

Policy Paper 2

# Turkey, Asia and the Europe: An Asian Perspective

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# Policy Paper 2

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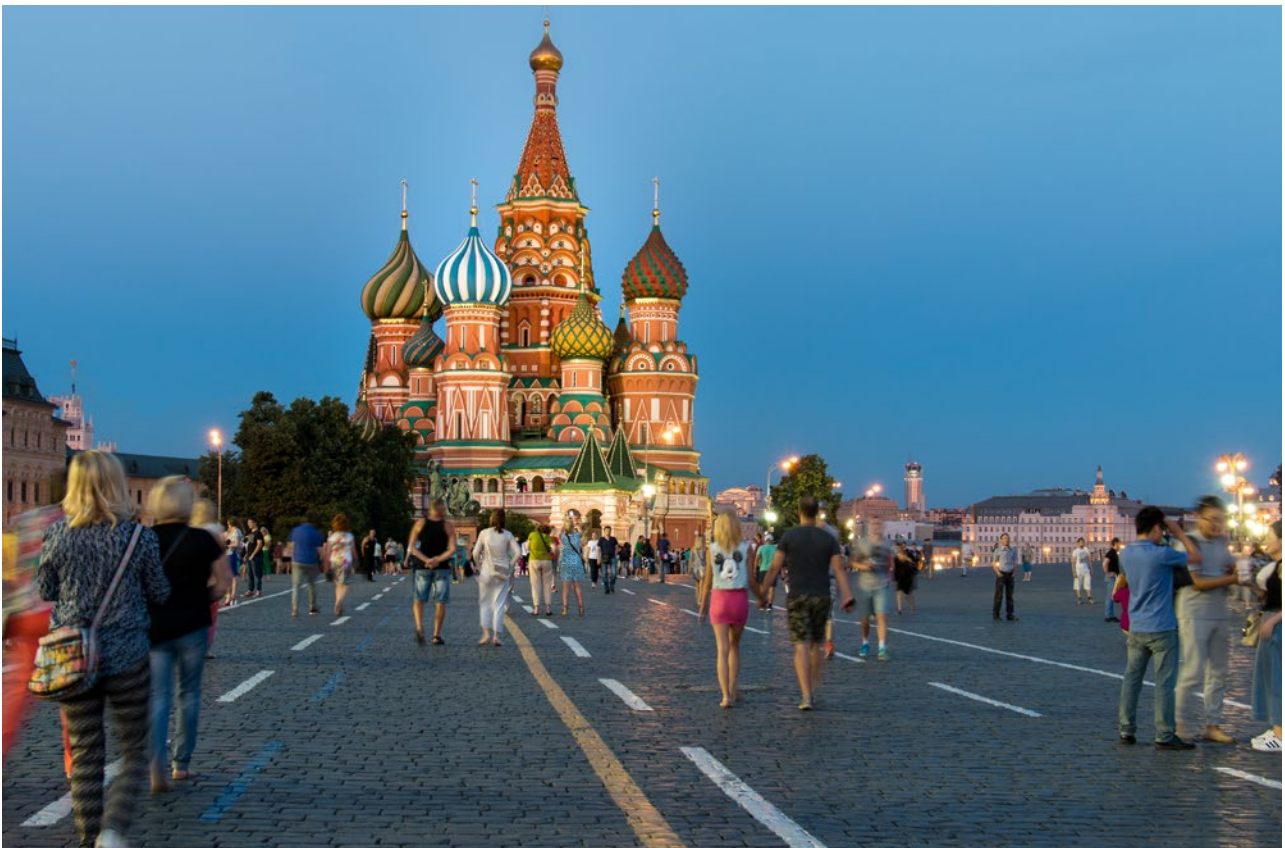
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# Executive Summary

This policy paper is the aftermath report of the 2nd panel conducted as a part of the “Turkey, Asia and the EU in a Changing Global Order” project. It contains an overview of the panellists' presentations. In overall terms, it is found that although Turkey’s interaction with Asian countries is increasing, however, at least in the short-term future, Turkey will remain pro-European Union (EU). Apart from that, the panellists’ findings vary as a variety of different issues were covered. For instance, it is noted that the EU should promote cooperation both with China and Turkey on projects in the Global South. Meanwhile, it is also argued that Turkey’s connecting role between Asia and

Europe is likely to be enhanced due to the increasing importance of transportation and energy supply. Moreover, the Russo-Ukraine War is also thought to have elevated Turkey position in today’s global affairs.

The panellists propose that Eurasian dialogue meetings should be facilitated by regional and international organisations. Such meetings should be coordinated and held regularly in various Asian countries. By doing so, the leaders and participants of the affiliated countries can rely less on the current international order and transform it in a more inclusive and multipolar way.



# Introduction

Turkey's position between Europe and Asia provides the country with several geopolitical possibilities: Politically, Turkey has been aiming to act as a mediating bridge between Asia and Europe for some time. However, for various reasons, Turkey's relationships with the U.S. and the EU nowadays are tense, especially since the failed coup attempt in 2016 and issues pertaining to Turkey's pending accession to the EU.

The following part of the report first discusses the economic aspects of Turkey-Asia relationship. Then, it briefly elaborates on the EU-Asia-Turkey relationship by particularly considering a potential role for Turkey between Germany and China. The paper then explores Turkey's ongoing balancing role in the Russia's war in Ukraine before concluding.

## Economic Aspects of Turkey-Asia Relationship

The role of trade and economic relations has become more central in Turkish foreign policy during the last three decades. Among other components, the instrument to this target is trade and investment policy. As a "trading state"<sup>1</sup>, Turkey prioritises economic factors like the expansion of export markets and attracting foreign direct investment (FDI).

