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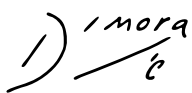
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Preface

I am extremely excited to publish the first ever Special Issue of the *Tsinghua International Relations Review*. Over the last year we restructured our team, revamped the look of our journal, expanded into social media, and started organizing events. Amid this period of change, we decided there was just one more way in which we could grow: creating an issue that would be open to submissions from young scholars all over the world. Our past issues, which come out biannually in the spring and fall, contain articles recommended by professors at Tsinghua University. This issue, however, received articles from far and wide, and our team got to engage in a thorough review process. It is one thing to make publishing decisions knowing that the piece in front of you was recommended by an established scholar; it is another to make those decisions as literal peers, as young scholars too. Our team thus evaluated, debated, and learned, settling on only three articles which we believe demonstrate the evolution of scholarly development, from the voice of a bachelor's student to that of a PhD.

The theme of this Special Issue is “China in the Global South.” Although the global south encompasses a number of countries with vastly different populations, economies, and geographies, it represents a collective of opportunities for major powers; for China, this includes expanding its influence and securing access to vital resources for its own economic growth, technological development, and political power. The embodiment of this strategic dynamic is the Belt and Road Initiative (BRI), through which China seeks to build infrastructure, enhance trade routes, and strengthen diplomatic ties; over 80 countries in the global south have already joined. However, the narratives that emerge around China’s engagements abroad tend to be dichotomous. They either present the argument that China is a model to follow or that it has neo-imperialist intentions. By dedicating an issue to this subject, we hoped to add nuance to the debate, and agency to other countries too; often, those same narratives overlook the fact that the global south also possesses the capacity to act in its own best interests, rather than being a passive actor caught in the rivalries of larger geopolitical players. Therefore, in this issue you will encounter three articles that contribute to the deeper analysis of China in the global south.

Thank you to my team and, especially, to my Deputy Editor Zuzanna Zak; from the beginning she was invaluable in brainstorming, developing, and executing the idea for this issue. I also want to thank Professor Tang Xiaoyang for supporting us in our initiatives and inspiring us with his course on China in the Developing World. Lastly, I want to acknowledge all the young scholars who responded to our call for submissions. We were honored by your enthusiasm and encourage you to persevere—rejections and revisions are an essential part of the academic journey. At a time marked by shifting polarities and evolving hegemonies, the passion of young scholars for international affairs and their commitment to understanding the complexities of our world make all the difference.



Daniela Mora Savović
Editor-in-Chief



“Mercantilism” vs. Moving Up the Value Chain: An Extension of Pascale Massot’s “Vulnerability Paradox” through a Comparative Analysis of Chinese Involvement in the Congolese Cobalt and Indonesian Nickel Industries

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Abstract

In *China’s Vulnerability Paradox*, Pascal Massot’s recently published book, she develops a conceptual framework to explain how China’s rapid rise as the world’s dominant commodities consumer has reshaped four specific global commodity markets (iron ore, potash, copper, and uranium). Massot’s framework examines how concentration asymmetries between commodity producers and consumers impact the balance of market power between the two groups, and how this balance of power influences changes in market structure. In this essay, Massot’s framework is employed in examining Chinese interactions with other stakeholders in the Congolese cobalt and Indonesian nickel industries to determine the level of power Chinese stakeholders hold in each market and to understand how their power (or lack thereof) influences development outcomes for both Indonesia and the Democratic Republic of the Congo, with a focus on identifying implications for other global south nations that may be encountering greater demand for their natural resources from China and other highly industrialized nations as the world’s transition to renewable energy continues.

Keywords: China-global south relations, commodity markets, resource extractions, Congolese cobalt industry, Indonesian nickel industry

Introduction

Since the early 2000s, China's unprecedented demand for commodities has led to its rise as a dominant consumer in several global commodity markets. For example, China became the world's number one importer of potash in 2002, iron ore in 2003, copper in 2008, and uranium in 2010;¹ in just a few decades after its period of reform and opening-up, China had arrived as a node of real significance in the world's commodity supply chains. China's rise as a dominant global commodities consumer displaced incumbent dominant consumers (often Japan) and brought about substantive changes to the structure of many individual global commodity markets. Although it seems intuitive that such changes would always have been positive for China and in its interest, the opposite was often just as likely; even though China's demand for commodities granted it a significant role in numerous commodity supply chains, the country was not always able to leverage its new-found significance into positions of market advantage. Paradoxically, in some cases, China was even unable to leverage its dominant consumption to prevent unwanted changes in market structure as a result of its rise and displacement of other consumers. Understanding this interplay of market power and vulnerability lies at the crux of *China's Vulnerability Paradox*, Pascale Massot's recently released examination of Chinese market power through case studies of its impacts on the global markets for iron ore, potash, copper, and uranium. In the book, Massot puts forward a novel and compelling framework for understanding why China's rise as a dominant global commodities consumer yielded different outcomes in different individual commodity markets. Although Massot is primarily concerned with "the capacity and quality of the coordination that takes place among global producers and Chinese stakeholders ... at the import/export interface," employing her ideas in the examination of Chinese interactions with specific commodity-producing countries yields compelling insights about the impact China's rise as dominant global commodities consumer has had on the economic development of various countries in the global south.²

Although China's investments in the extraction of natural resources across the global south have often been characterized as exploitatively "mercantilist" or "neo-mercantilist," an analysis of specific China-global south interactions in specific commodity markets reveals a more nuanced narrative.³ By applying Massot's ideas to case studies of Chinese involvement in the Congolese cobalt and Indonesian nickel industries, Chinese market power in both cases will be clarified and its implications and outcomes in both countries will be better understood, along with the role that each country's own industrial policies played in facilitating the impact of Chinese involvement in their respective commodity industries.

The Contours of the Congolese and Global Cobalt Trade

As the world's shift towards renewable energy accelerates, cobalt has been recognized as a critical mineral for the transition due to its usage in battery manufacturing; battery demand accounted for 73% of the cobalt market in 2023, and 93% of total demand growth in the same

¹ Massot, Pascale. "China's Vulnerability Paradox: How the World's Largest Consumer Transformed Global Commodity Markets." *Oxford University Press US*, 2024, 2.

² Ibid, 64.

³ Naidu, Sanusha. "China and Africa's Natural Resource Sector: A View from South Africa." *CSIS*, April 27, 2007. <https://www.csis.org/analysis/china-and-africas-natural-resource-sector-view-south-africa>; Collins, Neil, and David O'Brien. "Neo-Mercantilism in Action: China and Small States." *International Politics (The Hague)*, November 11, 2022. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9652049/>.

period.⁴ An overwhelming majority of the world's mined cobalt comes from one place: the Democratic Republic of the Congo (DRC). In 2023, the second largest source of cobalt production following the DRC's 182 kilotons (kt) was Indonesia with a mere 16 kt, albeit Indonesia's heavy investment in increasing cobalt mining capacity.⁵ As nearly 75% of the world's cobalt is sourced from the DRC, the country is a critical point of concentration in the global cobalt supply chain, but at the domestic level, cobalt production in the DRC is relatively fragmented.

Extraction of Congolese cobalt is divided between large-scale miners (LSM) and artisanal and small-scale miners (ASM), with ASM output historically providing approximately 10% of total Congolese cobalt production and trending higher during strong pricing periods – a phenomenon not seen recently, as a global supply glut as driven prices to recent lows.⁶ All ASM and LSM mining operations in the DRC are licensed and overseen by Gecamines, the Congolese state mining company. Gecamines also often invests as a minority stakeholder in joint mining ventures with foreign LSMs and arranges “off-take” agreements for trading rights to a specific proportion of a mine's total output which, in addition to tax revenues from LSMs, helps the Congolese government benefit directly from granting LSMs concessions to Congolese mines.

Within the LSM segment, a number of large multinational miners including Swiss trading giant Glencore, China Molybdenum (CMOC), and Eurasian Natural Resources Corporation (ENRC) are active in the DRC, though Chinese LSMs make up the lion's share of Congolese mining capacity with stakes in 15 out of 19 cobalt-producing mines as of 2020.⁷ Despite their formidable and growing presence in the DRC, Chinese cobalt miners seem to only partially coordinate their operations, if at all, and LSMs of other nationalities remain competitive. As of 2016, Chinese influence over cobalt mine production (7% cobalt content) and cobalt intermediate production (22%-27% cobalt content) has been estimated at 14% and 33% respectively, indicating significant Chinese influence in the cobalt supply chain but not complete dominance or control.⁸ Additionally, the two most productive Congolese cobalt mines – which together produced 97 kt of the DRC's 182 kt of 2023 cobalt production – are controlled by CMOC and Glencore respectively, further contributing to fragmentation among producers.⁹

The largest consumers of raw and intermediate cobalt are global cobalt refineries, of which China again controls the lion's share, with more than 78% of the 2023 global cobalt refining capacity estimated to reside within the country.¹⁰ Like Chinese LSMs operating largely independently of each other in the DRC, it seems there is very little cooperation between domestic Chinese refineries in their interactions with global stakeholders, contributing to fragmented demand by Chinese refiners despite the country's dominant consumption position. In

⁴ Fisher, Harry. “Cobalt Market Report 2023.” *Cobalt Institute*, May 2024. https://www.cobaltinstitute.org/wp-content/uploads/2024/05/Cobalt-Market-Report-2023_FINAL.pdf, 6.

⁵ *Ibid.*, 23.

⁶ *Ibid.*, 7.

⁷ Lipton, Eric, and Dionne Searcey. “Chinese Company Removed as Operator of Cobalt Mine in Congo.” *The New York Times*, March 1, 2022. <https://www.nytimes.com/2022/02/28/world/congo-cobalt-mining-china.html>.

⁸ Gulley, Andrew L., Erin A. McCullough, and Kim B. Shedd. “China's Domestic and Foreign Influence in the Global Cobalt Supply Chain.” *Resources Policy*, April 28, 2019. https://www.sciencedirect.com/science/article/pii/S0301420718303490?ref=pdf_download&fr=RR-2&rr=8b89d3a61a490799, 1.

⁹ Burton, Mark. “CMOC Takes Glencore's Cobalt Crown as Output Jumps 170%.” *Mining.com*, January 4, 2024. <https://www.mining.com/web/cmoc-takes-glencores-cobalt-crown-as-output-jumps-170>.

¹⁰ Fisher, Harry. “Cobalt Market Report 2023.” *Cobalt Institute*, May 2024. https://www.cobaltinstitute.org/wp-content/uploads/2024/05/Cobalt-Market-Report-2023_FINAL.pdf, 32.

a 2016 report, 11 unique Chinese cobalt refiners were identified when China controlled 50% of global refinery production, but as the country's dominance of refining capacity has grown, the number of unique Chinese refiners seems to have grown as well; in recent supply chain due diligence reports from multinational manufacturers like Renault, Ricoh, Asus, and Stellantis, upwards of 22 unique Chinese cobalt refiners are identified.¹¹

Despite the country's outsized and growing share of cobalt refining capacity, the proliferation of unique Chinese refiners frustrates attempts at leveraging this dominant consumption into a position of concentrated, substantive market power. Together with the just-as-fragmented supply side, it is evident that China's unprecedented hunger for cobalt has not translated into a clear position of market control in the extraction of Congolese cobalt or dominance in the broader global market for the mineral; as Chinese production of cobalt ore and intermediates as well as Chinese cobalt refining capacity are divided across numerous stakeholders acting largely independent of one another, the country's ability to wield market power through central organization and coordination is diluted.

