Turkey and the Asian Infrastructure Investment Bank: Economic Pragmatism meets Geopolitics

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Abstract
This article explores Turkey’s expectations for the AIIB as a new multilateral development bank (MDB) and examines the projects that the AIIB has financed in Turkey so far. The main argument is that economic pragmatism, national developmental needs, and geopolitical motivations together explain Turkey’s interest in the AIIB. Ankara initially hoped to attract funds from the AIIB for its connectivity projects in Eurasia. Ankara has also seen the AIIB as an important contributor to its long-standing goal of enhancing Turkey’s national energy supply security. The Bank’s lending in Turkey has so far concentrated on energy sector projects. As of 2019, Turkey is the third largest recipient of AIIB loans. From a geopolitical perspective, Ankara’s interest in the AIIB is part of its recent pivot to Eurasia and its self-identification as a rising power with a growing regional and global crossroads agenda. As such, Ankara’s expectations for the AIIB are also evolving as the Bank’s own agenda is becoming more concrete and as Turkey makes these shifts in its geostrategic positioning.

China’s announcement in 2014 of the establishment of the ‘Asian Infrastructure Investment Bank’, came at a time when Turkey’s ties with its traditional Western allies were deteriorating sharply. Turkey’s EU membership bid had come to a halt due to a host of reasons, shortly after the accession negotiations started in 2005. The 2008–09 global financial crisis and the Eurozone crisis in 2011–12 added to Ankara’s skepticism with regard to the West’s financial power. It was in this context of growing uncertainty in Turkey’s relations with the West and shifts and trouble in the global economy that Ankara welcomed the establishment of the Asian Infrastructure Investment Bank (AIIB) and applied to become a founding member of the Bank in early 2015.

Fast-forward four years later, to 2019, and AIIB senior officials refer to Turkey as a key economy for AIIB lending that offers strong potential for investing in energy and transport connectivity. The AIIB’s Board of Directors has approved up to US$900 million in financing, to date, for three projects in Turkey, the TSKB Sustainable Energy and Infrastructure On-Lending Facility, the Tuz Gölü Gas Storage Expansion project, and the Efelek 97.6 MW Geothermal Power Plant Expansion project. As of 2019, Turkey is the third largest recipient of AIIB loans ‘and we see many additional investment opportunities in Turkey’, according to AIIB Vice President for policy and strategy Joachim von Amsberg (Dündar, 2019).

This essay investigates why Turkey is interested in the AIIB. It explores Turkey’s expectations for the AIIB as a new multilateral development bank (MDB) and examines the projects that the AIIB has financed in Turkey so far. The main argument is that economic pragmatism, national developmental needs, and geopolitical motivations together explain Turkey’s interest in the AIIB. Initially, Ankara saw the AIIB as a key lender for the Belt and Road Initiative (BRI) and a potential source of financing for its own national and regional mega construction and development projects. Ankara hoped to attract funds from the AIIB for its connectivity projects with the Caucasus and Central Asia regions. Ankara has also seen the AIIB as an important contributor to its long-standing goal of enhancing Turkey’s national energy supply security. So far, the AIIB’s lending in Turkey has been concentrated solely on energy sector projects, but there appears to be potential for AIIB lending in other large-scale infrastructure projects. Such an evolution in AIIB support to Turkey would be warmly welcomed by Ankara. From a geopolitical perspective, Ankara’s interest in the AIIB is part of its recent pivot to Eurasia (Erşen and Köstem, 2019), and its self-identification as a rising power with a growing regional and global crossroads agenda. As such, Ankara’s expectations for the AIIB are also evolving as the Bank’s own agenda is becoming more concrete and as Turkey makes these shifts in its geostrategic positioning.

