries coming from
the G-20 (Asian Infrastructure Investment Bank Treasury, 2019). Nonetheless, The
United States (US) and Japan still strongly oppose the operation of AIIB and refuse
to join as a founding or even member countries (Perlez, 2015).

Out of 93 members that has joined as a part of AIIB, Turkey stands as the 2nd largest
loan receiver by the end of 2018 (Asian Infrastructure Investment Bank Treasury,
2019). Two years following President Xi Jinping speech about win-win cooperation in
the creation of Asia as a community of destiny (Ministry of Foreign Affairs of the
People’s Republic of China, 2015), President of Turkey, Recep Tayyip Erdogan,
showed Turkey’s national interest to be leaning towards PRC’s intention in
strengthening regional cooperation framework through the key-connecting
infrastructure development of BRI and supporting international financial framework
of AIIB during his speech in Belt and Road Forum for International Cooperation in
Beijing.

The significance of Turkey strategic position for the implementation of BRI, it is very
crucial for PRC to maintain a steady flow of cooperation with Turkey. Notably, there
are number of private investments PRC has channeled in regard to the development
of major infrastructure projects, which are mainly related to the construction of
Consequently, the high frequency of interaction between the Turkey-PRC has resulted
in the establishment of strategic cooperation partnership; however, there are still
some concerns which needs addressed by PRC in order to ensure the sustainability
of its partnership, most notably the huge gap of trade between the two countries
where by 2018 Turkey export value reached only 2.9 billion dollar if compared to
PRC’s 20.7 billion dollar worth of export (Turkish Statistical Institute, 2018). This
leads to a key point of discussion on how PRC pursues its national interest while still
maintaining favorable outcomes for its partnering country to maintain the
sustainability of its strategic partnership. The authors believe that China is using AIIB
as a tool of a multilayered multilateralism in maintaining its strategic partnership with
Turkey.

The drive behind the main research question of this study arise due to the revolving
question on PRC’s intention behind the establishment of AIIB and whether its
existence aligns with PRC’s interest and political stance. This question arises after
reading several literatures which emphasize on the analysis of PRC’s political, and
foreign policy background and tying it together with its decision to initiate the
establishment of a new regional development bank. One of the most particular
literature was an analysis conducted by the Centre for International Governance
Innovation (CIGI) entitled from “Taoguang Yanghui” to “You suo Zuowei”: PRC’s
Engagement in Financial Minilateralism. The main analysis over this literature is
focused on the idea of ‘minilateralism’ which is the assembly of sub-group countries
within or outside a multilateral institution to address a particular international issue when the pre-existing framework of international institutions were unable to produce agreements or resolutions. PRC’s dissatisfaction over the existing framework of US-influenced international economic institutions could be seen from how, regardless of PRC’s 15 years of engagement in regional and global financial cooperation, PRC still resolves to establish a much more PRC-centered international financial institutions such as the New Development Bank (NDB), Contingent Reserve Arrangement (CRA) and most recently, the AIIB (Wang H., 2014).

Hongying Wang’s (2014) main argument is that PRC attempts to use financial minilateralism as a way to promote reform to global financial institutions, particularly in providing the capital necessity and public goods for its regional developing neighbor countries. The stronger economic development of Asian countries affiliated with BRI is in accordance with PRC’s political and economic interests. Consequently, the financial minilateralism done by PRC is neither aimed to challenge or replace the existing international economic institutions. Rather, it is aimed to change the flow of interaction towards regional economic integration and infrastructure development which will revolve around PRC as the main driving actor behind the sustainable growth in Asia. In order to achieve that, PRC is trying to shape international perception into a much more positive light towards the growing outward expansion of PRC’s influence under the new framework of regional cooperation.