Coordination capacity, described as "the capacity of various ... market stakeholders to overcome collective action problems and work together effectively," is central to Massot's conception of market power because "coordination facilitates cohesion, the pursuit of certain procurement goals, and also increases bargaining power."¹² A foundational tenet of Massot's framework is her claim that there exists a "causal relationship between ... the relative capacity of consumers [or] producers to coordinate behavior [and their ability to affect] market institutional change at the global level."¹³ From this understanding of coordination and its influences on market power, Massot introduces a two-by-two matrix that plots the relative coordination or fragmentation of consumers in a given market against that of the market's producers (Table 1). When a market's consumers and producers both operate in fragmented capacities, as is the case with Congolese cobalt, Massot claims that this symmetry will "likely ... lead to competitive dynamics," which in cobalt are borne out in recent record supply gluts and pricing pressure.¹⁴ Despite their dominant market share in both extraction of Congolese cobalt and global refining capacity, the relative fragmentation of Chinese cobalt producers and consumers (both domestically from a refining perspective and globally from an extraction perspective) largely

¹¹ Gulley, Andrew L., Erin A. McCullough, and Kim B. Shedd. "China's Domestic and Foreign Influence in the Global Cobalt Supply Chain." *Resources Policy*, April 28, 2019.

https://www.sciencedirect.com/science/article/pii/S0301420718303490?ref=pdf_download&fr=RR-2&rr=8b89d3a61a490799, 7; "Renault Group Cobalt Supply Chain Mapping." *Renault Group*, 2020.

https://www.renaultgroup.com/wp-content/uploads/2020/06/renault_cobalt_supply_chain_mapping.pdf; "List of the Smelters or Refiners Identified in Ricoh Group Supply Chain Which Were Known by RMI." *Ricoh*, June 2024.

https://www.ricoh.com/-/Media/Ricoh/Sites/jp_ricoh/csr/fair/pdf/smelter_list.pdf; "2022 Asus Supply Chain Smelter/Refiner List." *Asus*, 2022.

https://esg.asus.com/files/documents/ASUS_Supply_Chain_Smelter_Refiner_List_2022.pdf; "Refiners in Our Direct Material Supply Chain for High-Voltage Batteries." *Stellantis*, April 20, 2022.

https://www.stellantis.com/content/dam/stellantis-corporate/sustainability/responsible-purchasing-practices/CO_LI_REFINERS_Sept_2022.pdf.

¹² Massot, Pascale. "China's Vulnerability Paradox: How the World's Largest Consumer Transformed Global Commodity Markets." *Oxford University Press US*, 2024, 8.

¹³ *Ibid*, 7.

¹⁴ *Ibid*, 57; Lee, Annie, William Clowes, and Jack Farchy. "China Cobalt Buyers Use Global Glut to Challenge Pricing." *Mining.com*, January 16, 2024. <https://www.mining.com/web/china-cobalt-buyers-use-global-glut-to-challenge-pricing>.

negates claims of institutional control of Chinese stakeholders over the Congolese or global cobalt industry.

Table 1 – Market power, market vulnerability, and market change

<i>Domestic market (consumers)</i>	<i>International market (producers)</i>	
	Fragmentation	Coordination
Fragmentation	1 Symmetry Low likelihood of change No dominant preferences	2 Asymmetry High likelihood of change Dominant preferences: producers
Coordination	3 Asymmetry High likelihood of change Dominant preferences: consumers	4 Symmetry Medium likelihood of change No dominant preferences

Source: Massot 2024, 7.

The Contours of the Indonesian and Global Nickel Trade

Like Congolese dominance in the production of cobalt, Indonesia dominates the global production of nickel, another mineral critical to the world's ongoing energy transition as well as to the production of stainless steel. In 2023, Indonesia produced 1,721 kt of nickel, while the Philippines, the world's second-largest producer, was responsible for just 365 kt of production. Interestingly though, despite its vast margin of leadership in global nickel extraction, Indonesia was only the *twelfth* largest exporter of nickel ore in 2022, exporting just over USD \$50 million worth of nickel ore compared to first place exporter the Philippines' USD ~\$1.3 billion worth of nickel ore exports in the same period.¹⁵

Indonesian nickel ore exports are so low because of strict export bans first imposed in 2014 and reinstated in 2020 in an attempt to broaden the country's activities in the nickel sector beyond simple extraction.¹⁶ Despite large disruptions to the Indonesian nickel industry in the years immediately following the first imposition of the nickel ore export ban, the strategy seems to have yielded its intended result, which was to enable Indonesia's capture of more of the added value from nickel processing. In 2013, Indonesia exported more than 60,000 kt of nickel ore (unrefined, raw material) at a value of USD ~\$2.5 billion; whereas in 2022, the country exported

¹⁵ Rayos, Marc. "Indonesia – Mining by the Numbers, 2023." *S&P Global Market Intelligence*, September 13, 2023. <https://www.spglobal.com/marketintelligence/en/news-insights/research/indonesia-mining-by-the-numbers-2023>; Simoes, AJG and CA Hidalgo. "The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development." *Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence*, 2011.

¹⁶ Medina, Ayman Falak. "Unleashing Nickel's Potential: Indonesia's Journey to Global Prominence." *ASEAN Business News*, June 20, 2023. <https://www.aseanbriefing.com/news/unleashing-nickels-potential-indonesias-journey-to-global-prominence/>.

about 6,000 kt of ferronickel (processed nickel used in stainless steel manufacturing) at a value of USD ~\$13 billion.¹⁷

Inbound FDI in mining and quarrying to Indonesia dropped sharply from 2014 – 2016, briefly recovering in 2017 coinciding with the government’s decision to partially relax the nickel export ban, only to resume sharp declines thereafter until 2020.¹⁸ Despite overall declines in inbound mining FDI to Indonesia during this period, Chinese FDI inflows grew both on an absolute basis and as a share of the total; where the rest of the global nickel industry saw risk, Chinese stakeholders saw immense opportunity.¹⁹ Whereas Indonesia’s first imposition of the nickel ore export ban drove *declines* in inbound FDI, its reinstatement of the export ban in 2020 drove *increases* in inbound FDI, this time from non-Chinese firms looking to replicate the Chinese strategy after the first export ban imposition.²⁰

Despite more recent investments by non-Chinese refiners, the nearly half a decade of virtually exclusive access to Indonesian nickel ore that Chinese firms enjoyed has given them a formidable head start in supply chain development. Additionally, as Chinese FDI after the first export ban imposition went mostly to building nickel refining capacity in joint ventures with Indonesian firms, the Indonesian government is now more actively overseeing the development of the domestic nickel refining sector, with little interest in greater capacity for ferronickel refining (used in stainless steel manufacturing) and more interest in building capacity for nickel intermediate and unwrought nickel refining (used in battery manufacturing).²¹

The years following the imposition of the first export ban were particularly difficult for domestic Indonesian miners. As Chinese capital rushed in via joint ventures with Indonesian firms to build refining capacity, and as the government explicitly promoted more value-additive nickel activities, “capital-intensive [refiners] ... benefited enormously, while mining firms ... suffered.”²² Since Indonesian ASMs and LSMs were prohibited from selling nickel ore on international markets thanks to the export ban, their only customers were the small crop of Chinese-backed Indonesian refiners. Thousands of Indonesian ASMs and LSMs were providing nickel ore to only a handful of refiners, “[creating] a race to the bottom to compete for the limited domestic nickel market, allowing the smelting firms to push down the price [of domestic nickel ore].”²³ Chinese-backed refiners not only had virtually exclusive access to Indonesian ore during this period, but given their concentration and market power relative to Indonesian nickel

¹⁷ Guberman, David, Samantha Schreiber, and Anna Perry. “Export Restrictions on Minerals and Metals: Indonesia’s Export Ban of Nickel.” *USITC*, February 2024.

https://www.usitc.gov/publications/332/working_papers/ermm_indonesia_export_ban_of_nickel.pdf, 17.

¹⁸ *Ibid.*, 20.

¹⁹ Tritto, Angela. “How Indonesia Used Chinese Industrial Investments to Turn Nickel into the New Gold.” *carnegieendowment.org*, April 11, 2023. <https://carnegieendowment.org/2023/04/11/how-indonesia-used-chinese-industrial-investments-to-turn-nickel-into-new-gold-pub-89500>.

²⁰ Guberman, David, Samantha Schreiber, and Anna Perry. “Export Restrictions on Minerals and Metals: Indonesia’s Export Ban of Nickel.” *USITC*, February 2024.

https://www.usitc.gov/publications/332/working_papers/ermm_indonesia_export_ban_of_nickel.pdf, 20.

²¹ Sucofindo. “Smelter Verification: Definition and Development of Nickel Smelters in Indonesia.” *Sucofindo*, May 14, 2024. <https://www.sucofindo.co.id/en/articles/smelter-verification-definition-and-development-of-nickel-smelters-in-indonesia-2/>.

²² Camba, Alvin. “Indonesia Morowali Industrial Park: How Industrial Policy Reshapes Chinese Investment and Corporate Alliances.” *pandapawdragonclaw.blog*, May 26, 2021.

<https://pandapawdragonclaw.blog/2021/01/17/indonesia-morowali-industrial-park-how-industrial-policy-reshapes-chinese-investment-and-corporate-alliances/>.

²³ *Ibid.*

miners, they were able to access this ore at prices cheaper than prevailing rates on international indexes.

As Massot's framework predicts, fragmented production relative to concentrated or coordinated consumption yielded an asymmetric relationship between producers and consumers that nickel refiners operating in Indonesia were able to leverage to their advantage. Interestingly though, despite Indonesian industrial policy essentially creating a goldilocks environment for Chinese firms to exercise market power, this situation yielded immense development boons for the Indonesian nickel sector and its economy more broadly, especially in relation to the Congolese experience in cobalt mining despite Chinese firms having no clear position of market power in that instance.

Case Comparison and Conclusion

In both the Congolese cobalt and Indonesian nickel cases, the global energy transition and China's disproportionately large demand for raw inputs created invaluable opportunities for both the DRC and Indonesia to devise strategies for leveraging their abundance of natural resources. Congolese policymakers sought to "get in at the ground floor," granting foreign LSMs mining concessions that often require partnership with, and granting off-take rights to, Gecamines. Indonesian policymakers sought to transcend the mere extraction of its natural resources altogether, encouraging foreign refiners to partner with Indonesian firms and establish domestic refineries that added more economic value relative to extraction alone. Whereas economic development was sought without regard for the full extent of the supply chain for transition-critical minerals in the Congolese case, the Indonesian case presents a more prudent, future-oriented approach to leveraging a country's natural resource abundance. Essentially, Indonesian policymakers sacrificed the short-term revenues generated from the export of unrefined natural resources as an opportunity cost of attracting FDI to build capacity in higher value-added midstream and downstream activities that were dependent on its vast raw material reserves. Although the DRC has generated substantial revenues from its own vast reserve of raw materials from taxes on and off-take agreements with LSMs, the mining rush will eventually subside, and more sustainable sources of income will need to be devised.