### Trade

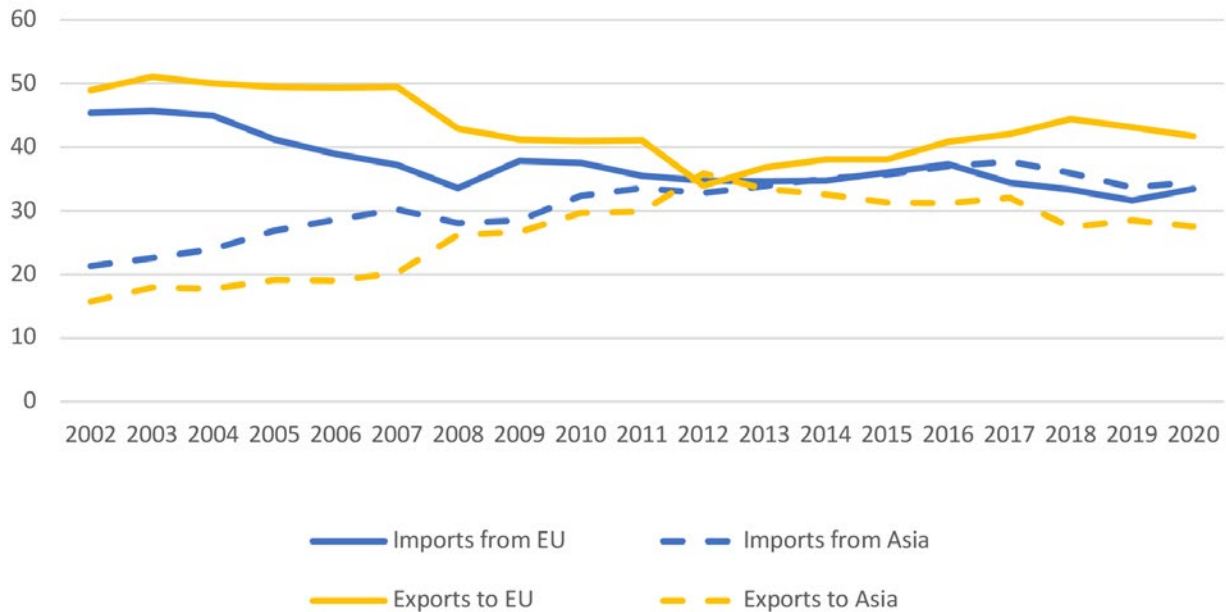
Turkey increased its total volume of trade to 496 billion USD by the end of 2021.<sup>2</sup> Turkey has also considerably diversified its trade across a diverse number of countries in different regions.<sup>3</sup> This can be partly attributed to Turkey's increasing trade with Asian countries, which has witnessed a significant increase.

<sup>1</sup> Kirişçi, K. and Kaptanoğlu, N. (2011). The Politics of Trade and Turkish Foreign Policy. *Middle Eastern Studies*, 47 (5), 705–724.

<sup>2</sup> See Turkish Statistical Institute (2022). Available at <https://www.tuik.gov.tr/Home/Index> (Accessed 20 August 2022).

<sup>3</sup> Babacan, M. (2022). *Between the Two Worlds: Turkey's Repositioning in the Global Economy* in Anas, O. (2022). *Turkey's Asia Relations*. Switzerland: Macmillan.

Figure 1. Turkey Imports and Exports to Asia and EU (2002-2020)



Source: WITS (2022)

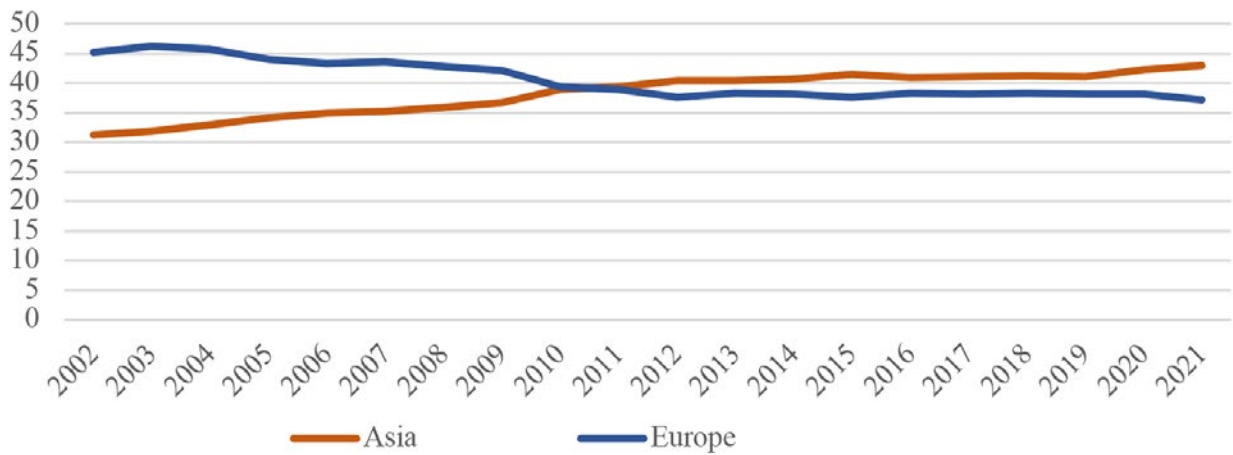
As can be seen from the Figure 1, since 2002, when the AKP first came to power in Turkey, Asia's share in Turkey's exports has increased from approximately 16% to 27.51% in 2020. Between 2002 and 2022, despite slight drops in 2012 and 2018 and 2019, Asia's share in Turkey's imports also shows a tendency to continually increase. It has climbed from 21% in 2002 to approximately 35% in 2020. Although this trend is commonly used to explain the increasing Turkey-Asia relations, it also illustrates the large trade deficit between Turkey and Asia, which adds to the country's overall trade deficit.