The BRI is often portrayed by PRC – as a new rising power – with its characteristics of peaceful, non-threatening and non-revisionist approach (Bijian, 2005). This stance was particularly expressed by PRC’s Foreign Minister Wang Yi during the annual press conference in March. He stated that BRI is not to be observed using the outdated Cold War mentality as it is not a tool of geopolitics (Wang Y., 2015). Instead, PRC is playing a more active role in assuming the responsibility of a hegemonic power in providing capital and materials for regional development. The establishment of AIIB is particularly expressed as a response towards the limited role entrusted to developing countries in existing international institutions. AIIB was initiated by PRC to address the high demand on infrastructure financing as has been expressed in a report published by Asian Development Bank (ADB).

Turkey holds an important role due to its strategic geographical position. Two articles titled “Turkey Dream” and the China-Turkish Cooperation under “One Belt and One Road” Initiative written by Nurettin Akçay and “Turkey-China Relations Within the Concept of the New Silk Road Project” by Zan Tao provide the political-economic background over the implementation of BRI in Turkey. These works provide an important explanation to comprehend PRC’s interest and Turkey’s geographical advantages and how PRC-Turkey could advance in strengthening their framework of
cooperation to achieve mutual benefit. Turkey strategic geographical position could be seen as it connects to parts of Europe, Asia, and Africa.

Turkey’s located in the south of Russia, west of Caucasus and Central Asia, east of Europe, south of Saudi Arabia and North Africa (Akçay, 2017). It also controls the Strait connecting the Black Sea and Mediterranean Sea. With its geographical key advantage, Turkey has been planning to push forward the competitiveness of its transportation infrastructure through several proposal and projects. For instance, the literature mentioned on Turkey’s effort in constructing Black Sea and Mediterranean trade port through several projects, most notably the undersea tunnel project. Turkey has been taking on projects which not only could revive the ancient Silk Road but possibly extend the Silk Road connectivity from Beijing to London through the crossing of the Strait Bosporus tunnel. Moreover, Turkey is under ongoing process of building its third international airport in Istanbul which is claimed to be the next largest airport in the world with a total investment of $28 billion (Tao, 2016).

The literature elaborates on the Turkey Dream within the context of Turkey’s three levels periodical visions for 2023, 2053, and 2071 with the 2023 Centenary Vision being the most detailed and practical. Proposed in January 2011, the 2023 Centenary Vision contain economic development goals of boosting Turkey’s gross domestic product (GDP) to reach $2 trillion and rank top 10 globally, reduce inflation and maintain a single digit interest rate, increase export growth to reach $500 billion, boosting national income per capita to reach $25,000 and curb down unemployment to 5%. With this ambitious goal, Turkey placed high importance on its strategic partnership with PRC and willing to actively participate in the development of BRI (Tao, 2016).

Regardless of Turkey’s interest towards BRI and strategic partnership with PRC, the literature pointed out Turkey’s perspective and several concerns over its partnership with PRC. First, Turkey could not ignore the fact that PRC has become a major powerful country with massive economic power rivalling only to that of United States. Secondly, Turkey has constantly suffered huge trade deficit with PRC. For instance in 2015, PRC has a total export of $24.8 billion with main commodities of manufactured goods, on the other hand Turkey’s export only reaching $2.4 billion with main export of raw materials and mine products (Akçay, 2017).

Due to major imbalance in the bilateral cooperation, Turkey is seeking for a breakthrough solution for its trade deficits by encouraging increase of investment from PRC (Tao, 2016). The literature shows PRC must rebalance its mutual partnership with Turkey and position its stance as a major power to be positively perceived in their framework of cooperation. Accordingly, when PRC initiated the establishment of AIIB and Silk Road Fund were highly perceived by Turkey as it
provided the much-needed platform to channel capital investment for infrastructure projects development (Tao, 2016).

The literature shows signs of interrelations between PRC and its multinational projects of AIIB and BRI. Notably, the PRC also placed high importance on Turkey as one of its key partners regarding its strategic geographical position within the framework of BRI. PRC’s interest coincides with Turkey’s goals of boosting its overall economic growth to achieve the 2023 Centenary Vision, with some notes on Turkey’s concern over the prospect of mutual benefits in the cooperation. With all the interrelated points of discussion, this study aims to research PRC’s utilization of AIIB to ease the implementation of BRI through a stronger and more balanced framework of cooperation with Turkey.

