

A stylized illustration of a crane in flight, rendered in shades of orange and yellow against a dark background. The crane is positioned in the upper left quadrant of the page. The background features a pattern of wavy lines and a vertical band of horizontal stripes.

ECONOMIC RELATIONS BETWEEN TÜRKİYE AND CHINA

***SECTORAL ROUND
TABLE MEETINGS - 7***

**TRANSPORTATION
AND LOGISTICS**

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SECTORAL ROUND TABLE MEETINGS - 7 TRANSPORTATION AND LOGISTICS

Although the Covid-19 pandemic, which had first appeared in the final days of 2019 and spread to the entire world in the coming months, is now relatively under control thanks to the development and globe-wide implementation of vaccines, the newly emerging variants of the virus and the measures taken to contain them are still having an adverse impact on national economies in various parts of the world. Different sectors of the economy are affected in different ways and to different extents, and since the very early days it has been evident that one of the areas that is hardest hit by the pandemic is transportation and logistics. Restrictions and bottlenecks experienced along the entire range of transportation modes continue to hinder global trade flows. Despite relative improvements recently in parallel with the developments in the fight against the pandemic, this sector is still far from reaching back its pre-pandemic conditions.

Under current circumstances, Türkiye's economic relations with other countries need to be pursued with a vision of collectively recovering from the effects of the pandemic and strengthening international cooperation for the creation of a sustainable global economic structure in the post-pandemic era. As an effort to contribute to this vision, a roundtable meeting was organised with

the participation of representatives of transportation and logistics sectors and relevant public institutions in order to evaluate the current state of Turkish-Chinese economic relations from a sectoral vantage point, and to utilize shared wisdom to come up with solutions for commonly experienced problems through a set of concrete policy recommendations.

An important consensus reached by the participants of the roundtable was that when shaping its relations with China, Türkiye has to first define its own needs and priorities, and then selectively focus on those areas that can also be attractive for the Chinese side, hence establishing a common ground and moving forward accordingly. In addition to the still ongoing pandemic, violent wars including but unfortunately not limited to Ukraine, and a worldwide trend of increasing protectionism are negatively affecting global trade, leading to not only a reduction in trade volumes, but also to changes in the direction of trade. Türkiye must be able to adapt itself to these rapidly changing conditions, and parallel to this, it is also necessary for Türkiye to shape its relations with China around the principle of mutual benefits and to be able to capitalize on its valuable geographic location on China's Belt and Road Initiative to produce concrete outcomes through joint projects. On the

other hand, at a time when geopolitical risks are escalating and heavy fluctuations are experienced in global commodity markets, it is vitally important to strengthen the physical linkages and the means of transportation between countries, placing greater emphasis on the concept of “connectivity.” In this respect, initiatives like the “Global Gateway” undertaken by the European Union (EU) over the period 2021-2027 with a total budget of 300 billion euros are emerging for Türkiye as factors complementing the Belt and Road Initiative, as they aim similarly to facilitate transportation, logistics and energy infrastructures as well as digital linkages around the world.

RAIL CONNECTIONS

Railways and high-speed rail connections constitute the core of the Turkish-Chinese cooperation in transportation and logistics, both actual and potential, and they are also at the heart of the Belt and Road Initiative. In the long term, expanding railroad cooperation with China can help to increase Türkiye’s export potential by improving the country’s rail infrastructure, connecting seaports with the rail network, and enhancing cross-border rail connections in both quality and quantity. However, while pursuing these long-term goals, it will be necessary to address the adversities and uncertainties stemming from the war in Ukraine in the short to medium term as well.

Railroad transportation between China and Europe is in greater demand due to the short supply of containers for maritime transportation and congestion at major

seaports, both of which are the collateral effects of the pandemic. Although the Northern Corridor passing through Russian territory was widely used for transportation along the route until the outbreak of war in Ukraine, with changing conditions Türkiye and the Middle Corridor of which Türkiye forms a part are now becoming a crucial link for rail transportation between China and Europe. This said, it is also important to note that this route is still overwhelmingly used for one-way traffic. According to data released by the Association of International Transportation and Logistics Service Providers (UTİKAD), as of December 14th, 2021, a total of 15 freight trains departed from Türkiye to China, while the number in the opposite direction, i.e. trains from China to Türkiye, numbered 207. The total value of the cargo carried was 52 million dollars in 2020, rising to 110 million dollars in 2021. The Baku-Tbilisi-Kars line, which forms the backbone of the Middle Corridor, is currently carrying 30 thousand containers per year. Only 5 thousand of these containers are destined for China, the freight transported from Türkiye to China is mainly “heavy in weight but light in value” items such as mineral ores and chemicals.

At this point, while there is a common agreement on the benefits for Türkiye of increasing freight transportation along the China-Türkiye-Europe route and ensuring a two-way traffic along this route by using it more effectively for merchandise exports from Türkiye to China as well, a real debate is needed to evaluate the pros and cons of positioning Türkiye as a rail transit hub between China and Europe. Under current circumstances, Türkiye’s railroad capacity is barely sufficient to address

the needs of Turkish exporters. This means that when trains running between China and Europe pass through Türkiye, they use the capacity that is actually needed for cargo transportation by local companies within the country.