Despite increasing trade relations with Asia, however, exports to the EU remains higher than exports to Asia. In 2003, Europe's share in Turkey's exports was at its peak (51.08%) and in 2011 it reached its lowest point (41.1%), which is not far from today's figure (41.79%). Exports to Asia have exceeded those to the EU in 2012 but this was reversed in 2013, while in 2020 exports to the EU were almost double the exports to Asia. As for imports, approximately 46% of Turkey's imports in 2002 came from Europe, this fell to 33.45% in 2020, from 2016 onwards imports from Asia surpassed imports from the EU.

A noteworthy mention is the fact that Turkey's trade and diplomatic relations with Asia appear to be growing rapidly as economic power is shifting from the West to the East.<sup>4</sup> In other words, what happens in Turkish context is not independent from the overall global economic changes. As shown in Figure 2 and Figure 3, the percentage of global merchandise trade has seen a gradual decline for Europe and a gradual rise for Asia. The 2008 global financial crisis marked a milestone as in the coming years, Asia's share of total global merchandise trade surpassed that of Europe. Following the crisis, trade and capital flows have been in Asia's favour, largely due to growing Chinese economy.

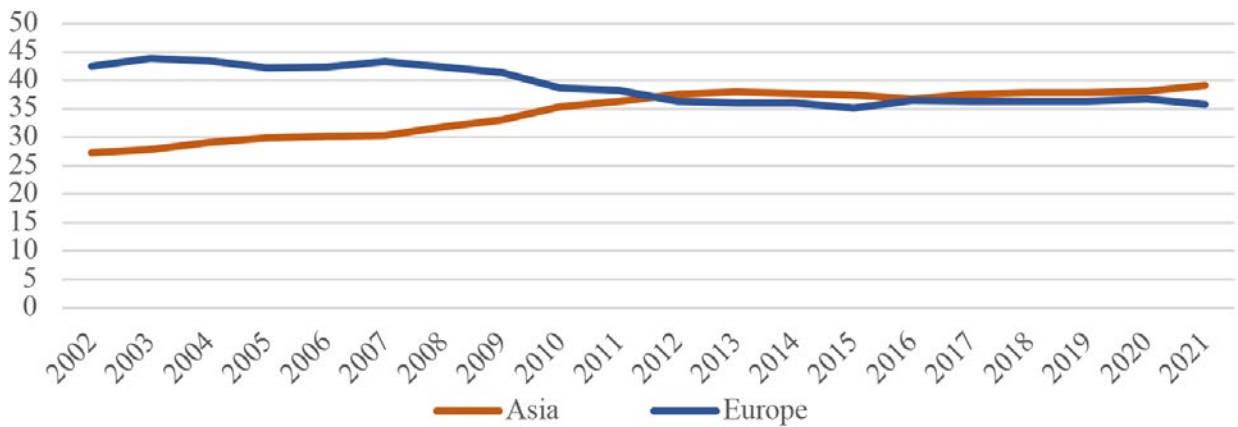
<sup>4</sup> Fouskas, V. K. and Gökay, B. (2018). *The Disintegration of Euro-Atlanticism and New Authoritarianism: Global Power-Shift*. Switzerland: Macmillan.

Figure 2. Merchandise Trade: Percentage of Total World Trade, Exports



Source: UNCTAD (2022)

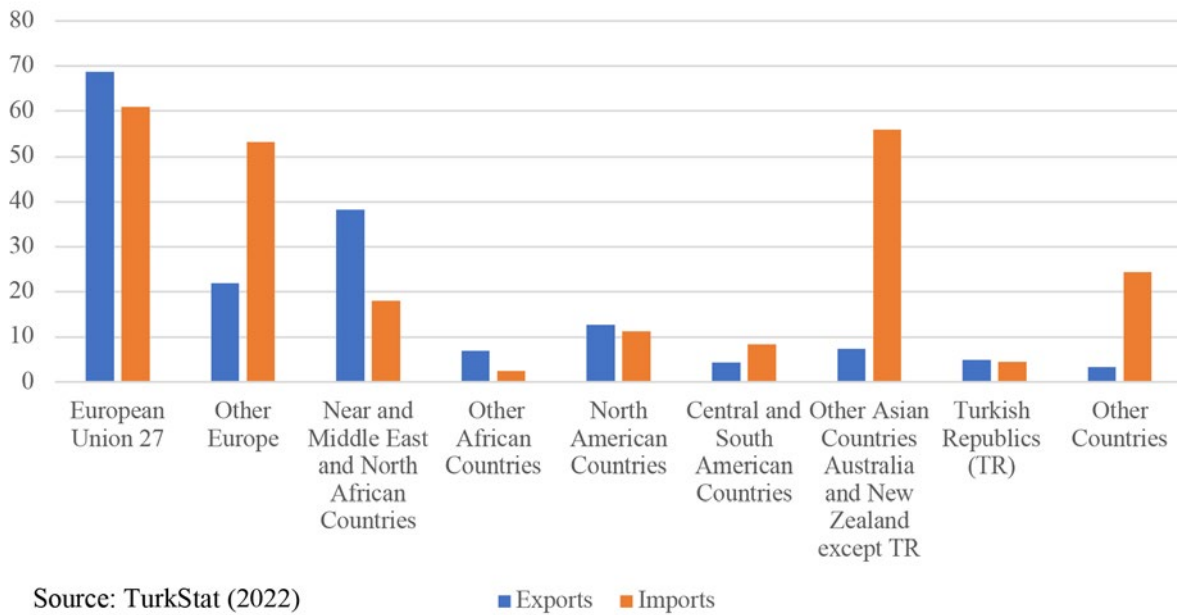
Figure 3. Merchandise Trade: Percentage of Total World Trade, Imports