2. Theoretical Framework

2.1. Neorealism

From the perspective of neorealism, power and interest are the true drive and concerns behind the structural façade of international institutions (Martin & Simmons, 2002). In this sense formal institutions would be eventually dominated by states with the most power (Mearsheimer, 1994–1995), and are epiphenomenal to state’s power and interest (Carr, 1964). Often, the existence of international financial institutions is perceived as reflection of major power’s geopolitical interest (Reynaud & Vauday, 2009).

According to Edward Mansfield (1994;1995), international institutions are predisposed to be influenced by states and or the special interest within. The incentive for states to insert its influence in international institutions is mainly due to the perks of power and leverage provided for those that control the institution (Mansfield, 1995). As a powerful state gains majority control over the institution, it is will be equipped with the ability to set the agenda influence the distribution of benefits and roles among members. More importantly, international institutions allow states to influence member states using the strategy of binding, in a way which state gain some say over other state’s policy by integrating it into a more complex framework of institutional arrangements (Mansfield, 1994). Consequently, the existence of power and interest in international institutions are integrally incorporated, in a way where power indicate the degree of influence state possess over the institution and interest as the indicator over the purpose as to how the influence will be harnessed (Schweller & Priess, 1997). Unlike the neoliberal institutionalism concern over the matter of efficiency, neorealism emphasizes more onto the issues of distribution, in which power serves as both the instrument and stakes (Jervis, 1999).
Within the discussion of AIIB, the existence of a powerful state is associated with PRC mainly related to its role as the initiator and the biggest shareholder of AIIB. Along with PRC’s interest to further develop regional economy and infrastructure, AIIB embodies one of China’s regional agenda as written in the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road 2015. PRC plans to bring forward a more resilient and closer financial integration to potentially build a currency stability system, investment and financing system and credit information system in Asia. Consequently, AIIB has its supportive role in the implementation of BRI by providing financial support to infrastructure development to countries who are part of or related to BRI.

With a main purpose that mainly supported PRC’s regional development agenda, AIIB as pictured throughout this research is in accordance with Robert Jervis’ view of international institutions. While they do not lack the sense of utility, international institutions are not autonomous in a way of being perceived as more than a tool for statecraft (Jervis, 1999). Consequently, international institutions do not necessarily signify an increase of cooperation unless it is already within the state’s interest to do so. Whether it is to establish or being involved in an institution, states would willingly participate only if the institution might assist states to achieve a particular purpose (Jervis, 1999). As Charles Glaser describe it, institutions are the result of corresponding factor in states interests. Consequently, while these corresponding interests encounter constraints imposed throughout the system this juncture determines states decision to participate in a bigger framework of cooperation (Glaser, 1994).

2.2. Multilayered Multilateralism

PRC’s approach to Turkey through AIIB is a way for PRC to bring the two countries closer through financial integration which is one of the fundamental part in the realization of BRI (National Development and Reform Commission People’s Republic of China, 2015). Along with its bilateral framework of cooperation with Turkey, PRC showcased a supportive stance and its intention in deepening partnership with Turkey (Ministry of Foreign Affairs of the People’s Republic of China, 2015). Noticeably, AIIB operations in Turkey and PRC’s bilateral framework of cooperation with Turkey together complemented each other, which could be particularly seen during Turkey’s recent economic setback in 2019 (Elcoate, 2018).

The BRI has been one of China’s most important foreign policy strategies since President Xi Jinping took his office. Observing through the relationship between the BRI related countries, AIIB members and China’s bilateral relations, the pattern suggests that China is constructing a framework of multilayered multilateralism, which is to substitute as the institutional tool to promote the realization of BRI (Yuan, 2019). The multilayered multilateralism embodies new approach towards China’s foreign policy of opening-up, which utilizes the mix of both bilateral relations and multilateral institutions as a mean to promote a particular objective (Yuan, 2019).
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elaborates on PRC’s pattern of interactions, both economic diplomacy and multilateral approaches, and the objectives as to why the pattern is constructed in the very first place.