The war in Ukraine is widely thought to be increasing Türkiye’s importance in regional logistics. It is true that exporters who used to transport their goods between China and Europe using the northern route are likely to avoid Russia and opt for the Middle Corridor, and this will be particularly the case when transporting high value cargo. However, it still remains a question whether Türkiye’s rail infrastructure has enough capacity to meet such an increasing demand.

In order for Türkiye to position itself as a real and effective logistics hub between China and Europe, its rail infrastructure needs to be improved, its seaports need to be integrated with the rail network to achieve greater efficiency in intermodal transportation, and as a step towards all these goals the private sector needs to be allowed to play a bigger role in railways sector. Currently, most of the investment in Türkiye for railroads is channelled to passenger transportation, while freight transportation receives only a little share. The fact that the private sector cannot effectively enter the railway sector is a major reason why the capacity of rail infrastructure does not increase. On top of all these, as a related factor, the development of logistics centres is a vital need.

As an example illustrating the entire chain, one can think of trains travelling between China and Türkiye. They leave China from four

different points, enter Kazakhstan through Khorgos, pass through Aktau and the Caspian Sea, reaching Baku where containers are loaded onto Azeri rail cars. Another transfer from train to train takes place at Akhalkalaki in Georgia, where goods are loaded on Turkish rail cars. At the end of the Baku-Tbilisi-Kars line, after leaving Kars, the trains can reach all the way to İskenderun and Mersin via Köseköy. For the time being, it takes such a train at least 12 days to arrive from Khorgos to Türkiye, and work is currently in progress to reduce this time to 10 days. Towards this goal, while improvement and modernisation of physical infrastructure is by all means very important, perhaps more important is the cooperation between countries along the route, especially in the area of customs regulations. The Joint Cooperation Protocol for Transportation signed by the member countries of the Organisation of Turkic States in 2013 has proven to be useful in this respect, and more recently at the 5. Transportation Ministers Meeting of the same organisation held on October 14th, 2021, negotiations on a Combined Cargo Transportation Agreement were brought to a final stage. Several advancements to be made possible through this agreement, such as the digitalisation of procedures such as eTIR, ePermit and eCMR will play a key role in facilitating transportation between the said countries. In the meantime, on the logistics side of the whole issue, it is known that 200 rail cars are waiting on hold on any given day at the logistics centre in Kars, and shortage in capacity results in lack of efficiency. This is why it is crucial to have a holistic approach to the development of railroad cooperation and capacity building between Türkiye and China.

MARITIME CONNECTIONS

The most important problem experienced in maritime transportation due to pandemic conditions has been, and to a large extent still is, the skyrocketing fees resulting from a rapid recovery in the demand for containers that was far from being matched by a similarly rapid increase in the supply. Container circulation rates are still below the desired level and while the Turkish ports used to have a balanced workload between export and import transportation until the breakout of the pandemic, they have recently witnessed a rapid deterioration in the sense that export transportation has increased, but import transportations declined, another factor leading to unfavourable container rates.

Kumport, which is located in Ambarlı near Istanbul, a port of which 65 percent stake was purchased back in 2015 by a consortium of Chinese companies led by Cosco Pacific and its capacity was increased with additional investments, continues to experience these problems first hand. Kumport is not only a key pillar of Turkish-Chinese cooperation in maritime logistics, it is also located strategically for operations in the Black Sea, and this is why it is crucial for the port itself and the Turkish economy in general to follow closely the effects of the war in Ukraine in maritime logistics in the region. Since vessels larger than a certain size are not allowed to operate in the Black Sea due to security concerns, Turkish ports are becoming the last point to host these vessels and to process their cargo, meaning that while the limited Black Sea capacity was previously shared by

five littoral countries, now cargo destined for these countries will end up in Türkiye's Black Sea ports, from which they can be possibly carried to their actual destinations on smaller vessels.

While in short to medium term the development of cooperation between Türkiye and China in maritime transportation will take shape within the context of container bottlenecks and the impact of the war in Ukraine on maritime trade routes, the long-term development of this cooperation will depend on whether the number of success stories like Kumport can be increased and whether new Chinese capital can be attracted into Turkish container port investment projects. What matters at this point is to achieve maximum value added for the Turkish economy through such investments, and for this, Türkiye should plan what kind of returns it is expecting from ports developed with China, beyond being solely transit hubs between and the markets of the Black Sea or Europe. With this perspective, it can be possible to determine what the focus of port cooperation with China should be and to take steps accordingly.

ROAD CONNECTIONS

Over the past few years, land routes between China and Europe came to be in higher demand for the transportation of export products, mainly due to the new lines that were launched. For Türkiye, the "Agreement on International Cargo and Passenger Transportation through Land Routes" signed with China in 2017 has been an important

development in this field, and the agreement needs to be implemented actively to produce results. On the other hand, when it comes to freight transportation by road between Türkiye and China, and also from these countries on towards third countries, there are also serious shortcomings that need to be addressed, including the shortage of TIR drivers for such long routes, costs incurring due to TIRs that have to wait in their destination or return empty because of a lack of imports, difficulties in finding TIRs to depart from Türkiye due to increasing demand by exporters, and on top of all these, rapidly rising fuel costs.