Source: UNCTAD (2022)

Figure 4 highlights the up-to-date importance of Europe for Turkey's trade. From January to August 2022, Turkey exported products to the EU worth 68.7 billion USD and imported products worth 60.9 billion USD. The findings also illustrate trade with European countries that are not members of the EU, but still in Europe. This mainly covers some states in the Balkans. Turkey aspires to maintain influence in the Balkans region. As can also be seen in this figure, Turkey has a large trade deficit with Asia that has persisted and has increased since the early 2000s (please see below for further details).

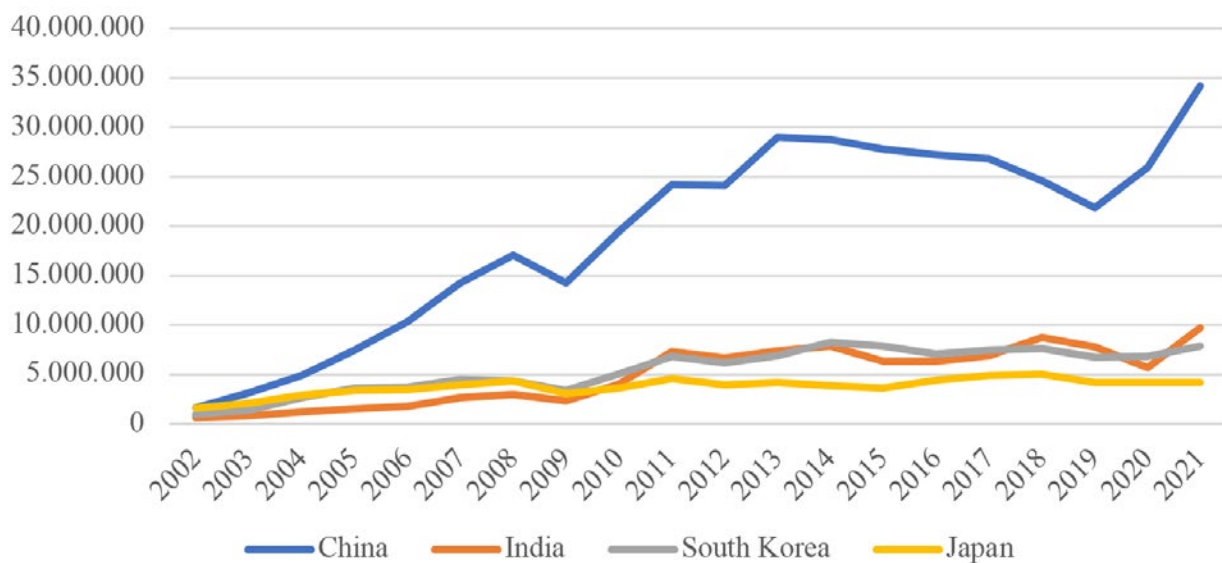
Figure 4. Turkey's bilateral trade by country Groups, Jan-Aug 2022 (bn USD)



In August 2022, 19.4% of Turkey's imports came from Russia and 12.7% from China, its two biggest imports partners.<sup>5</sup> It is worth noting that Ukraine was Turkey's 11th biggest exporter and its 19th biggest importer of Turkish products. Regarding exports, Russia is Turkey's 4th biggest trading partner with 4.4% of the country's total exports heading to Russia, and China 18th with 1.4%. Indeed, Germany is Turkey's biggest export destination and its third biggest import partner, with 7.8% of the export share and 6.3% of the import share in August 2022.

Figure 5 illustrates Turkey's trade volume with four of Asia's largest economies, China, India, Japan, and South Korea. Bilateral trade between Turkey and China has accelerated from approximately 2 billion USD in 2002 to 29 billion USD in 2012. From 2011 to 2019, it decreased to almost 22 billion USD but still stayed higher than the volume of trade between Turkey and the other three countries noted above. The common economic interests of Turkey and China since the early 1980s have gone through similar integration into the global economy.

Figure 5. Volume of Trade by countries (thousands USD)



Source: TurkStat, WITS (2022) / Calculated by the author

<sup>5</sup> See Turkish Statistical Institute (2022), available at <https://www.tuik.gov.tr/Home/Index> (Accessed 20 August 2022).



Turkey mainly exports raw materials and intermediate products to the region. For example, in 2020, the share of raw materials to total exports to China accounted for 46.82%, minerals for 43.76% and intermediated goods for 20.74%.<sup>6</sup> In 2020, Turkey mainly imported higher value-added, capital-intensive products, as well as machines and electrical products from China making up 58.3% of total imports (from companies like Huawei). Similarly, Turkey mainly exports intermediate goods and raw materials to India, Japan and South Korea and imports intermediate, capital goods and consumer goods from these countries.