The pattern of interactions in bilateral and multilateral level could be identified through the purpose of both approaches. Instead of being two separate matters, the bilateral and multilateral dimensions are shaped in a way where they share an active interactions to support the realization of a greater projects (Yuan, 2019). Regarding PRC’s multilayered multilateralism, the research would focus on the pattern revolving around AIIB loan receiver countries, PRC partnership countries, and countries which are strategically located within the scope of BRI.

Figure 1 PRC’s framework on multilayered multilateralism (Yuan, 2019)

Feng Yuan research as pointed in figure 1.3 described multilayered multilateralism as the new model of PRC’s proactive approach in foreign policy. Along with China’s national interest of market expansion and supporting regional connectivity its economic foreign policy of opening-up is to be achieved through the implementation of the BRI (Central Committee of Communist Party of China, 2016). Notably, PRC’s multilayered multilateralism is closely related to the rise of regionalism which is supported by its wide network of strategic partnership and multilateral institutions. Consequently, this condition puts PRC in a favorable position to promote a greater economic project with long-term interest, one of it being the BRI.
With AIIB as PRC’s most recent initiative in institutional arrangements, Feng Yuan pictured PRC’s economic multilateral initiative as being coordinated under the bigger plan of BRI (Yuan, 2019). The BRI incorporated ASEAN+3 and Shanghai Cooperation Organization (SCO) with AIIB in a way where it combines financial cooperation and infrastructure development to deepen cooperation in energy, transport, and IT sector (Zou, 2015). Moreover, PRC is also pushing forward internationalization of Yuan through bilateral currency exchange under SWAP agreements with majority of its strategic partnership countries which includes most of the countries affiliated with SCO (Yuan, 2019).

As this study would focus on AIIB operations in Turkey and its correlation to the BRI, multilayered multilateralism is essential in defining PRC’s approach to Turkey. As depicted in Figure 1.3, Turkey is one of PRC’s strategic cooperation partner which holds an important role in the realization of the Middle Corridor, a part of BRI 6 major economic corridors. Moreover, Turkey is also an active dialogue partner of SCO, and one of the countries which has signed SWAP agreements and Memorandum of Understanding in BRI (Republic of Turkey Ministry of Foreign Affairs, 2018).

3. China-Turkey Economic Relations and China’s Interest

The PRC is Turkey’s first East Asian trade partner country and the 3rd largest globally (Republic of Turkey Ministry of Foreign Affairs, 2018). Notably, there is a significant increase in the bilateral trade volume from $2 billion in 2002 to $28 billion by 2014 (Presidency of the Republic of Turkey, 2015). The PRC-Turkey bilateral trade relations reached its peak in 2016, when the PRC had managed to become Turkey’s largest trading partner surpassing Russia and Germany (Ministry of Commerce of the People’s Republic of China, 2016). Bilateral trade between the two countries has been maintained to constantly surpass $23 billion annually ever since (Turkish Statistical Institute, 2018).

The creation of BRI made Turkey holds an important role in reviving the ancient Silk Road into a much more comprehensive BRI (Ministry of Foreign Affairs of the People's Republic of China, 2015). Starting off, Turkey is situated in a position where it connects to the South of Russia, North of Middle East and Africa, west of Caucasus and Central Asia, and the east of Europe. Moreover, Turkey also controls the strait which connects the Black Sea and Mediterranean Sea (Tao, 2016). Due to its strategic geographical position, Turkey has the central position in BRI pertaining to land, sea, and air transportation access. It serves the role as the nexus of interaction between Middle East, Central Asia, North Africa, and Europe (Akçay, 2017).