In either case though, what is clear is that the real shaper of market interactions with Chinese and other foreign stakeholders were the national governments of the DRC and Indonesia themselves. Despite their outsized hunger for raw materials, Chinese firms were subject to the same policies and market forces, dictated in each case by Congolese and Indonesian policymakers, to which all other foreign firms were subject. In the DRC, as Gecamines sought to maximize revenue from cobalt extraction, Chinese and non-Chinese LSMs alike agreed to its concessions, establishing operations and creating a fragmented production landscape that sold to a predominantly Chinese array of increasingly fragmented refiners. Just as in the Indonesian case, the dominant source of refining demand came from China, but the difference was that Chinese cobalt refiners had no policy impetus (as they did in Indonesia) to establish refineries in the DRC and contribute to the downstreaming of Congolese activities in cobalt in exchange for access to the country's reserves. Both Indonesia and the DRC leveraged Chinese demand for their natural resources to achieve their development goals, but the difference in outcomes lies in the difference in their development goals; whereas the DRC's goal was to profit directly from Chinese (and international) demand for unrefined cobalt, Indonesia's goal was to manifest Chinese (and international) demand for unrefined nickel into new, more complex and value-additive activities for its economy from which future profits could be derived. Given its aims at securing the raw materials needed to power its desired leadership in new energy industries, China

was happy to oblige the policy directives of the Indonesian and Congolese governments in both cases. Interestingly though, despite their willingness to extract cobalt in the DRC without the need to also invest in facilities to refine it there, much of the international business community balked at the Indonesian government's intent to implement such a plan for Indonesian nickel with the imposition of the first export ban in 2014. The market power afforded to Chinese nickel refiners in Indonesia was a direct result of their willingness to engage with the Indonesian government's development plans while the rest of the industry largely exited the country as evinced by the sharp declines of inbound FDI Indonesia experienced after enacting the export ban; had other international refiners joined China in investing in Indonesian nickel refining capacity, the virtual monopsony Chinese nickel refiners enjoyed after the ban would likely not have materialized.

Despite claims of mercantilism stemming from large Chinese demand for raw materials and Chinese investment across the global south to access these raw materials, a comparison of the Indonesian nickel and Congolese cobalt cases calls these claims of mercantilism into question given China's lack of market control (as characterized by Massot's framework) in either case. Instead, the truth that seems to arise from a close analysis of both cases is that neither Chinese market vulnerability nor market power necessarily yields specific development outcomes; rather, global south nations must leverage China's place in critical mineral supply chains as well as its huge demand to their advantage through cooperation and the structuring of compelling industrial policy to achieve their own internally determined development goals.

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Pandemic Pulse: A Comparative Analysis of Nepal-China Import-Export Trends Pre- and Post-COVID (2015-2023)

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Abstract

This paper presents the import-export patterns between Nepal and China from 2015 to 2023. Using data from the Central Bank of Nepal, the study delineates significant shifts in trade patterns. The analysis reveals a marked escalation in Nepalese imports from China, particularly in telecommunications equipment, medical supplies, and computer parts, driven by pandemic-induced demand. In contrast, Nepalese exports to China, which have traditionally included woolen carpets, metalwork, and other artisanal products, have struggled to recover to pre-pandemic levels. The analysis involved extracting and organizing data from Central Bank reports into Excel and CSV formats for processing in Google Colab using Python's Pandas library. The data were segmented into pre-COVID (2015/16 to 2019/20) and post-COVID (2020/21 to 2022/23) periods to evaluate the impact of the pandemic on trade relations. This study demonstrates that Nepal's trade relationship with China is characterized by an escalating imbalance, primarily driven by increased import dependency and stagnant export growth. The findings underline the critical need for Nepal to strategically diversify its exports and enhance trade infrastructure. Addressing these issues through targeted policy interventions is essential for mitigating the trade deficit. Nepal's economic stability will remain precarious, heavily reliant on imports with limited progress in reducing the trade gap.

Keywords: Nepal-China trade, import-export patterns, trade deficit, pandemic impact, import dependency, stagnant export growth

Introduction

Nepal and China, two neighboring nations with long-standing historical ties, have witnessed substantial growth in their trade relationship over the past decade. The bilateral trade between the two countries has increased significantly, driven by China's role as a major global economic powerhouse and Nepal's strategic position within the South Asian region. However, despite this growing trade volume, the trade balance remains heavily in China's favor. Nepal has consistently requested that China provide preferential treatment to more of its products in the Chinese market to help address this imbalance.¹ In a significant move to support Nepal's export potential, China granted zero-tariff access to over 8,000 Nepali products since 2009.² However, this concession has not been sufficient to mitigate Nepal's trade deficit with China.³

In recent years, the importance of Nepal's growing economic ties with China cannot be overstated. China's growing global economic influence is felt not only in Nepal, but also across South Asia, making Nepal an ideal bridge between the two major economies of India and China.⁴ The trade volume between the two countries has been on an upward trend, further emphasizing the significance of their bilateral relationship. The Government of Nepal is encouraging businesses to increase exports to China.

According to Annual Foreign Trade Statistics published by the Ministry of Finance, Nepal traded with more than 170 countries and territories in the fiscal year 2022/23. Despite this broad trade network, most of Nepal's trade was concentrated with its two closest neighbors, India and China. India remains Nepal's largest trading partner in terms of both imports and exports, while China is the second largest, making up 13.09 percent of Nepal's total trade in the fiscal year 2021/22.⁵

The trade relationship between Nepal and China has undergone substantial transformations over the past decade. However, the outbreak of the COVID-19 pandemic in early 2020 disrupted this growing trade relationship. The closure of several key trading points along the Nepal-China border in early 2020 due to the pandemic further exacerbated the trade deficit, severely affecting Nepali traders and residents of remote mountain villages.⁶ Global goods trade volume saw a 5.3% decline in 2020, driven by the significant economic disruptions from the COVID-19 pandemic. However, starting from the second half of 2020, World Trade Organization economists anticipated a robust rebound in global trade, with outcomes closely tied to GDP growth and the ongoing developments of the pandemic.⁷

¹ Acharya, Madhu Raman. *Nepal WorldView Volume I: Foreign Policy*. New Delhi, India: Adroit Publishers, 2019.

² Johnny, Eby. "Foreign Policy Strategies of Nepal between China and India: Bandwagon or Hedging." *International Politics* (2024): 1-19.

³ Embassy of Nepal in China. "Trade in Nepal." Accessed November 13, 2024. <https://cn.nepalembassy.gov.np/trade-in-nepal/>.

⁴ Chand, Bibek. "Himalayan Geopolitics: Contemporary Analysis of Sino-Nepali Relations." *E-International Relations*, April 19, 2021. <https://www.e-ir.info/2021/04/19/himalayan-geopolitics-contemporary-analysis-of-sino-nepali-relations/>; Wasey, Abdul. "Will Nepal Be Able to Act as Bridge between China, India?" *China Daily*, July 16, 2019. <https://global.chinadaily.com.cn/a/201907/16/WS5d2d6a80a3105895c2e7db37.html>.

⁵ Department of Customs, Ministry of Finance, Nepal. *Annual Foreign Trade Statistics 2079/80*. 2023. <https://customs.gov.np/storage/DoC/2080-81/Statistics/Annual%20Foreign%20Trade%20%20Statistics%20Book%202079-80.pdf>.

⁶ Shakya, Dipendra. "14 Trading Points along Nepal-China Border Reopen." *Kathmandu Post*, May 26, 2024. <https://kathmandupost.com/national/2024/05/26/14-trading-points-along-nepal-china-border-reopen>.

⁷ World Trade Organization. *World Trade Report*, 2021.

Economic activities in Nepal saw significant growth until mid-March of the 2019/20 fiscal year; however, as the COVID-19 pandemic impacted the global economy, preliminary estimates placed Nepal's economic growth at 2.3 percent. Over the past three years, the average economic growth rate has been 7.3 percent at producer's prices.⁸ Despite the challenges posed by the COVID-19 pandemic, key macroeconomic indicators remained positive, supporting the classification of this period as post-COVID. National investment increased, and access to finance, capital markets, and insurance expanded. The balance of payments achieved a surplus, and both remittance inflows and foreign exchange reserves grew. As the impact of COVID-19 began to ease in the second quarter of the fiscal year, economic activities recovered, and revenue mobilization improved, justifying the characterization of fiscal year 2020/21 as part of the post-pandemic period. So, the fiscal year 2020/21 marks the beginning of the post-COVID era, where trade started to adapt to the new realities shaped by the pandemic.

Based on these developments, this research seeks to explore the changes in import-export patterns between Nepal and China from 2015 to 2023.

Methodology

The data used were sourced from annual report archives of the Central Bank of Nepal.⁹ These reports provided detailed information on imports and exports between Nepal and China, covering various commodities from the fiscal years 2015/16 to 2022/23. We organized the data in Excel, creating separate sheets for imports and exports with fiscal years and key commodities traded between Nepal and China. After thoroughly cleaning up the data, we saved the sheets as CSV files to simplify the next steps in Python.

Tools and Libraries Used for Data Cleaning and Visualization

a. Pandas¹⁰ was used for data manipulation, allowing for the calculation of total import and export values across fiscal years and the segmentation of data into pre-COVID (2015/16 to 2019/20) and post-COVID (2020/21 to 2022/23) periods.

b. Matplotlib¹¹ was used to visualize the trends in imports and exports and compare the top commodities traded during the pre- and post-COVID periods.

Descriptive analysis provided insights into data distribution and variation, calculating key statistics such as the mean, median, and standard deviation for both imports and exports.

Trend analysis focused on identifying patterns over time. By plotting the total values of imports and exports for each period, we were able to visually assess how trade volumes evolved before and after the pandemic. This approach was instrumental in detecting significant changes or emerging trends in the trade dynamics between Nepal and China.

Additionally, we identified the top 10 commodities by trade value for both imports and exports, analyzing them separately for the pre-COVID and post-COVID periods. This comparison helped assess shifts in the composition of traded goods.

⁸ Ministry of Finance. *Economic Survey 2019/20*, 2020.

⁹ Nepal Rastra Bank. "Annual Reports." Accessed November 13, 2024. <https://www.nrb.org.np/category/annual-reports/>.

¹⁰ <https://pandas.pydata.org/>

¹¹ <https://matplotlib.org/>

Findings

Table 1- Pre-COVID Trade Data Analysis (2015/16 - 2019/20)

Fiscal Year	Total Imports (Rs. in Million)	Total Exports (Rs. in Million)
2015/16	115,694.5	1,681.6
2016/17	127,244.7	1,701.5
2017/18	159,987.4	2,437.8
2018/19	205,518.6	2,109.8
2019/20 R ¹²	181,919.6	1,191.3

Source: Calculated by authors based on data from the Central Bank of Nepal¹³

From 2015/16 to 2018/19, Nepal's imports from China saw a notable rise, starting at Rs. 115,694.5 million and reaching **NPR 205,518.6 million**. This indicates a steady rise in Nepal's dependency on Chinese goods over these years. Interestingly, in the fiscal year 2019/20, there was a decrease in imports to **NPR 181,919.6 million**, which might be attributed to early disruptions in global supply chains due to the onset of COVID-19 in late 2019 and early 2020.

Exports from Nepal to China saw a gradual increase from **NPR 1,681.6 million** in 2015/16 to a peak of **NPR 2,437.8 million** in 2017/18. However, this was followed by a decline to **NPR 1,191.3 million** in 2019/20, indicating challenges in maintaining a consistent export volume to China. The export data shows greater variability compared to imports, suggesting that Nepal's export markets facing more uncertainties to boost exports in China.