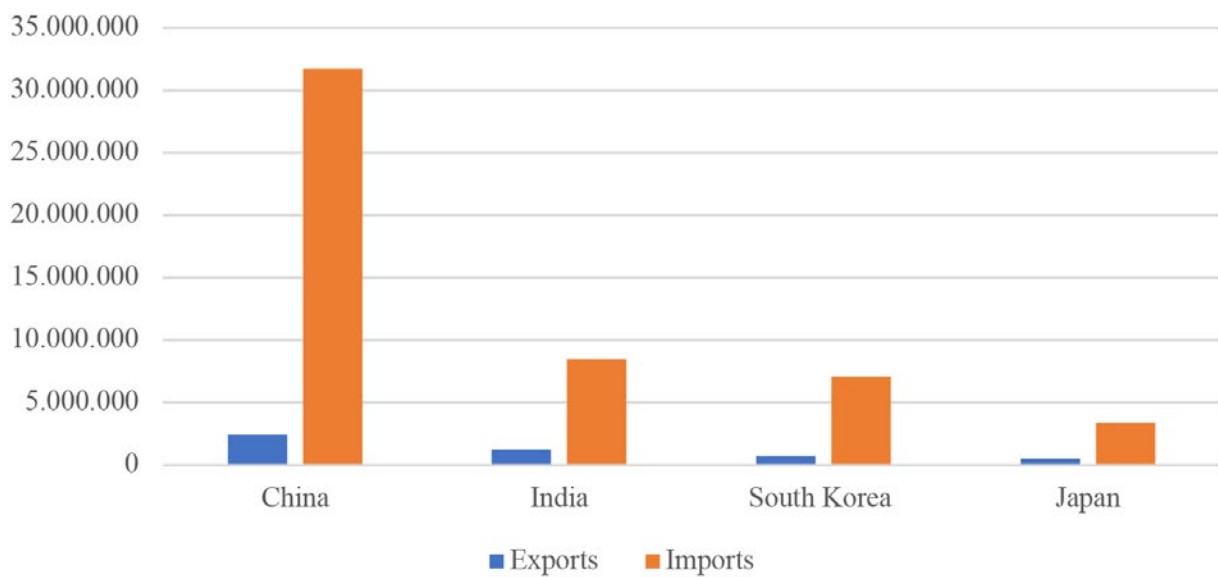
Turkey enjoys a trade surplus with the EU, the Middle East, and North Africa countries. Therefore, the country's trade deficit originates largely from Asia. Moreover, the trade deficit with Asia increases further as trade grows. In 2021, Turkey had a trade deficit of around 29.3 billion USD with China, 7.2 billion USD with India, 6.3 billion USD with South Korea and 2.9 billion USD with Japan (see Figure 6). Therefore, the trade deficit with China plays the biggest role in Turkey's deficit with Asia.



In the 1980s, Turkish businessmen started to seek business partnerships with China and travelled there to promote their products. However, it soon became apparent that they lacked the local knowledge to penetrate the Chinese market. However, it was not all fruitless, and low-cost Chinese products were welcomed in the Turkish market<sup>7</sup>, which remains to be the case today, and any reversal would be deemed difficult as Turkish imports from China are “intermediate products” used along the supply chain for product-assembly in Turkey, and then exported to other countries.

As for Central Asia, Turkey sees itself as the coordinator, if not, the protector of Turkic states. The gradual withdrawal of the U.S. from Afghanistan has created some space in the region, which could allow Turkey to advance its soft power in the region, even though China and Russia are attempting to assert their power there as well. In 2009, under Turkey’s initiative, an international organization that includes Turkic states was formed, called the Organization of Turkic States (OTS) that comprises the countries of Azerbaijan, Kazakhstan, Kyrgyzstan, Turkey, and Uzbekistan as well as Turkmenistan, Hungary, and Northern Cyprus as observer states. Even though Turkey’s trade relations with the region is not as strong as it is with East Asia, they are still significant.

Figure 6. Turkey's export and imports with selected Asian Countries (2021)  
(thousands USD)



Source: TurkStat, (2022)

<sup>6</sup> World Bank, World Integrated Trade Solutions (2022), available at <https://wits.worldbank.org/> (access 10 October 2022).

<sup>7</sup> Ergenç, C. (2015). Can Two Ends of Asia Meet? An Overview of Contemporary Turkey-China Relations. *East Asia*, 32, 289–308.