Turkey’s crucial role is not only limited to transportation hub but also plays an important part in managing regional energy distribution. Turkey is situated in between the region’s energy producing countries with more than 75% of the global
oil and gas reserves and Europe as an advanced energy consumer market. Approximately 3% of the world’s oil consumption passes through Turkish Straits, thus increasing the importance of alternative oil export options due to the risk of spillover accidents which potentially cause an environmentally hazardous effect (Republic of Turkey Ministry of Foreign Affairs, 2018).

Turkey’s pivotal role in regional energy security pushes forward the importance of carefully operating the East-West and South-North Energy Corridors. The East-West or often referred as Southern Gas Corridor is consisted of connecting gas pipeline projects which are designed to transport gas from Caspian and Middle East region to via Turkey. Among some of the pipeline projects, the Trans Anatolian Pipeline Project (TANAP) holds the underpinning part of the Southern Gas Corridor. This project was inaugurated in June 2018 and envisaged to be completed. Trans Anatolian Pipeline Project (TANAP) which constitutes the backbone of the Southern Gas Corridor was inaugurated on 12 June 2018. With the expected establishment of Trans Adriatic Pipeline Project (TAP) in 2019, the Trans Anatolian Pipeline Project will be integrated and allow transport of gas from Asia to Europe through Turkey and Greece (Republic of Turkey Ministry of Foreign Affairs, 2018).

Turkey has planned to increase its GDP volume to rise into the top ten globally. Making the best out of its geographical advantage, Turkey plans to boost its economic development through the procurement of major infrastructure, energy, and transportation projects (Presidency of the Republic of Turkey Investment Office, 2015). This could be particularly seen through Turkey’s large infrastructure projects such as of Yavuz Sultan Selim Bridge - the North Marmara Highway which is claimed to be the world’s widest and longest dual purpose (road and rail) suspension bridge that connects Europe and Asia (President of the Republic of Turkey Investment Office, 2016). Aside from the construction of continental suspension bridge, Turkey also push forward other huge scale infrastructure projects such as Canal Istanbul, Istanbul’s Third Airport, Eurasia Tunnel and Marmaray, and Trans-Anatolian Pipeline Project (TANAP) (Presidency of the Republic of Turkey Investment Office, 2015).

PRC’s strategy in the BRI seeks to provide effective routes for international trade to a bigger market, allowing more economic interactions to the world from both eastward and westward links crossing through the land and the sea (National Development and Reform Commission People’s Republic of China, 2015). Consequently, further market integration allows China to develop its production capacity and equipment manufacturing as it plans to develop the nation into a manufacturing powerhouse pushing forward the Made in China 2025 action plan (Central Committee of Communist Party of China, 2016).

Connecting PRC’s industrial cluster into global markets allows PRC to gain cost effective and time efficient routes to export its products which is significant to prevent
over production capacity. Consequently, PRC also heavily invests and promotes the procurement of massive infrastructure projects such as railways, ports, energy generator and storage expansion. Recognizing the recent aligning national interest and the importance of Turkey’s strategic geographical position, PRC urges to push forward stronger framework of cooperation between the two countries. This was explicitly expressed by President Xi Jinping during his speech in “PRC-Turkey Business Forum” which was also attended by President Recep Tayyip Erdoğan (Ministry of Foreign Affairs, the People’s Republic of China, 2015).

Both PRC and Turkey objectives of developing infrastructure development and regional connectivity an agreement was officially set with the signing of Memorandum of Understanding in July 2016 (Republic of Turkey Ministry of Foreign Affairs, 2018). Notably, Turkey’s key multilateral infrastructure component of the Middle Corridor, the Baku-Tbilisi-Kars railway was officially operating since October 2017 (Republic of Turkey Ministry of Foreign Affairs, n.d.). The 850 km railway link is claimed to be the shortest reliable route from Asia to Europe which starts from the Azerbaijan capital city, Baku to the capital of Georgia, Tbilisi and ends at the city of Kars in (Xinhua, 2017; Shahbazov, 2018).