Table 2 - Post-COVID Trade Data Analysis (2020/21 - 2022/23)

Fiscal Year	Total Imports (Rs. in Million)	Total Exports (Rs. in Million)
2020/21 R	233,923.1	1,016.1
2021/22 R	264,783.6	808.8
2022/23 P ¹⁴	222,715.9	1,766.2

Source: Calculated by authors based on data from the Central Bank of Nepal

Imports surged to **NPR 233,923.1 million** in 2020/21 despite the pandemic, surpassing the pre-COVID peak. The import figures peaked further at **NPR 264,783.6 million** in 2021/22 but then declined to **NPR 222,715.9 million** in 2022/23. This fluctuation suggests instability in trade, with export data exhibiting greater volatility compare to imports.

Nepal's exports to China experienced modest growth early in the period, peaking at **NPR 2,437.8 million** in 2017/18, followed by a sharp decline to **NPR 1,191.3 million** in 2019/20, signaling challenges in maintaining export momentum. This volatility points to issues on both demand and supply sides. Strict Chinese phytosanitary standards make it difficult for Nepali

¹² R= Revised

¹³ Based on customs data

¹⁴ P= Provisional

products to access the Chinese market smoothly.¹⁵ On the supply side, the 2015 earthquake caused infrastructure damage along the Nepal-China border. Although authorities reopened the Tatopani-Zhangmu border in May 2019, it closed again in January 2020 due to COVID-19, further limiting Nepal's export capacity.¹⁶

Total Trade Volume Between Nepal and China (Fiscal Year 2015/16 to 2022/23)



Figure 1 (Source: created by authors)

Pre-pandemic export levels showed growth potential. Notwithstanding, the post-pandemic period experienced the sharp contraction and slow recovery revealing limited export diversification and reduced competitiveness in the Chinese market. While the pre-pandemic period witnessed a steadily increasing trade deficit, the post-pandemic period saw an even greater exacerbation of the trade deficit. Nepal's economic recovery is heavily reliant on imports, without corresponding growth in exports.

Both periods exhibit a persistent trade deficit, but the post-pandemic era has significantly amplified this imbalance. The pre-pandemic data suggest that Nepal's economic activity was heavily import-driven, with Chinese goods playing a crucial role in domestic consumption and infrastructure projects. The sharp increase in imports post-pandemic, particularly in 2020/21, indicates that Nepal's economic recovery was heavily reliant on continued access to Chinese goods.

¹⁵B360. "Nepal's Trade Imbalances With China." 2024. Accessed November 13, 2024. https://www.b360nepal.com/detail/21984/nepals-trade-imbalances-with-china-2024-Mar-08-328500#google_vignette.

¹⁶Xinhua. "Nepal, China to Ensure Cross-Border Movement of Goods Without Human Contacts." 2020. Accessed November 13, 2024. http://www.xinhuanet.com/english/2020-04/15/c_138978251.htm.

Analysis of Top 10 Imported Commodities

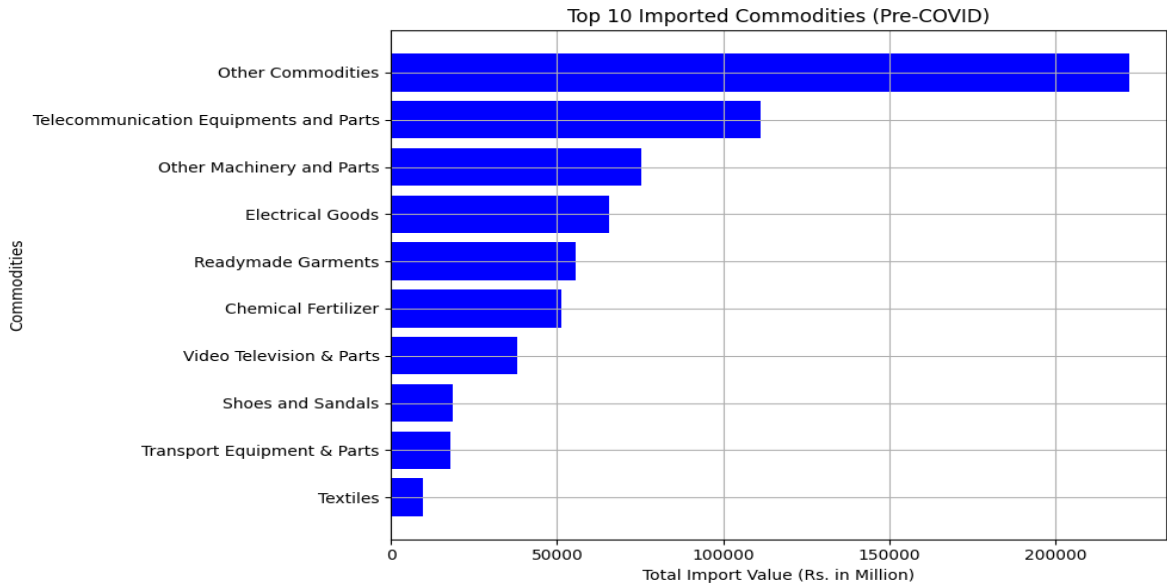


Figure 2 (Source: created by authors)

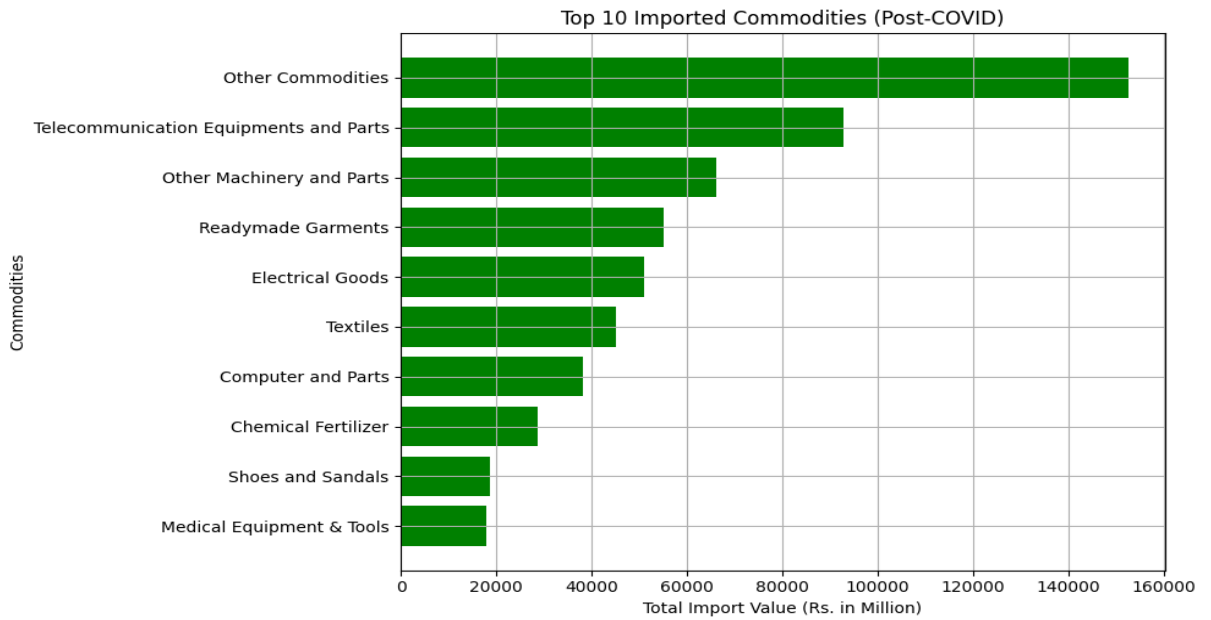


Figure 3 (Source: created by authors)

Prior to the pandemic, Nepal’s import pattern was predominately centered on telecommunications equipment with import reaching **NPR 26,825 million** by 2017/18. Significant

inflows also comprised electrical apparatus, machinery and transport equipment, illustrating Nepal’s focus on industrial capacity and transportation sectors. In the post-pandemic era, the import value of telecommunications equipment surged to **NPR 36,027.4 million** by 2022/23. This dramatic increase signifies a substantial pivot towards digital transformation, driven by an accelerated demand for digital communication infrastructure. This trend reflects a strategic adaptation to remote work and e-learning environments.

A noticeable shift in the post-COVID was the substantial surge in imports of medical equipment and instruments. In 2020/21, these imports more than doubled, escalating from **NPR 3,351.7 million** in 2019/20 to **NPR 7,820.8 million**. This big increase shows Nepal's urgent need to bolster its healthcare infrastructure in response to the pandemic and divulge the critical role of Chinese imports in addressing these exigencies.

Furthermore, the importation of computer components experienced a marked rise as educational institutions and businesses transitioned online, driving up demand for digital tools. Pre-pandemic imports of computer parts, which were relatively modest, soared to **NPR 12,038.8 million** in 2020/21, continuing to climb to **NPR 16,060.4 million** in 2021/22. This trend reflects Nepal's increasing dependence on digital technologies, spurred by the imperatives of remote work and online education. Additionally, imports of textiles and footwear witnessed a significant uptick, likely fueled by the demand for raw materials for personal protective equipment (PPE) and a gradual resurgence in consumer demand for these goods.

Analysis of Top 10 Exported Commodities

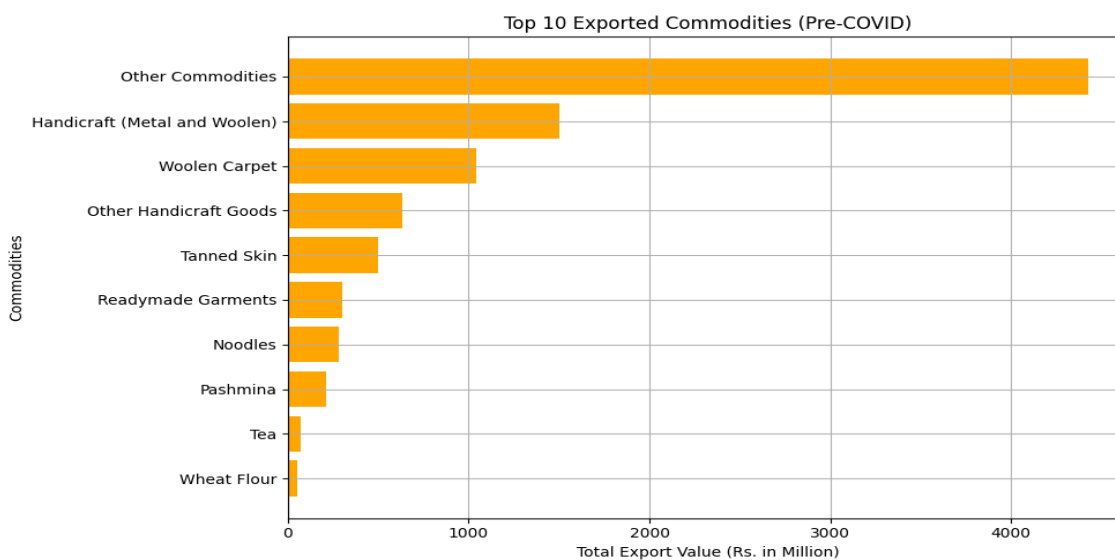


Figure 4 (Source: created by authors)