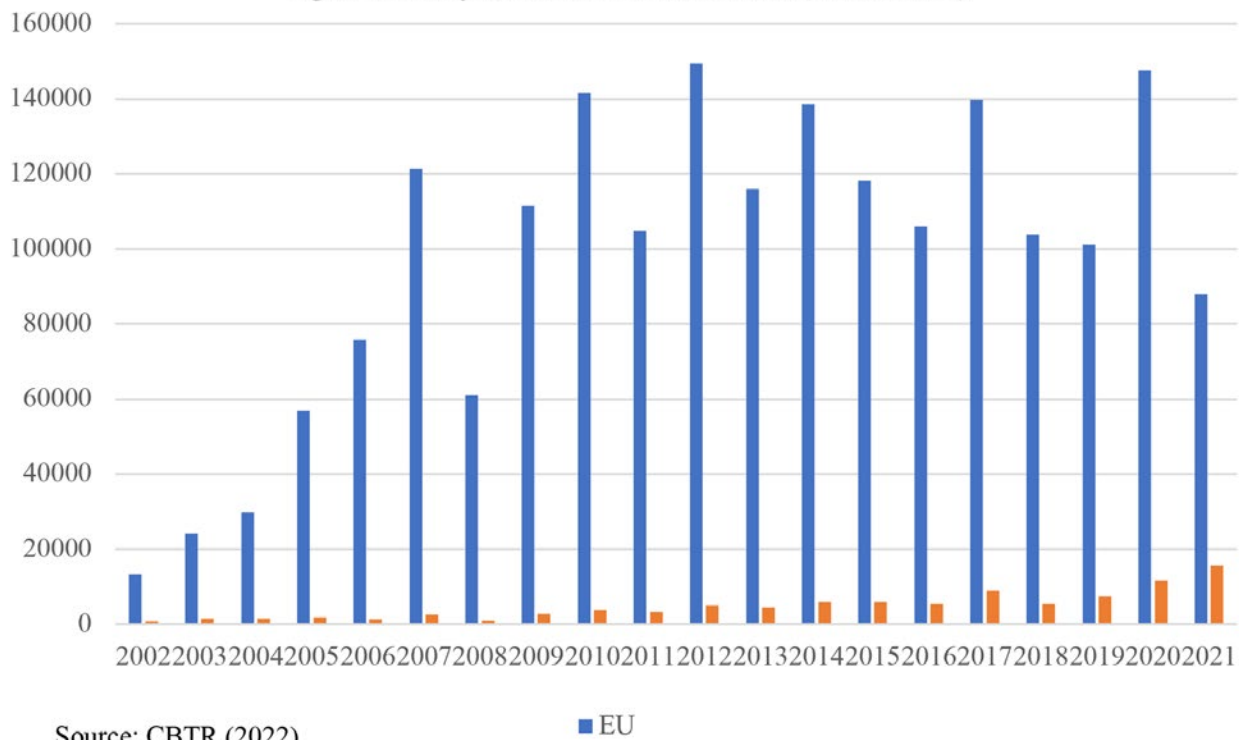
# Investment

Turkey is the 11th largest economy in the world in terms of GDP at purchasing power parity.<sup>8</sup> Since 2003, cumulative foreign direct investments (FDIs) inflow reached 239 billion USD, and in 2021, the FDI inflow climbed from 7.81 billion to 13.6 billion USD, a 74% rise compared to 2020.<sup>9</sup> In 2021, most FDIs were directed to the industrial sector, for automotive, chemicals and electronic and transport equipment.<sup>10</sup>

FDIs from Asia to Turkey have been growing rapidly over the last decade, especially due to the materialization of China's newly launched Belt and Road Initiative (BRI). The BRI has further contributed to Turkey's ambitions of playing a vital role between Asia and Europe.

Figure 7 illustrates the FDIs inflow to Turkey from 2002 to 2021 from the EU, the Middle East, and Asia. The main source of FDIs to Turkey is the EU. Asia's investment in Turkey is continually rising, but figurative reports show that it is still far below that of the EU and Middle East countries. For instance, from nearly 2 billion USD in 2004 the level of FDIs in 2021 reached 16 billion USD from Asia to Turkey.

Figure 7. Turkey's Stock of Direct Investment (Millions USD)



<sup>8</sup> World Bank, World Integrated Trade Solutions (2022). Available at <https://wits.worldbank.org/> (Accessed 10 Oct 2022).

<sup>9</sup> Presidency of the Republic of Türkiye Investment Office (2021). Foreign Direct Investments in Türkiye. Available at <https://www.invest.gov.tr/en/library/publications/lists/investpublications/foreign-direct-investments-in-turkiye-2021.pdf> (Accessed 25 October 2022).

<sup>10</sup> See Central Bank of the Republic of Türkiye (2022), available at <https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN> (Accessed 16 Oct 2022).

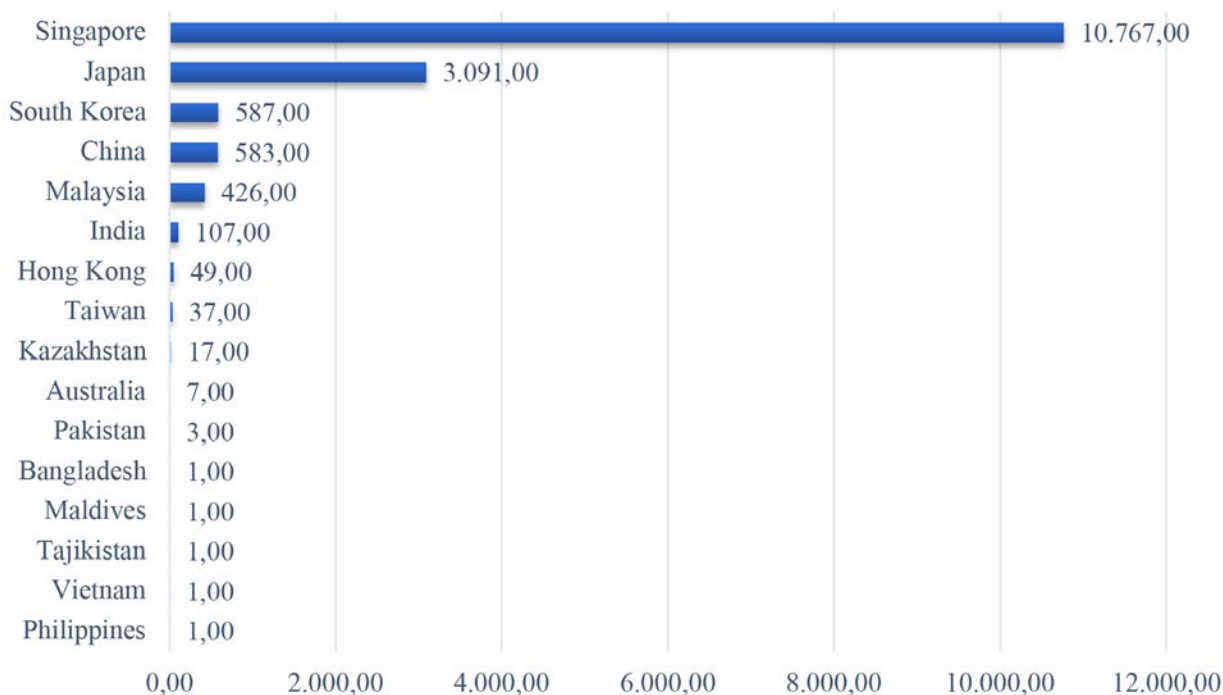
Our panellists underline that Turkey can benefit economically from China in various ways. For example, in 2019 when Turkey faced a shortage of hard currency, the People's Bank of China transferred 1 billion USD to Turkey's Central Bank and China's development banks gave a 200 million USD loan to several Turkish industrial and development banks.<sup>11</sup>