Turkey’s interest in the AIIB: foreign policy, national developmental goals and domestic politics

Ankara welcomed China’s initial commitment to create a new AIIB in order ‘to give adequate voice to emerging and developing countries’ (Chin, 2016, p. 12). Similar to many other developing countries, Turkey also welcomed the AIIB’s exclusive focus on infrastructure investments as opposed to broader developmental issues such as socioeconomic development and poverty reduction (Wilson, 2019). The AIIB’s Treasury fact sheet states that ‘over the coming 3 years, AIIB investments in the energy and transport sectors may represent between 60 per cent and 70 per cent of its exposures’
(AIIB, 2019b). Those targets are in line with Ankara’s expectations for support from the AIIB.

Increased connectivity with the Caucasus and Central Asia has been a priority for Turkish foreign policy since the early 1990s (Köstem, 2019). Various Turkish governments have conceptualized the country as a bridge between the East and West, or between Asia and Europe due to the country’s geographical location (Yanik, 2009). In the 1990s and to a certain extent during the first decade of the 2000s, Turkey and the West (the US and the European Union) worked together in connecting the resource rich countries of the Caucasus and Central Asia to European markets. Turkey was seen by the West as a key actor in carrying the natural resources of the Caspian Basin to European markets and thereby bypassing Russia. This made Turkey a critical country in the so-called East-West Transport Corridor or the ‘New Silk Road’ as envisioned by Turkish, EU and US officials (Petersen, 2007).

The Baku-Tbilisi-Ceyhan pipeline, dubbed the ‘project of the century’, was the first major project that carried Caspian oil to international markets through the Turkish port of Ceyhan. Turkey was also a crucial country in the EU’s Transport Corridor Europe-Caucasus-Asia (TRACECA) project. However, due mainly to the EU’s internal problems and the Eurozone crisis, the EU has gradually lost interest in the Caucasus and Central Asia. In addition, Turkey’s EU membership prospects have deteriorated sharply in the 2010s, leading to a decline in the importance of Turkey in the EU’s regional strategy in Eurasia. Similarly, the US has struggled to define its economic and strategic priorities in the Caucasus and Central Asia. Unlike in the 1990s, the US no longer sees Turkey as a key partner in the post-Soviet space. Taken together, these factors have pushed the Turkish government to find new partners to finance its connectivity projects in Eurasia. In the past few years, China has emerged as a new source of financing for Turkey’s energy and infrastructure projects (Atılı, 2019). The AIIB was established at exactly the time when Turkey’s hopes for working further with the West in regard to connectivity in Eurasia was waning.

In an interview with Xinhua news agency (China) conducted in May 2016, Ayşe Sinirlioğlu, then deputy undersecretary of the Turkish Ministry of Foreign Affairs said that by joining the AIIB as a founding member, Turkey took ‘another important step forward’ in strengthening cooperation with China within the Belt and Road Initiative (BRI) (Xinhua News Agency, 2016). Ankara hoped that the AIIB would fund important infrastructure projects, and basically saw the new Bank as a mechanism to fund BRI projects in Turkey and its neighboring region. It was hoped that the Bank would offer Turkey new opportunities and alternative sources of financing for its mega-projects that connect Turkey to the Caucasus and Central Asian regions.

In the eyes of Turkish decision-makers, the AIIB could also provide new opportunities to revitalize Turkey’s national transportation and logistics project, the Middle Corridor Initiative. The Middle Corridor is an Ankara-led multi-modal transport project that encompasses and connects Turkey, Georgia, Azerbaijan and the Caspian Sea, and ‘traverses through Central Asia and reaches China’ (Ministry of Foreign Affairs, n.d.). Previously, many of the Middle Corridor projects were funded by loans in US dollars from MDBs such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), as well as Japanese and Korean banks. These loans included the mega infrastructure projects such as the Eurasia tunnel and Marmaray railway that connect Asia to Europe under the Bosphorus. More recent infrastructure projects include the Yavuz Sultan Selim bridge on the Bosphorus, the Osman Gazi bridge that spans the Gulf of Izmit, Turkey’s industrial heartland, and the newly built Istanbul Airport. These infrastructure projects were all built using the public-private partnership (PPP) model and were highlighted for Recep Tayyip Erdogan’s campaign for the presidential elections of 2018. At the same time, these projects attracted a lot of criticism from Turkish opposition parties due to the heavy burden that they imposed on the budget and taxpayers, as well as environmental problems.