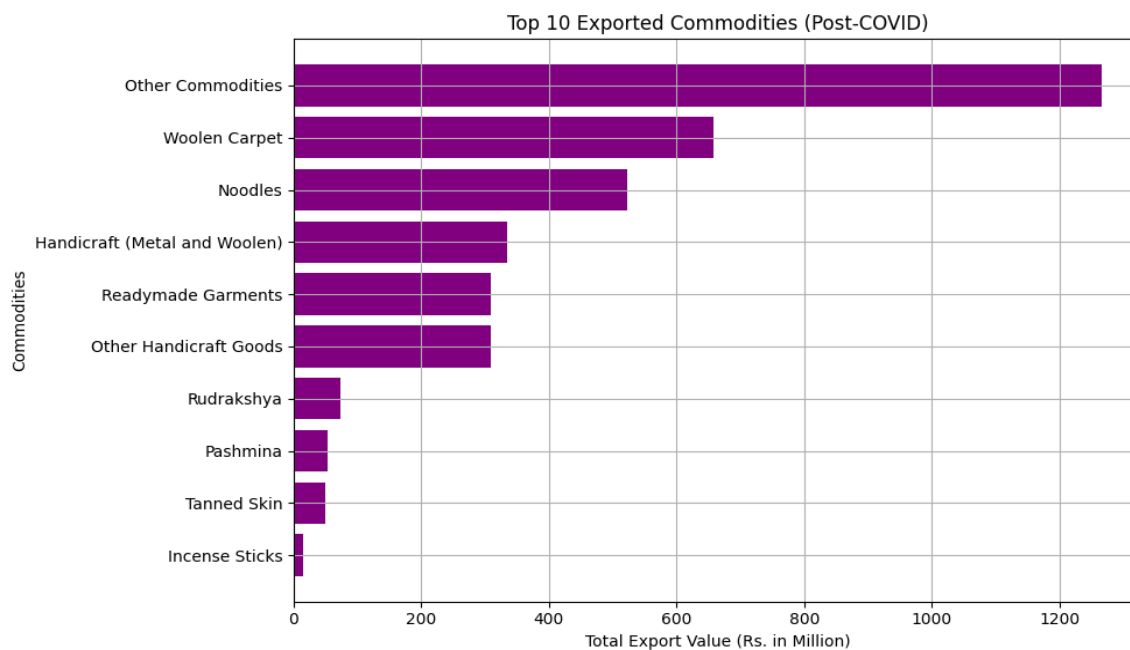


Figure 5 (Source: Created by authors)

Before the COVID-19 pandemic, Nepal's exports were primarily concentrated on traditional goods, particularly handicrafts like woolen carpets and metalwork. These exports, deeply ingrained in Nepal's cultural heritage, consistently found a market in China. Woolen carpets, in particular, comprised a substantial share of the country's export revenues during this period, indicating a persistent demand for Nepal's artisanal craftsmanship.

Nevertheless, the pandemic induced substantial shifts in Nepal's export market. Although handicrafts continued to hold importance, the aggregate export volume experienced a marked decline. The global economic downturn and supply chain disruptions caused by COVID-19 significantly affected trade, with Nepal's total exports to China plummeting to **NPR 808.8 million** in 2021/22. This contraction validates the severe difficulties faced by Nepalese exporters during this period.

In spite of these difficulties, certain export sectors managed to stabilize or even expand in the post-pandemic period. For instance, the export of food products, particularly noodles, experienced a substantial increase, reaching **NPR 1,121.7 million** by 2022/23. Additionally, the export of incense sticks grew to **NPR 147.2 million** in the post-pandemic years. These shifts suggest that Nepal could benefit from diversifying its export base to better align with changing demands in the Chinese market.

Table 3 - Trade Balance Analysis (Pre-COVID vs. Post-COVID)

Period	Fiscal Year	Trade Balance (Rs. in Million)
Pre-COVID	2015/16	-114,012.9
	2016/17	-125,543.2
	2017/18	-157,549.6
	2018/19	-203,408.8
	2019/20 R	-180,728.3
Post-COVID	2020/21 R	-232,907.0
	2021/22 R	-263,974.8
	2022/23 P	-220,949.7

Source: Calculated by authors based on data from the Central Bank of Nepal

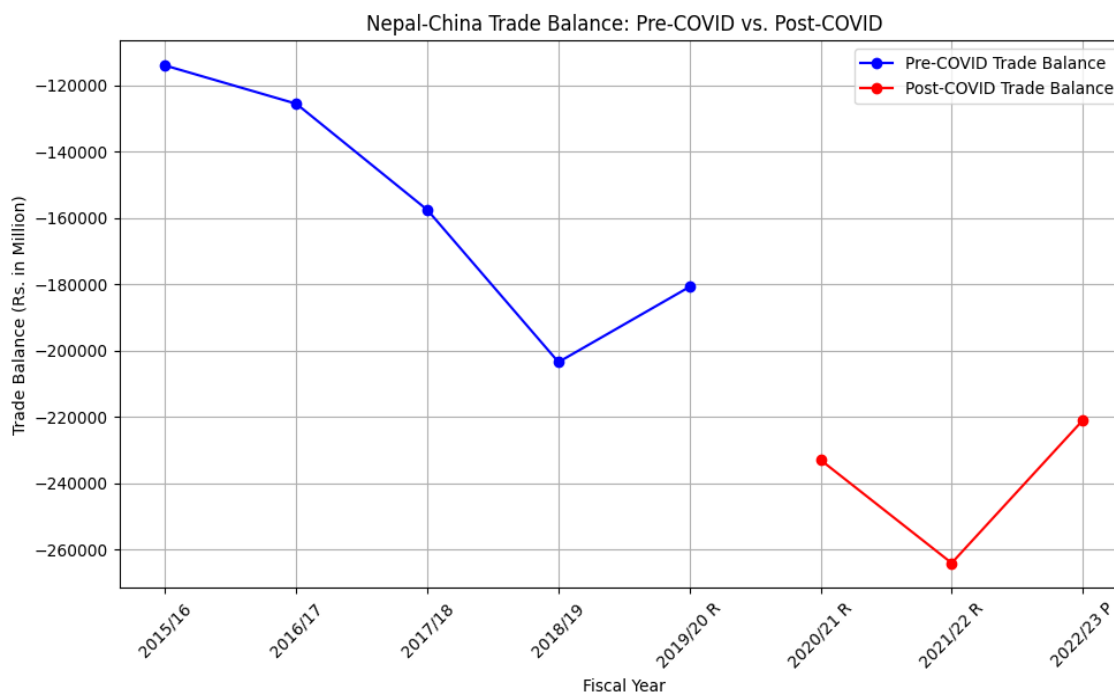


Figure 6 (Source: created by authors)

The trade balance, or balance of trade, represents the disparity between a nation's exports and imports.¹⁷ It is a crucial metric for assessing the difference between Nepal's exports to China

¹⁷ O'Sullivan, Arthur, and Steven M. Sheffrin. *Economics: Principles in Action*. Upper Saddle River, NJ: Pearson Prentice Hall, 2003. p. 462. ISBN 0130630853.

and its imports from China.¹⁸ A negative trade balance signifies that Nepal is importing a greater value of goods from China than it is exporting, thereby incurring a trade deficit.

As previously discussed, Nepal consistently experienced a trade deficit with China. The growing divergence illustrates Nepal's increased reliance on Chinese imports and substantial constraints on its export capacity, further aggravated by the closure of the Tatopani and Rasuwagadhi borders. The closure of these key border crossings critically disrupted trade flows, hindering Nepal's capacity to export goods to China and emphasizes the need for effective trade facilitation mechanisms to support Nepal's economic stability.

Descriptive Statistics for Imports and Exports

Statistic	Imports	Exports
Count	8.0	8.0
Mean	188,973.4	1,589.1
Std Dev	52,440.6	552.8
Min	115,694.5	808.8
Max	264,783.6	2,437.8

Source: Calculated by authors based on data from the Central Bank of Nepal¹⁹

The data shows a clear contrast between imports and exports. Imports average **NPR 188,973.4 million** with a high standard deviation of **NPR 52,440.6 million**, indicating considerable fluctuation. They range from **NPR 115,694.5 million** to **NPR 264,783.6 million**. In comparison, exports average **NPR 1,589.1 million** and have a lower standard deviation of **NPR 552.8 million**, indicating more stability. Export values range from **NPR 808.8 million** to **NPR 2,437.8 million**, showing less variability and a smaller scale compared to imports.

Conclusion

The findings reveal that Nepal's trade relationship with China exhibits a pronounced asymmetry, primarily driven by the burgeoning demand for Chinese imports. The pandemic has accentuated these imbalances, revealing the critical need for Nepal to reassess its trade strategy. Meanwhile, the inability of Nepalese exports to recover fully in the post-pandemic period require the need for strategic interventions to improve the export sector. Conversely, Nepalese exports to China, traditionally dominated by handicrafts and artisanal goods such as woolen carpets, have encountered significant barriers. Without substantial policy changes, Nepal's economic recovery will remain heavily dependent on imports, with limited prospects for narrowing the trade deficit.

In 2020, the COVID-19 pandemic caused a temporary halt to traditional border trade between China and Nepal.²⁰ China primarily exports manufactured goods to Nepal, while

¹⁸ Trade balance calculated as (Exports – Imports). Negative values indicate a trade deficit.

¹⁹ Value Rs in Million

²⁰ChinaDaily. "Traditional Border Trade Points Reopen." 2024. Accessed November 13, 2024. https://english.www.gov.cn/news/202405/28/content_WS665538a3c6d0868f4e8e78e5.html.

importing raw materials, agricultural products, and livestock.²¹ The lack of a sea route impacts Chinese demand for Nepali goods, as the trade is limited to land routes. Land routes, such as the Rasuwagadhi-Kerung and Tatopani-Zhangmu border. Nepal's trade with China is constrained by various supply-side challenges, especially the rugged mountainous terrain of routes.

Trade between Nepal and China relies heavily on land routes, which are frequently disrupted by natural and infrastructure challenges. Heavy monsoon rains often damage these roads, making them impassable and significantly restricting trade flow. Additionally, logistical inefficiencies have further slowed down trade. To address demand-side challenges, Nepal could adopt targeted marketing strategies in China that align with emerging consumer preferences.

1. Recommendations

a) *Strategic Marketing of Traditional Goods*: Nepal should prioritize the promotion of traditional products like *Cordyceps sinensis* (yarsagumba), herbal items, and artisanal goods, such as *bodhichitta* beads and *rudrakshya* due to shared cultural and religious ties.

b) *Economic Diplomacy for Trade Stability*: To maintain stable trade with China, it is essential to establish bilateral security frameworks that address security concerns and implement early-warning systems to anticipate and manage potential border disruptions.

c) *Invest in digital Payment Infrastructure*: The Nepali government should develop digital payment infrastructure to support seamless transactions, including integrating platforms like WeChat Pay, and strengthen partnerships with Chinese financial institutions to facilitate cross-border transactions and the use of digital RMB. This would align with Chinese consumer increased preference for cashless and convenient payment options, making Nepali products more accessible.

²¹ Global Times. "China-Nepal Traditional Border Trade Points Reopen, Benefiting Border Residents: Experts." 2024. Accessed November 13, 2024. <https://www.globaltimes.cn/page/202405/1313042.shtml>.