Figure 8 shows the countries that directly invested in Turkey in 2021, with Japan, South Korea and China playing prominent roles over the past decade in this regard.

Singapore and Malaysia's significance to Turkish investment from abroad has increased. For instance, in 2020 and 2021 Singapore surpassed Japan as Turkey's most important Asian investment partner. This illustrates Turkey's growing relations with countries from the ASEAN region. The ASEAN is one of the fastest growing parts in the world, and trade with the region allows Turkey to have access to a market of about 600 million people and a market size of 2.3 trillion USD.<sup>12</sup> In 2019, trade between Turkey and ASEAN was 8.3 billion USD, while it decreased to 7.8 billion USD in 2020, during the pandemic.<sup>13</sup> In 2017, the Türkiye-ASEAN Sectoral Dialogue Partnership was signed in the capital of the Philippines, Manila. This partnership promotes cooperation on political-security, economic and social-cultural issues and allows both sides to address regional and global challenges.

Nonetheless, from all Turkic only Tajikistan and Kazakhstan so invested in Turkey.

Figure 8. FDI in Turkey by Countries in 2021 - Stock (Million USD)



Source: CBTR (2022)

<sup>11</sup> Jiuzhou, D. (2022). Revitalizing Empire Legacy in Post-US Multipolar Order: Convergence and Divergence between Turkey and China. Presentation delivered in the panel. 10 June 2022.

<sup>12</sup> ASEAN (2022). Available at <https://asean.org/> (Accessed 04 November 2022).

In August 2019 a new foreign policy initiative was announced, called the “Asia Anew Initiative”, which seeks to prioritise Turkey’s economic and trade cooperation with its Asian partners.<sup>14</sup> Connectivity, transport and logistics, the defence industry, green energy, and digital technologies are only a few of the areas of cooperation between Turkey and its Asian trading partners. Turkey’s Foreign Minister Mevlüt Çavuşoğlu stated that “Asia is becoming again the centre of gravity in the world” after which he described the Asia Anew Initiative as belonging to a wider strategy that would position Turkey in the right place in the Asian age.<sup>15</sup>

Turkey particularly welcomes economic and technological exchanges with China.<sup>16</sup> And even though Turkey has a growing trade deficit with the region, it cannot be ignored that during the globalization era, “the tide is turning” away from the West to the East, something which necessitates the inclusion of economy in Turkey’s foreign policy with the region.<sup>17</sup>

<sup>13</sup> ASEAN Statistical Basis (2022). Available at <https://www.aseanstats.org/> (Accessed 04 November 2022)

<sup>14</sup> Republic of Turkey Ministry of Foreign Affairs, available at <https://www.mfa.gov.tr/asia-anew-initiative.en.mfa> (Accessed 22 October 2022).

<sup>15</sup> Ibid.

<sup>16</sup> Ergenc, C. (2015). Can Two Ends of Asia Meet? An Overview of Contemporary Turkey-China Relations. *East Asia*, 32, 289–308.

<sup>17</sup> Mukherjee, R. S. (2022). Re-evaluating Turkey’s Global Relationships and its Shift Towards the Asia –Pacific Region. Presentation delivered in the panel. 10 June 2022.

# The EU-Asia-Turkey Relationship

In general terms, the EU does not have a coherent strategy towards China or the BRI.<sup>18</sup> The EU member states all view relations with China differently. However, since the EU Commission published a joint strategic outlook report in 2019 on EU-China relations, there has been an effort to transform EU-China relations focusing on issues like sustainable development.<sup>19</sup> The EU Green Deal package aims to make Europe the first climate neutral continent by 2050. Almost 25% of the latest long-term EU budget has been directed to projects about natural resources and the environment. For example, Germany is an export-oriented country that has invested heavily in the industry. It aspires to become a global leader in global energy transformation to tackle climate change, in part because both the public and private sectors have invested in the production of green technologies. With that in mind, China should focus on integrating green development and environmental protection. It has already reached out to many EU countries to strengthen cooperation in green transition and environmental protection. For instance, the China-Germany train service, which was launched to carry coronavirus prevention material is among the more promising projects that could flourish under the Belt and Road

Initiative (BRI). Indeed, Germany is - if not the most important - a major state for the implementation of the BRI. And although the EU and China's investment and growth approaches differ, there are complementary aspects and objectives that could lead to cooperation not only on economic issues but on safety challenges and regional conflict resolution.