AIR CONNECTIONS

There had been significant developments related to air transportation between Türkiye and China before the pandemic, including a steady rise in the frequency of flights, however flights between the two countries came almost to an absolute halt due to the strict restrictions imposed by Chinese authorities on passenger travel to and from China. At the time of press, as of April 15th, 2022, passenger transportation between Türkiye and China was conducted on an extremely limited basis. According to Chinese regulations, flights from the United States and European countries are only allowed to land in Shanghai, while flights from the Gulf and the Middle East countries must use Guangzhou, all with the frequency of no more than one single flight per week. This practice is expected to continue at least until the end of 2022. Turkish Airlines was also flying to China once a week and with Guangzhou

as the destination, however its flights were cancelled until May 3rd, 2022, due to rising cases of Covid-19 in the country.

Despite problems in passenger transportation, cargo transportation to and from China through air routes remained largely untouched by the pandemic. Turkish Airlines is conducting cargo-only flights to China, with a frequency of 28 per week, while at the same time private airlines such as ACT Airlines are also playing a role in third countries' exports to and imports from China by using Hong Kong as a hub. Under these conditions, what matters for Türkiye is to be ready for the time when the pandemic-related restrictions will come to an end passenger transportation between Türkiye and China will resume in full capacity.

SUMMARY AND CONCLUSION

The global economy is going through a period of profound turbulence and uncertainty, and Türkiye has no option but to strengthen its economy in a sustainable manner, advancing its economic relations with other countries including China in a way that would serve this purpose. Within this context, increasing the value added generated by the transportation and logistics sector for the national economy is a basic priority. Developing the physical infrastructure and increasing the capacity, improving predictability and ensuring the appropriate planning of supply chains, enhancing the processes at customs points, and investing in public-private sector partnerships need to be the key objectives for the development of the sector, and cooperation with China can contribute to the fulfilment of these objectives as long as it is planned and implemented adequately with mutual benefits in mind. It is true that joint investment projects between Türkiye and China do not proceed as fast as hoped for because of the pandemic, however it is nevertheless crucial to shape the bilateral cooperation in this field with a view of the post-pandemic period, in a way serving the post-pandemic recovery and normalisation processes of the economies, reviving the cooperation through concrete projects, focusing not only on infrastructure development in the medium to long term, but also on solutions for problems and bottlenecks experienced in the short term.

Propositions such as Türkiye becoming a “bridge” or a “transit hub” between China and Europe need to be assessed by taking

Türkiye’s priorities into consideration, and it should be kept in mind that when using the limited railroad capacity, priority should be given to Türkiye’s own exporters rather than carriers of goods between third countries. The ultimate goal is to establish a logistics infrastructure in Türkiye that is capable of meeting both the domestic and the external demand at the same time, and this goal should be kept in mind when designing and implementing joint investment projects with China.

POLICY RECOMMENDATIONS

1. Seaport and railroad related cooperation between Türkiye and China should focus not only on building new infrastructure or expanding the existing one; it should be planned and implemented with a view on issues like improving productivity, digitalisation, contributing to green transition, and making widespread use of renewable energy in every field.
2. Studies comparing the demand for railroads in domestic export transportation (i.e. Turkish companies carrying their goods from the site of production to the port of shipment) on one hand and the demand for transit use of Turkish railroads (i.e. international companies carrying their goods between China and Europe via Türkiye) should be carried out with medium and long term projections, as this kind of studies can form a basis for setting Türkiye’s priorities and avoiding possible disadvantages for Turkish exporters.
3. While Türkiye wants to consolidate and capitalize on its position on the Middle Corridor between China and Europe, there is fierce competition caused by China’s initiatives like the 16+1 with Central and Eastern European countries and port investment such as those in Piraeus and Alexandria as well. Türkiye has to be able to analyse the competition thoroughly and position itself accordingly.
4. The effect of the war in Ukraine on regional transportation and logistics corridors, the situation that Türkiye is facing in this respect,

as well as emerging opportunities and threats need to be analysed jointly by relevant public and private sector institutions, and an action plan needs to be prepared on the basis of this analysis.

5. Seaport projects in Türkiye need to be re-evaluated under the light of regional dynamics such as Türkiye’s geopolitical position vis-à-vis the changing balances in the region due to the war in Ukraine, the newly emerging economic geography in the Eastern Mediterranean, and the potential for reconstruction in post-conflict Middle East, and they need to be actively communicated to prospective investors from China.
6. Opportunities for cooperating with China for the construction of logistics centres in Türkiye and increasing their capacities should be considered.
7. The brand of Türkiye should be kept alive for Chinese tourists who will visit the country after the air travel restrictions are lifted. Promotion campaigns should continue at full steam, particularly by making use of social media channels.
8. For its rail transportation, Türkiye should focus not only on East-West routes but also on North-South ones. In this respect, development of a line between Samsun and Mersin can be extremely useful.
9. Liberalisation of the railway sector and increasing the share of the private sector in it need to be prioritised.



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