Turkey’s effort in participating in multilateral transportation agreement along with constant internal development of transportation infrastructure points out its effort in realizing its ambitious 2023 Centenary Vision. Turkey’s active drive for infrastructure development brought the attention to the prominent fact that strategic geographic location solely is not enough for Turkey to bring forward economic competitiveness if not properly crafted into key infrastructure hub which determine the global flow of goods or trade. Consequently, in order to fulfill this ambitious goal, Turkey requires a huge amount of investment and economic partners. To sustain its infrastructure development, Turkey often turns to PRC for financial support as one of its major economic partners. In correspondence, PRC has a positive response towards Turkey’s infrastructure development as it aligns with PRC’s interest in boosting regional economic development through infrastructure and financial integration.

4. **AIIB Investment to Turkey**

AIIB loans provided to Turkey were all related to energy development projects. The AIIB loans were channeled through two major projects that are related to gas storage expansion and ready financial backing for renewable energy projects in Turkey. Unlike other loan recipients, so far Turkey replaced Indonesia as the second biggest loan receiver in 2018 only within three months’ time interval (Asian Infrastructure Investment Bank, 2018d).

A crucial thing that Turkey lacks is the natural and energy gas producing capacity (Republic of Turkey Ministry of Foreign Affairs, 2018). In Turkey, gas is mainly used
for power generation and residential heating with peak usage during the winter. The peak of gas demand limits its usage for power sector, leading to the use of a more expensive energy resource, which in the case of coal and fossil fuel are more polluting options (Asian Infrastructure Investment Bank, 2018a). Turkey’s gas consumption constituted around one third of its total energy consumption in which the domestic production is even barely capable of covering 1% out of overall usage (Asian Infrastructure Investment Bank, 2018a; Republic of Turkey Ministry of Energy and Natural Resources, 2018). Consequently, Turkey’s total dependency on gas imports poses a serious macroeconomic challenge and energy security risk. This situation sharply highlights the importance of network capacity and storage limitations to increase security of gas supply along with the trading and the flow of gas from gas producing countries (Dilli & Nyman, 2015).

AIIB first approved loans proposal was the Turkey Gas Storage Expansion Project which received Board approval on 24 June 2018 with an amount of US$600 million funds (Asian Infrastructure Investment Bank, 2018c). The purpose of the project is to raise the capacity of the Tuz Golu Gas Storage Facility by 1.2 billion cubic meters (bcm) (Asian Infrastructure Investment Bank, 2018a). The volume increases would then push Turkey’s overall storing capacity into 17 percent of projected annual gas consumption, which would still considered insufficient if compared to 30-40% in Europe energy import dependent countries (International Bank for Reconstruction and Development, 2018). The project was conducted by Turkish state-owned gas company Boru Hatıları ile Petrol Taşıma A.Ş. (BOTAŞ) which monopolies the market power with around 82 percent shares of annual gas consumption (Asian Infrastructure Investment Bank, 2018a).

Three months after the procurement of $600 million loans for Turkey’s Gas Storage Expansion, the second loans to Turkey was approved in 28 September 2018. The second loan was approved under the project name of Turkiye Sinai Kalkınma Bankası (TSKB) Sustainable Energy and Infrastructure. The main purpose of this project is to provide long-term financial support primarily for sustainable energy and infrastructure development in Turkey. The fund with a total amount of $200 million would be channeled through Turkiye Sinai Kalkınma Bankası (TSKB) as the borrower to be passed onto private enterprises in Turkey as the sub-borrowers. Both of the AIIB provided funds are sovereign-backed loans with Republic of Turkey as the main guarantor (Asian Infrastructure Investment Bank, 2018b).