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China's Investments, Commercial and Economic Presence, and Political Influence in Türkiye

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Abstract

This article analyses China's increasing economic and political influence in Türkiye, highlighting the historical and contemporary dimensions of their relationship. Historically linked through the Silk Road, the partnership has intensified with China's rise as a global economic power and Türkiye's strategic role in the Belt and Road Initiative (BRI). The study examines China's investments in Türkiye's critical sectors—such as infrastructure, technology, and energy—and evaluates their effects on bilateral trade and political dynamics. By addressing the opportunities and challenges posed by this growing influence, the paper provides insights into Türkiye's evolving economic and policy landscape within the context of China's global strategy.

Key Words: China-Türkiye relations, Belt and Road Initiative, foreign direct investment, trade, geopolitics

Introduction

The relationship between China and Türkiye is anchored in a rich historical context, with both nations historically serving as significant participants along the Silk Road. This ancient trade route not only facilitated the exchange of commodities but also fostered cultural interactions that shaped the identities of both civilizations. In recent decades, the dynamics of this relationship have evolved dramatically, characterized by a strategic focus on enhancing economic and political cooperation.¹

In the contemporary geopolitical landscape, China's expanding influence in Türkiye signifies a multifaceted interplay of opportunities and challenges. As Türkiye diversifies its economic partnerships and seeks to strengthen its position in the global arena, the burgeoning Sino-Turkish relationship emerges as a pivotal factor influencing Türkiye's foreign policy and economic strategies. This report analyses the mechanisms through which China has augmented its commercial and political presence in Türkiye, focusing on investments in critical sectors, such as energy, infrastructure, and technology, as well as the implications for bilateral trade relations.

Central to this analysis is the Belt and Road Initiative (BRI), a flagship policy of the Chinese government that has fundamentally reshaped its foreign economic relations. Türkiye is recognized as a crucial partner within this ambitious project, leveraging its unique position as a bridge connecting Europe and Asia.² This geographical significance enhances Türkiye's economic prospects and facilitates increased connectivity and collaboration in vital areas, such as infrastructure development and energy security. Thus, Türkiye's role within the BRI solidifies its importance in China's global economic ambitions.

Furthermore, China's rise as an economic superpower over the past few decades amplifies the significance of this partnership. With a GDP of approximately \$17.89 trillion USD, China stands as the world's second-largest economy, playing a pivotal role in global trade.³ This growth, driven by domestic reforms and industrialization, is complemented by an assertive approach to foreign investment, particularly in critical infrastructure and technology sectors. By engaging with Türkiye, China not only expands its economic influence but also fosters mutual development opportunities, enhancing both nations' prospects in an increasingly interconnected global landscape.

The implications of China's investments in Türkiye will be further explained, focusing on key areas such as investment mechanisms, the impact of the BRI, and the political ramifications of this partnership. Additionally, associated challenges and opportunities arising from this evolving relationship will be discussed. Through this comprehensive analysis, the aim is to provide a wide understanding of the geopolitical and economic consequences of the Sino-Turkish partnership and its significance in the context of contemporary international relations.

Chinese Investments in Türkiye

Chinese investments in Türkiye have been diversified and spread across a wide array of sectors viewed as imperative for the country's economic infrastructure and, therefore, for its long-term development goals. Specifically, China has been developing a keen interest in Türkiye's

¹ Öniş, Ziya, and Maimaiti Yalikun. "Emerging partnership in a post-Western world? The political economy of China-Turkey relations." *Southeast European and Black Sea Studies* 21, no. 4 (2021): 507-529.

² Gnerre, M. Orazio. "Political and Economic Relations between the People's Republic of China and Turkey." *Journal of Politics and Development* 13, no. 1 (2023): 40-50.

³ World Bank. "GDP (current US\$) - China." Accessed October 28, 2024. Available at: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=CN&most_recent_year_desc=true.

energy infrastructure, finance, and technology sectors.⁴ In the first sector, energy, China has been rather active. For example, China's AVIC International and Türkiye's Hattat Holding have inked a 1.5 billion USD (10 billion yuan) deal for the building of a coal-fired power plant in the Amasra region.⁵ There is also the The Hunutlu coal-fired power station situated in southern Türkiye, in the city of Adana; Avic-International Project Engineering Company, Shanghai Electric Power Co Ltd, four unidentified Türkiye businessmen, and Emba Elektrik Üretim AŞ are the partners in this Türkiye-Chinese joint company that serves as the funder; Shanghai Electric Power owns 50.01% of the shares, AVIC-International holds 2.99%, and the remaining 47% are held by Türkiye's investors.⁶ As illustrated in Figure 1, Türkiye ranks fourth among BRI-partner countries in installed capacity for coal-fired power projects (MW), highlighting the growing importance of China's investments in Türkiye's energy landscape. Another example of Sino-Turkish energy cooperation, is the China National Petroleum Corporation (CNPC), which is actively seeking to engage, particularly, in oil and gas exploration. CNPC's investments in Türkiye support the country's diversification efforts and also provide critical support to its growing energy needs.

Interest in renewable energy projects is present too. Among the eight multinational consortia that participated in a tender held by Türkiye's Ministry of Energy and Natural Resources for a one-gigawatt wind project were the Chinese wind power companies MingYang and Goldwind. With both countries aiming to reduce their carbon footprint and enhance energy security, Chinese firms are looking to invest in electricity production through wind, solar, and hydroelectric power generation. These areas align with Türkiye's vision of becoming a regional energy hub, wherein Chinese investments would help position Türkiye as a significant player in this context.

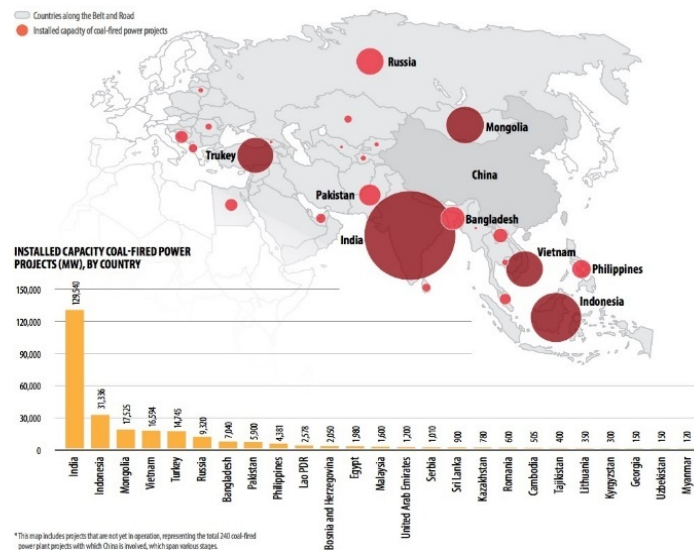


Figure 1: Coal-fired power plant projects with Chinese involvement in BRI-partner countries
(Source: Cem Gündoğan 2017)

⁴ Gürel, Burak, and Mina Kozluca. 2022. "Chinese Investment in Turkey: The Belt and Road Initiative, Rising Expectations, and Ground Realities." *European Review* 30 (6): 806–834.

⁵ Turhan, Ethemcan. 2017. "China's Role in Turkey's Energy Future." *Dialogue Earth*, September 26, 2017. <https://dialogue.earth/en/business/10047-china-s-role-in-turkey-s-energy-future/>.

⁶ Ibid

Furthermore, Chinese companies have been involved in other technology sectors. Huawei, one of the largest telecommunications companies in the world, is increasingly a big player in Türkiye; it invested in technology parks and R&D centers, contributing to the innovation ecosystem of the country.⁷ For instance, The Innovation Center, was created on-site at Huawei Türkiye's Ümraniye-based office in Istanbul. Covering around 400 square meters, The Innovation Center received Huawei's USD \$1 million investment. Currently, Huawei Türkiye employs 1,500 people, with about 85% of these workers being Turkish.⁸ What is more, with the presence of Huawei in Türkiye there can be advanced technology transfer in terms of 5G infrastructure, which is essential for the country's digital transformation.

In terms of other infrastructure, there are several significant engagements. One involves COSCO Shipping, another large Chinese SOE, which made huge investments in port infrastructure in Türkiye.⁹ Another involves the acquisition of a stake in Kumport Terminal, one of the largest container terminals in Türkiye, by a consortium of Chinese companies in 2016. This not only reflects the growing economic ties between China and Türkiye, but significantly strengthens China's strategic position along the BRI route and cements Türkiye's role as an important gateway in global maritime trade.¹⁰ Moreover, one of the hallmark projects supported by Chinese investment is Marmaray—a tunnel under the Bosphorus that connects the European and Asian sides of Istanbul.¹¹ Interest has also been shown by China in the Canal Istanbul project—a mega infrastructure undertaking meant for building an alternate shipping route to the Bosphorus Strait that would eventually multiply the maritime trade capacity of Türkiye. A \$688 million USD deal to purchase a majority share in the third bridge over the Bosphorus and its related highways involving China Merchants Group alongside additional partners was close. However, the epidemic, reportedly, disrupted the agreement. Still, stakeholders reopened negotiations, with banks such as China Merchants Bank, Bank of China, and Industrial and Commercial Bank of China refinancing \$1.6 billion of the initial loan to the bridge operator.¹²

Chinese investments have thus played an increasing role in the economic development of Türkiye. Chinese firms have contributed to job creation in sectors like energy, infrastructure, and technology. Foreign direct investment (FDI) from China has also helped spur economic growth in the country, especially at a regional level where these large projects are located.¹³ Chinese FDI in Türkiye reached \$1.7 billion USD in 2022, marking a 232.58% increase from the previous year, when it was just \$522 million USD (the 2021 total). This represents a remarkable recovery and growth after a decline in 2021, which saw a decrease of 42.45% from 2020 levels. The rise in 2022 follows a dramatic surge in 2020, with an increase of 1,260.93% compared to 2019. The overall

⁷ Kutlay, Mustafa, and Ziya Öniş. 2021. "Turkish Foreign Policy in a Post-Western Order: Strategic Autonomy or New Forms of Dependence?" *International Affairs* 97 (4): 1085–1104.

⁸ "Huawei - Success Stories." *Presidency of the Republic of Türkiye Investment Office*. <https://www.invest.gov.tr/en/whyturkey/successstories/pages/Huawei.aspx>.

⁹ Eliküçük Yıldırım, Nilgün. 2021. "Rigid Boundaries Between Turkey and China: Is Political Mobility Possible?" *Turkish Studies* 22 (1): 28–48.

¹⁰ "COSCO Pacific Buys Turkish Kumport." *Invest in Turkey*, September 28, 2015. <https://www.invest.gov.tr/en/news/news-from-turkey/pages/280915-cosco-pacific-buys-turkish-kumport.aspx>.

¹¹ *Ibid*

¹² Tavşan, Sinan. 2021. "Eyeing Chinese Investment, Turkey Kicks Off Canal Istanbul Project." *Nikkei Asia*, June 28, 2021. <https://asia.nikkei.com/Politics/International-relations/Eyeing-Chinese-investment-Turkey-kicks-off-Canal-Istanbul-project>.

¹³ Yagci, Mustafa. "The Turkish Variety of State-Permeated Capitalism and Mutually Dependent State-Business Relations." *Journal of Contemporary Asia* 51, no. 5 (2021): 759–781.