China's trade value with EU exceeded 700 billion USD in 2021 and is expected to increase if BRI and the Middle Corridor Initiative (MCI) are operated effectively.<sup>20</sup> Financially, Turkey and China negotiated a financial arrangement e.g., facilitated currency exchanged may gradually reduce reliance on the dollar. Turkey intends to be self-sufficient and strategically autonomous and would like to directly interact with Asia bypassing Brussels or Washington.<sup>21</sup> Turkey could act as a diplomatic bridge between Europe and China to address many issues that beset the global economy and international community. The long-term relationship and cooperation between Turkey and China could be the vehicle in this direction. China can see Turkey as a production hub to access the EU market through a customs union by assuring EU quality standards.<sup>22</sup>

China-Turkey relations are a key accelerator of change in global and regional affairs despite developing rather lately. The Ottoman and the Qing empires both suffered and lost territories due to Western colonial rule and imperialism. Hence, there is a sense of sympathy in each other's efforts to resist the "Western intervention" in their internal and regional affairs.<sup>23</sup>

<sup>18</sup> Zhiqin, S. and Trigkas, V. (2021). Reconstructing Geography, Power and Politics in the Belt and Road Initiative. In *One Belt, One Road, One Story? Towards an EU-China Strategic Narrative*, Miskimmon, A. Ben O'Loughlin, and Zeng, J. (eds.). 67–94. Cham: Palgrave Macmillan.

<sup>19</sup> European Commission. (2019). *EU-China Strategic Outlook and HR/VP Contribution to the European Council*. [https://commission.europa.eu/publications/eu-china-strategic-outlook-commission-and-hrvp-contribution-european-council-21-22-march-2019\\_en](https://commission.europa.eu/publications/eu-china-strategic-outlook-commission-and-hrvp-contribution-european-council-21-22-march-2019_en) (Accessed 22 October 2022).

<sup>20</sup> Hussain, E. (2022). *The Belt and Road Initiative, the Middle Corridor and Turkey's Asia Policy: An Analysis*. *Turkey's Asia Relations*. Springer.

<sup>21</sup> Seren, M. (2022). *Turkish-Asian Cooperation in Diversified Strategic Environment*. *Turkey's Asia Relations*. Springer.

<sup>22</sup> Anas, O. (2022). *A Post-Cold War Era Context of Turkey's Asia Relations*. *Turkey's Asia Relations*. Springer.

With the aim of transforming themselves from secondary peripheral markets in global capitalism into leading regional powerhouses and for gaining power following the US withdrawal from Central Asia and the Middle East, they have come up with a renewed nationalist understanding of society and a neo-empire vision: neo-Ottomanism for Turkey and communist universalism for China.<sup>24</sup>

Ever since the strategic cooperation agreement in 2010, China and Turkey have been institutionalizing bilateral relations and regional relations with other states (e.g. BRICS, SCO G20), especially in the Global South, which they view as economic and diplomatic allies in world affairs.<sup>25</sup> In the multilateral arena, they both participate in various international organizations and processes to promote security in global affairs (e.g. the Geneva Talks and Astana Process on Syrian issues) and most importantly to showcase their autonomy from Western powers.<sup>26</sup>

## Turkey's Balancing Role in the Russo-Ukraine War

The Russian invasion of Ukraine caused a chain reaction as a number of states became involved either directly or indirectly in the political developments in the region. First and foremost, the return of a Cold War climate can be observed in which both Russia and the U.S. carry out a series of retaliatory actions in response to those taken by the opposite side.

Turkey has a good relationship with both of its maritime neighbours, Russia, and Ukraine. Ukraine is its largest grain suppliers and Russia is the biggest importer of Turkish products. Meanwhile, Russia is Turkey's main energy supplier, and is currently assisting Turkey in building energy plants and recently provided it with Russian-made air defence systems. Turkey has long tried to act as a mediator between Russia and Ukraine and it seems that the Russo-Ukraine War has created yet another necessity for this. The difficulty in finding the balance when positioned in a neutral position became apparent when the West decided to impose sanctions on Russia. Ankara has thus far refused to join the Western sanctions regime, but the EU officials have warned that Ankara could help Moscow evade these sanctions. So far, Turkey has endeavoured to apply shuttle diplomacy between the Ukrainian and Russian leaders to eventually achieve some form of rapprochement between the two parties. The success of this policy, however, among others, will also depend on Russia and the West's interpretation of Turkey's efforts.<sup>27</sup>

<sup>23</sup> Op. cit. Jiuzhou.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Sun, D. (2022). Sino-Turkish Cooperation on the Multi-lateral Arenas: Towards a Comprehensive Strategic Partnership? Presentation delivered in the panel. 10 June 2022.

<sup>27</sup> Shlykov P. V. (2018). The "Turkish Model" in Historical Perspective. *Russia in Global Affairs*, 16 (2), 34–59. <https://eng.globalaffairs.ru/articles/the-turkish-model-in-historical-perspective/> (Accessed 22 October 2022)

# Conclusion

This report presents a summary of the panellists' views that participated in the 2nd panel conducted as a part of the "Turkey, Asia and the EU in a Changing Global Order" project. It covers the economic aspects of Turkey-Asia relationship, the EU-Asia-Turkey relationship and explores Turkey's ongoing balancing role in the Russo-Ukraine War.

Apart from close trade relations, Germany and Turkey for decades have shared a common perspective on many geopolitical issues despite the reactions of some other European states. Based on this long-standing cooperation, German-Turkish relations could allow Europe to re-approach Asia, and particularly China, through Turkey. Turkey could thus act as a diplomatic bridge between Europe and China to address the many issues that beset the global economy and international community. In fact, in many cases the interests of Turkey and China diverge significantly too, However, the willingness of both countries to cooperate outruns their certain differences. Therefore, in sum, the long-term relationship and cooperation between Turkey and China could be seen as a vehicle for the EU-Asia relations in general.