Aside from the major funding invested directly in Turkey, Asian Infrastructure Investment Bank also contributed in the realization of Trans Anatolian Natural Gas Pipeline Project (TANAP). The Trans Anatolian Natural Gas Pipeline Project is included within the Southern Gas Corridor Program which is constructed to transport natural gas from Caspian Sea in Azerbaijan to Turkey and then directed to Europe (Asian
Infrastructure Investment Bank, 2016b). AIIB provided US$600 million loans to the Southern Gas Corridor Joint Stock Company (SGC) with Republic of Azerbaijan as its sovereign guarantee (Asian Infrastructure Investment Bank, 2016b). Standing between major oil producing country, Azerbaijan and huge oil market consumer, EU, Turkey strategic location made it possible for the country to serve as the host country of the Trans Anatolian Natural Gas Pipeline Project (Presidency of the Republic of Turkey, 2018).

The Trans Anatolian Natural Gas Pipeline Project is a very crucial project as its constituted 53% out of 3,500 km-long pipelines under the Southern Gas Corridor Program (Asian Infrastructure Investment Bank, 2016b). More importantly, completing the project diversify existing energy supply to Turkey and European Union (EU) (Presidency of the Republic of Turkey, 2018). It is the first project to transfer natural gas from Caspian region to Europe, significantly increasing the region’s energy security (Presidency of the Republic of Turkey, 2018). Prior to the construction of Trans Anatolian Natural Gas Pipeline Project, Turkey has imported around 6.5 bcm of natural gas annually. With the completion of TANAP it allows Turkey to import additional 6 bcm of natural gas through the project (Asian Infrastructure Investment Bank, 2016b).

5. Multilayered Multilateralism of China towards Turkey

According to Feng Yuan’s (2019) description of multilayered multilateralism, the multiple sources of financing coming from PRC to Turkey fit the pattern of approach. Multilayered multilateralism is the strategy implemented by PRC to realize a certain project which require solid political and financial resources –which in this case is the BRI –through the combination of both bilateral and multilateral approaches (could be more than one multilateral framework) (Yuan, 2019). The purpose of the multilayered multilateralism is to allow PRC to promote deeper cooperation with its strategic partner in order to promote its national interest.

Lira depreciation and a huge trade deficit in its pocket makes foreign direct investment plays a crucial part in undermining the progress of Turkey’s infrastructure development and economic rebound. PRC has a national interest in Turkey geographic location pertaining to the construction of BRI. Pertaining to the flow of investment from PRC, there are more than one sources of financial funding provided to promote Turkey’s infrastructure development particularly during its economy setback in 2018. Bilaterally, PRC provided financial support through the 3.6 billion loans from major state-owned bank ICBC while multilaterally channeling investment funds through AIIB (Asian Infrastructure Investment Bank; Industrial and Commercial Bank of China, 2018).
PRC has had a history of bilateral economic partnership with Turkey in which both countries have constant flow of trade activities and bilateral investment particularly in infrastructure funding coming from PRC (Ministry of Foreign Affairs of the People’s Republic of China, 2015). Complementing the bilateral relations, Turkey was also admitted as an active member of several multilateral initiatives proposed by PRC. For instance, in 2012 Turkey was accepted as one of dialogue partners of Shanghai Cooperation Organization (SCO) (Republic of Turkey Ministry of Foreign Affairs, 2017). During the same year when Turkey became a dialogue partner of SCO, a bilateral currency exchange (swap agreement) between the two countries was signed for the very first time (Republic of Turkey Ministry of Foreign Affairs, 2018).

When Turkey first signed the MOU for aligning the Middle Corridor with BRI in 2016, the period coincides with the first enforcement of Turkey-PRC bilateral swap agreement (Republic of Turkey Ministry of Foreign Affairs, 2018). Notably, financial integration is included as one of the key point written in the Vision and Actions of BRI where the BRI pursues efforts deepening financial cooperation by building currency stability system and expanding bilateral currency swap within countries along the BRI (National Development and Reform Commission People’s Republic of China, 2015). Notably, the first exchange under the bilateral swap agreement between the two countries was managed by the Industrial and Commercial Bank of China (ICBC)

Turkey officially hosted the Belt and Road Investment and Financial Cooperation Forum on the same day it attained 3.6 billion investment from ICBC (Industrial and Commercial Bank of China, 2018). The forum was sponsored by ICBC, Embassy of the PRC in Turkey, and the Ministry of Energy and Natural Resources of Turkey. Conducted in order to increase business exchanges as well as trade and investment opportunities between the two countries, this forum was also participated by Turkish government officials, as well as representatives of more than 150 Chinese and Turkish corporations (Industrial and Commercial Bank of China, 2018).