FDI flow has been fluctuating, with the largest drop observed between 2018 and 2019, where FDI fell by 91.85%.¹⁴ Other advantages of such investments include the employment needed to maintain them, thus helping local economies, giving real jobs to key industries, and therefore reducing unemployment.¹⁵ A case to further underscore these points is China's largest manufacturer of electric cars, BYD, which declared on July 8, 2024, that it will invest \$1 billion USD in an additional manufacturing facility in Türkiye to build 150,000 hybrid and electric vehicles annually. The facility, which would employ 5,000 people, is scheduled to open in the western Türkiye province of Manisa by 2026.

Alongside the aforementioned, an additional significant advantage of investments from China is the transfer of technology. Alparslan Bayraktar, Türkiye's energy minister, traveled to Beijing in May, 2024, to talk about mining and minerals, as well as nuclear and renewable energy. A memorandum of understanding on energy cooperation was also signed by the two parties, which is particularly crucial since Türkiye wants China to help build its third nuclear power plant.¹⁶ Through the means of technology and infrastructure projects, partnerships have opened up the opportunity for Türkiye to access the newest technologies instrumental to modernizing its economy. Moreover, the development of critical infrastructure, such as transport networks and energy grids, improves economic competitiveness further in the global arena. Table 1 shows the growth of Chinese investment in Türkiye.

Table 1: Chinese Capital Investment in Sino-Turkish Joint Ventures from 2011 to 2020

Year	Number of firms	Total amount of capital in joint ventures (USD)	Amount of Chinese capital in joint ventures (USD)	Percentage of Chinese ownership (%)
2011	49	\$8.428.186,27	\$5.844.395,22	69
2012	47	\$6.358.491,09	\$4.032.850,78	63
2013	73	\$58.009.453,78	\$56.059.453,78	97
2014	89	\$70.455.002,28	\$67.960.027,41	96
2015	84	\$19.207.720,59	\$14.617.211,40	76
2016	72	\$5.710.264,90	\$4.462.225,17	78
2017	54	\$3.562.369,79	\$3.073.252,47	86
2018	87	\$11.135.874,07	\$8.509.918,19	76
2019	115	\$14.010.398,31	\$11.272.188,93	80
2020	75	\$7.852.924,63	\$6.119.417,89	77
Total	745	\$204.730.685,72	\$181.950.941,23	80

(Source: Gürel, Burak, and Mina Kozluca 2022)

¹⁴ Ministry of Commerce of the People's Republic of China. *Guide for Foreign Investment and Cooperation - Turkey (2023 Edition)*. Beijing: Ministry of Commerce, 2023.

<https://www.mofcom.gov.cn/dl/gbdqzn/upload/tuerqi.pdf>.

¹⁵ "Real jobs" denotes stable, long-term positions that contribute to local economic growth.

¹⁶ Avdaliani, Emil. 2024. "Turkey and China Seek Rapprochement, Though It Will Be Limited in Scope." *Stimson*, July 12, 2024. <https://www.stimson.org/2024/turkey-and-china-seek-rapprochement-though-it-will-be-limited-in-scope/#:~:in=202022%20Chinese%20foreign%20direct,than%20European%20investment%20in%20Turkey>.

Commercial and Economic Presence

Over the past two decades, China's commercial and economic involvement in Türkiye has significantly increased, as bilateral trade has grown rapidly, making China one of Türkiye's largest trading partners. In 2023, the trade volume between the two reached about \$35 billion USD. Türkiye imports products from China that include electronics, machinery, textiles, and chemicals; in contrast, it exports only raw materials to the Asian country, mainly consisting of minerals, metals, and agricultural goods.¹⁷

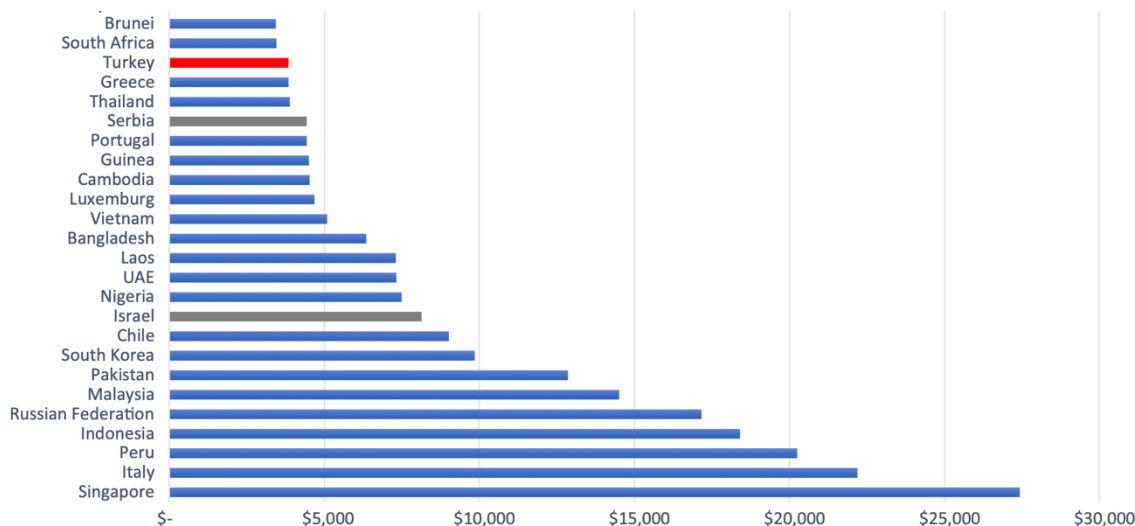


Figure 2: Country distribution of total Chinese investments over 100 million USD, 2013–2020
(Source: Gürel and Kozluca 2022)

The relationship is strongly one-sided, with huge trade deficits from the side of Türkiye. For example, in 2021, Türkiye imported much more than it sold to China as shown in Figure 3. This trade deficit remains a concern for Türkiye, which has been looking at ways to diversify exports, decrease dependence on raw material exports, and further increase higher value-added goods—such as parts of the automotive and chemical industries, and processed food products—to further balance the situation and win more of China's growing consumer market.¹⁸ Both sides have engaged in various activities aimed at lowering trade barriers to facilitate trade. For example, the Silk Road Economic Belt Agreement promotes the efficiency of logistics through investments in transportation infrastructure and facilitation of trade.

Chinese economic influence extends to the financial sector, in which Chinese banks and other financial institutions play a necessary role in financing of mega-projects. The Industrial and Commercial Bank of China (ICBC) and Bank of China are major banks based in China, with a strong presence in Türkiye, providing billions of dollars in loans and financing of big infrastructure and energy projects. To illustrate this point, ICBC, which began operations in May 2015 by purchasing the majority of shares in a local bank, offered a \$3.6 billion USD loan package to

¹⁷ Kaya, Ayse, Christopher Kilby, and Jonathan Kay. 2021. "Asian Infrastructure Investment Bank as an Instrument for Chinese Influence? Supplementary versus Remedial Multilateralism." *World Development* 145: 105531.

¹⁸ Ibid

Türkiye's energy and transportation sectors.¹⁹ Moreover, these very banks have also provided the related trade financing which has helped conduct such bilateral transactions and further integrated the two countries.

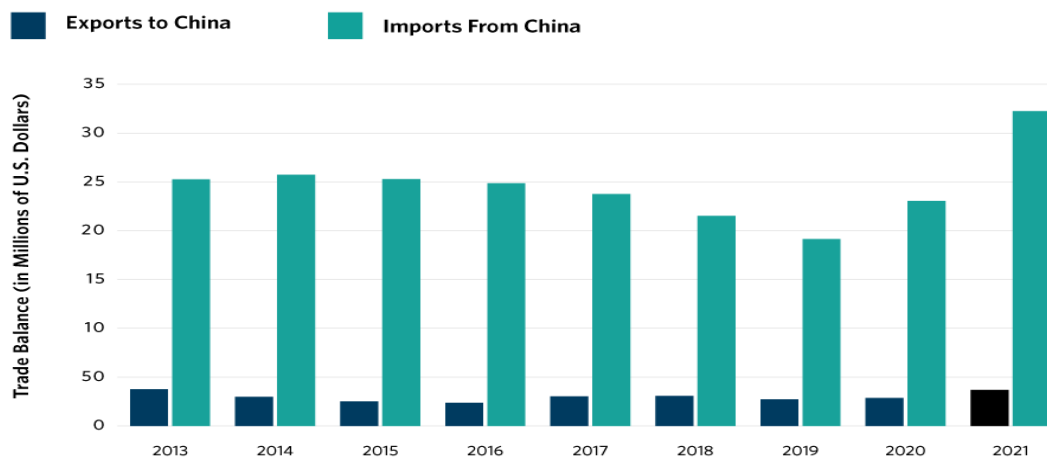


Figure 3: China-Türkiye Trade Balance
(Source: Gürel, Burak, and Mina Kozluca 2023)

In addition, the currency swap agreements have been a significant financial tool to support bilateral trade. For example, in June 2019, President Recep Tayyip Erdoğan was able to avert an economic disaster right before an election because of a \$1 billion transfer from the Chinese central bank to Türkiye. In June 2021, Erdoğan announced that China and Türkiye had decided to raise the swap agreement's volume from \$2.4 billion to \$6 billion.²⁰ China views this swap deal as a crucial part of the BRI, aiming to achieve financial integration and promote closer coordination between the two nations' monetary policies. These agreements reflect efforts to lessen dependency on the US dollar, facilitating trade in local currencies—the Turkish lira and the Chinese yuan. As of now 1,148 Chinese-owned companies have operations in Türkiye, with a cumulative investment worth significantly more than \$1 billion USD.²¹

What is more, in June 2024, Hakan Fidan, the foreign affairs minister of Türkiye, travelled to China to finalize a new bilateral agreement, referring to the two nations as “drivers of Asian wealth.”²² In this meeting, it was expressed that China is willing to continue multi-level exchanges with Türkiye and promote the effective harmonization of the BRI and Türkiye's Middle Corridor Plan.²³ It was also stated that the areas of cooperation between the two countries should be

¹⁹ "Chinese bank to loan \$3.6 billion to Turkey," *Anadolu Agency*, July 07, 2018, <https://www.aa.com.tr/en/energy/investments/chinese-bank-to-loan-36-billion-to-turkey/21019>.

²⁰ Gürer, Cüneyt. 2022. “Economic Needs and Global Desires.” *Concordiam*, November 17, 2022. <https://perconcordiam.com/turkey-china-relations/>.

²¹ Kozluca, Mina. 2022. “Chinese Investment in Turkey: The Belt and Road Initiative, Rising Expectations and Ground Realities.” *European Review* 30 (6): 806–834. <https://doi.org/10.1017/S1062798721000296>.

²² “Turkey Puts Its Best Foot Forward to Charm Chinese Investors.” *France 24*, July 13, 2024. <https://www.france24.com/en/live-news/20240713-turkey-puts-its-best-foot-forward-to-charm-chinese-investors>.

²³ Middle Corridor Plan: Also known as the Trans-Caspian East-West-Middle Corridor Initiative, it is Turkey's strategic initiative to establish a transportation corridor from Turkey to China, passing through the Caucasus region, Central Asia, and the Caspian Sea.

expanded and the cooperation potential should be evaluated. China has stated that it will make efforts to increase imports of high-quality agricultural products from Türkiye, continuously improve the level of cooperation and technological content of the two countries' enterprises, and strengthen cooperation in areas such as culture, education, tourism, and aviation. Türkiye aims to achieve more concrete results in areas such as trade, investment, finance, agriculture, tourism and education by actively contributing to this cooperation.