Complementing the existing framework between PRC and Turkey, the AIIB projects approval in Turkey also happened to come during the gradual decline of the lira (Asian Infrastructure Investment Bank, 2018d). Within three months between the first and second loan, Turkey has replaced Indonesia in becoming the second largest loan receiver in AIIB (Asian Infrastructure Investment Bank, 2018d). The first AIIB investment project in Turkey, the Tuz Golu Gas Storage Expansion, is also closely connected to PRC in which the bidding of engineering procurement and construction contract for both the original projects was won PRC’s state-owned engineering construction company, China Tianchen Engineering Corporation. Meanwhile, the design, supply and the installation of Tuz Golu Gas Storage Expansion was entrusted to a PRC-Turkey joint venture of China National Machinery Industry Cooperation (CAMC Engineering) and Turkey’s IC İتراş. (World Bank, 2014; BOTAŞ, 2019).
Notably, both of the loans given by AIIB as well as the loans coming from ICBC were all directed to develop Turkey’s energy and infrastructure sector (Asian Infrastructure Investment Bank; Industrial and Commercial Bank of China, 2018).

The strategic geographical position of Turkey justifies the AIIB loan, however, the practices show that AIIB is another tool set by PRC to conduct its foreign policy toward Turkey. The case studies also show that in terms of timing, both loans coming from PRC and AIIB are in the same quarter window and even more it is going to the same cluster project such as energy. The case of AIIB and PRC in Turkey has shown that AIIB is being used as a tool of PRC’s foreign policy and reflecting PRC’s interest towards Turkey in the forms of loans.

6. Conclusion

China’s national interest and Turkey’s agenda of developing and connecting infrastructure coincide with each other. Consequently, China is actively participating in the development of Turkey’s important infrastructure such as Ankara-Istanbul high speed railway and one-gigawatt wind project. Adding to that, Chinese enterprises also provided massive amount of investment reaching up to $642.3 million in 2016 in projects such as coal mining, hydropower projects and high-speed railway lines. More importantly, during Turkey’s economic setback in 2018, China’s major state-owned bank, the Industrial and Commercial Bank of China provided $3.6 billion loans to boost Turkey’s energy and infrastructure sector.

 Aside from the financial sources coming bilaterally from China, AIIB also injected $800 million investment to Turkey. These investments constituted two separate projects with the same focus on energy and infrastructure development. The pattern is similar to the bilateral investment provided by China towards Turkey highlighting the strategy of multilayered multilateralism which is implemented by China. Moreover, China’s multilayered multilateralism to Turkey has been going quite strong with Turkey being officially accepted as a dialogue partner of Shanghai Cooperation Organization on the same year it signed bilateral currency exchange or swap agreement with China. Turkey also signed the Memorandum of Understanding for aligning its Middle Corridor with BRI in 2016.

 Turkey officially hosted the Belt and Road Investment and Financial Cooperation Forum which was sponsored by ICBC in 2018 on the same day it received the $3.6 billion loans. Within the same quarter of the year, Turkey also received the investment from AIIB which turn Turkey into the second largest receiver of AIIB investment. The pattern of Turkey interaction with China and within the multilateral framework of cooperation under PRC’s influence shows how PRC advance its relations with Turkey through the use of both bilateral and multilateral approaches in accordance with the multilayered multilateralism strategy. In this sense, the
establishment of AIIB adds another layer in the PRC’s multilayered multilateralism to Turkey.

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