However, the current trade dynamics reveal structural challenges beneath these diplomatic aspirations. In the first four months of 2024, Türkiye's trade deficit with China reached \$12.93 billion, with exports of merely \$1.05 billion against imports of \$13.98 billion USD, underscoring the need for a more balanced economic engagement.²⁴ While China's commitment to increase agricultural imports from Türkiye is welcome, the trade data, as mentioned earlier, shows a deeper imbalance: Türkiye's exports remain concentrated in lower value-added sectors, with mineral products (53.40%), chemical products (12.35%), and textiles (6.98%) dominating its export basket. Meanwhile, Türkiye heavily depends on Chinese machinery and electrical equipment (49.51% of imports), highlighting a technological gap that needs addressing. The diplomatic rhetoric of “drivers of Asian wealth” and the alignment of the Middle Corridor Plan with the BRI presents opportunities, but Türkiye needs to leverage these frameworks more strategically. Specifically, the promised “improvement in technological content” between enterprises should focus on more concrete technology transfer agreements, joint R&D initiatives, and industrial upgrading programs that could help Türkiye develop more sophisticated export capabilities. This would enable Türkiye to transition from being primarily a transit hub and market for Chinese goods to becoming a true strategic partner in Asia's economic architecture.²⁵

As such, deepening commercial and economic relations will have important consequences in the future. While Türkiye seeks diversification of its export base and reduction of its trade deficit with China, exploration of more opportunities for both countries' collaboration in such industries as technology, automotive manufacturing, and financial services should be welcomed in the future.²⁶ While the BRI is viewed as a much more important long-term driver of economic activity—through sustained Chinese investments in infrastructure and energy projects in Türkiye—it is also clear that it will play a decisive role in shaping the long-term trajectory of Türkiye's economy. As a critical node in this initiative, Türkiye's economic future is inextricably linked to the success of Chinese investments, ensuring that the country will play a pivotal role in global trade and infrastructure networks for years to come (See Figure 4).

Political Influence

The surging economic stakes in Türkiye go inseparably with an increasing political impact on China, notably in terms of the conditions under the Belt and Road Initiative. With continuous massive investments in Türkiye's infrastructure, energy, and technology sectors, the political relations between the two countries have increased, bringing both nations closer to each other in diplomacy, strategic cooperation, and strategic issues. It is this partnership forged between China and Türkiye over time, based on such mutual interests, that has allowed both nations to view their

²⁴ Sinoimex. 2024. “2024年4月土耳其和中国双边贸易概况.” Retrieved November 14, 2024.

²⁵ To clarify, technology Transfer Agreements refer to formal arrangements between countries or companies for sharing technical knowledge, know-how, and sophisticated manufacturing capabilities, often including training, licensing, and joint research projects.

²⁶ Rogelja, Igor, and Konstantinos Tsimonis. 2020. “Narrating the China Threat: Securitising Chinese Economic Presence in Europe.” *The Chinese Journal of International Politics* 13 (1): 103–133.

relationship as a means of enhancing their influence on global issues. Türkiye plays a very important role as a bridge between Europe, Asia, and the Middle East in the implementation of the BRI.²⁷ This geopolitical position makes Türkiye a centrepiece of Chinese investments in infrastructure projects related to railways, bridges, and ports concerning the long-term trade and connectivity goals of China as shown in Figure 4.



Figure 4: Geopolitical Position of the Silk Road
(Source: Insight Turkey 2021)

The influence of China over Türkiye can be assessed through international organizations where both countries cooperate, such as the Shanghai Cooperation Organization (SCO) and the Asian Infrastructure Investment Bank (AIIB). Although not a full member, Türkiye holds dialogue partner status and has shown interest in closer ties with the SCO, which is led by China and Russia. Türkiye's participation in SCO meetings and its dialogue status suggest alignment with some of the organization's security and anti-terrorism goals, which align with China's agenda to counterbalance Western influence in Eurasia. In the case of the AIIB, which is principally funded by China, Türkiye's decided to join in 2015 and through it has secured financing for major infrastructure projects essential for the country's economic development. For example, in 2020 the AIIB provided a \$300 million loan to Türkiye to support the country's renewable energy initiatives and energy efficiency improvements.²⁸ This demonstrates how China has impacted Türkiye's infrastructure development strategies and deepen economic ties by providing alternatives to

²⁷ Yılmaz, Gözde, and Nilgün Eliküçük Yıldırım. 2020. "Authoritarian Diffusion or Cooperation? Turkey's Emerging Engagement with China." *Democratization* 27 (7): 1202–1220.

²⁸ Asian Infrastructure Investment Bank. 2020. "AIIB Approves \$300 Million Loan to Boost Renewable Energy, Energy Efficiency in Turkey," June 30, 2020. <https://www.aiib.org/en/news-events/news/2020/AIIB-Approves-300-Million-Loan-to-Boost-Renewable-Energy-Energy-Efficiency-in-Turkey.html>.

Western financial institutions. Türkiye's participation in these organizations has then increased as China has provided vital financing and support.

However, Türkiye's political relationship with the West, particularly the United States and European Union, adds complexity to its engagement with China. As a NATO member and EU candidate, Türkiye must balance its traditional Western alliances with strategic and economic interests in China. This balancing act is evident in Türkiye's 2019 decision to procure the Russian S-400 missile defense system. This move led to U.S. sanctions under the Countering America's Adversaries Through Sanctions Act (CAATSA), underscoring the tensions between Türkiye's NATO commitments and its pursuit of ties with Russia, a key Chinese ally.²⁹ The S-400 incident exemplified Türkiye's delicate position as it navigates obligations to the West while deepening cooperation with China, an increasingly influential global power.

As Türkiye's economic and political ties with China grow, it faces the challenge of managing this relationship alongside its traditional alliances. The balancing act between maintaining ties with both the West and China becomes more complex with Türkiye's political instability, driven by domestic economic challenges and regional security concerns. These factors could potentially deter Chinese investments, as China is cautious about investing in politically volatile environments. Thus, while the partnership with China presents significant opportunities, it is also vulnerable to the risks stemming from Türkiye's internal and external challenges.

Conclusion and Recommendations

The growing economic and geopolitical ties between China and Türkiye present substantial opportunities for both nations, with foreign direct investment (FDI) serving as a key driver of this expanding partnership. China's investments in Türkiye have been particularly robust in sectors such as energy, technology, and infrastructure. Chinese companies are involved in critical projects, including energy plants, connectivity, and transportation hubs, which reinforce Türkiye's strategic position as a key player in regional trade networks. The surge in FDI reflects a deepening economic relationship that is contributing to Türkiye's development while also aligning with China's broader regional ambitions.

The energy sector plays a pivotal role in the evolving partnership between China and Türkiye. China's involvement in projects such as the AVIC coal-fired power plant is complemented by a shared focus on sustainable energy solutions. Both countries are exploring avenues for renewable energy cooperation, with a growing emphasis on clean energy initiatives that align with global sustainability goals. As the demand for eco-friendly energy solutions grows, this collaboration could drive economic growth for both nations while advancing a greener future. Nuclear energy lies at the heart of this plan, serving as a cornerstone of Türkiye and China's shared vision for sustainability. By prioritizing nuclear power, both countries aim to lead the clean energy transition, enhancing regional energy security and reinforcing their commitment to reducing carbon emissions.

Türkiye's technological infrastructure has also benefited significantly from Chinese investment. As mentioned before, major Chinese tech firms, including Huawei and ZTE, have made substantial contributions to Türkiye's telecommunications sector, particularly in the deployment of 5G networks.³⁰ These collaborations offers Türkiye the opportunity to enhance its

²⁹ U.S. Department of State. *The United States Sanctions Turkey Under CAATSA 231: Press Statement*. December 14, 2020. <https://2017-2021.state.gov/the-united-states-sanctions-turkey-under-caatsa-231/>.

³⁰ Turcsanyi, Richard, and Eva Kachlikova. 2020. "The BRI and China's Soft Power in Europe: Why Chinese Narratives (Initially) Won." *Journal of Current Chinese Affairs* 49 (1): 58–81.

capabilities in information technology, artificial intelligence (AI), and smart manufacturing, all of which are vital for modernizing its industrial base. Moreover, the potential for research and development (R&D) cooperation and technology transfer could lead to long-term advancements that strengthen Türkiye's position as a technology hub in the region.

Hence, as Chinese investment continues to grow in Türkiye, it is crucial for the country to foster a business environment that supports sustainable, long-term growth. At the same time ensuring that Chinese FDI complements Türkiye's broader economic goals—especially in technology and industrial diversification—will be essential for maintaining a resilient and competitive economy.

Trade and logistics are another cornerstone of the Sino-Turkish relationship. China has invested in Türkiye's port infrastructure, including the Kuport Terminal, a key gateway linking China to European markets. This strategic investment bolsters Türkiye's position as a logistical hub, facilitating trade between China and Europe while enhancing Türkiye's role in the global supply chain. For Türkiye, expanding exports to China—particularly in services such as tourism, logistics, and healthcare—offers promising opportunities for economic growth. Simplifying trade procedures, reducing tariffs, and improving customs efficiency will further enhance the competitiveness of Turkish goods in the Chinese market.

In the financial sector, Chinese banks, such as the Industrial and Commercial Bank of China (ICBC) and the Bank of China, have become key players in financing major infrastructure and energy projects in Türkiye. The expansion of currency swap agreements between the two countries—first initiated in 2012 and expanded to \$6 billion by 2021—has further deepened financial integration. These agreements provide a stable framework for trade and investment, reduce reliance on third-party currencies, and offer resilience against economic fluctuations.

Geopolitically, Türkiye's strategic location at the crossroads of Europe and Asia enhances its importance to China's regional objectives. Türkiye serves as a critical gateway for China to access European markets, significantly strengthening China's economic influence in the region.³¹ This geopolitical significance elevates Türkiye's role within the broader context of China's ambitions, particularly in Eurasia. At the same time, Türkiye must navigate the complex balance of its alliances, as it maintains relations with both Western powers and emerging global actors, including China. As both countries continue to enhance their cooperation, their partnership is likely to play an increasingly important role in shaping the geopolitical dynamics of the region and beyond.

In conclusion, the Sino-Turkish relationship is evolving across multiple sectors, with energy cooperation, technological exchange, infrastructure development, and trade serving as central pillars of this dynamic partnership.³² As both nations work to maximize the benefits of their collaboration, Türkiye must prioritize the diversification of its exports, the strengthening of its technological and industrial sectors, and the management of its economic dependence on China. In turn, China's continued investment in Türkiye's energy, technology, and infrastructure will be critical in deepening bilateral economic integration, paving the way for long-term mutual prosperity. This evolving partnership positions China and Türkiye as key players in the global

³¹ Pekcan, Cemre. "China-Turkey Relations: Conflicting or Colliding Interests?" *Institute for Security and Development Policy*, November 1, 2022. <https://www.isdp.eu/china-turkey-relations-conflicting-or-colliding-interests/>.

³² Öniş, Ziya. "Turkey Under the Challenge of State Capitalism: The Political Economy of the Late AKP Era." *Southeast European and Black Sea Studies* 19, no. 2 (2019): 201–225

economic and geopolitical landscape, with the potential to shape the economic order of the 21st century.

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