In fostering closer ties with Beijing, Ankara has suggested that the Middle Corridor is a natural extension of the ‘Silk Road Economic Belt’ (SREB) under the BRI, and offers a cheaper and faster route for Chinese goods to reach European markets. The Turkish Ministry of Foreign Affairs has started to refer to other projects alongside the Baku-Tbilisi-Kars railway, which was completed in 2017, as fundamentals of the Middle Corridor, in which there is ‘natural synergy’ with China’s BRI (see Ministry of Foreign Affairs, n.d.). To formalize this understanding, in November 2015, at the G20 Summit in Antalya (Turkey), the Turkish and Chinese governments signed a ‘Memorandum of Understanding Aligning Silk Road Economic Belt and the 21st Century Maritime Silk Road and the Middle Corridor Initiative.’

Ankara’s interest in the AIIB is also rooted in domestic political reasons. Since the mid-2000s, the Turkish government has made large-scale infrastructure projects and the connectivity agenda a high priority for the country. Erdogan was elected President in Summer 2014, after eleven years serving as Prime Minister. While Turkey’s growth was slowing down, President Erdogan was adamant to transform the country’s long-standing parliamentarian system to presidentialism with few checks and balances on the executive. In Summer 2017, Turkey transitioned to presidentialism after a referendum. One argument that Erdogan and the ruling Justice and Development Party (JDP) have used to argue for presidentialism is that the new system would allow the government to facilitate grand economic projects without having to wait for parliamentary approval or suffering from bureaucratic inefficiency. The Turkish government, therefore, planned to undertake even more major projects in construction, transportation and energy. Ankara hoped that China and the AIIB would emerge as potential funders for Erdogan’s mega-projects.

So far, China’s response to the Middle Corridor has not met Turkey’s hopes and expectations. For example, the Baku-Tbilisi-Kars (BTK) railway, dubbed the ‘Iron Silk Road’ was completed in October 2017. But the project failed to get financing from the World Bank due to resistance from
the Armenian lobby in the US. However, more disappointing for Ankara, China also did not show much interest in the project. Interestingly, not a single Chinese official attended the inauguration ceremony (Köstem, 2019). During his visit to China in July 2019, Erdogan once again emphasized to Chinese President Xi Jinping the importance of Chinese investment for the Turkish economy. In a piece for the Global Times newspaper (Beijing), Erdogan (2019) wrote that ‘Turkey is a strong supporter of the BRI’ and the projects Turkey completed within the Middle Corridor ‘will make valuable contribution to the BRI’. It should not be surprising if, in the future, the Turkish government also asks the AIIB to finance some of the other connectivity projects along the Middle Corridor, and for loans for projects besides the energy sector, where AIIB has focused so far.

So far in 21st century, Turkey’s energy demand growth has been the highest among OECD countries and second highest in the world after China (Ipeki, 2017). More concerning, in the last two decades, Turkey has gradually developed a dependency on imports of natural gas and oil, to meet this fast-growing demand. Therefore, reducing the dependence on imported natural resources, securing national supply and improving efficiency have been strategic tasks for the Turkish government (Erşen & Celikpala, 2019). At the same time, Ankara aspires to benefit from Turkey’s geographical location by turning itself into an energy hub. For example, Turkey is at the central nexus of the EU’s Southern Gas Corridor project, which aims to deliver the energy resources of the Middle East and the Caspian region to European markets.

In particular, the Trans Anatolian Natural Gas Pipeline (TANAP) plays a central role for Turkey’s national energy security and long-standing goal of becoming an energy hub. TANAP was built to carry Azerbaijani natural gas from the Shah Deniz II natural gas field to Europe through Georgia and Turkey. When fully completed, TANAP will deliver 6 billion cubic meters (bcm) of natural gas to the Turkish domestic market and 10 bcm of natural gas to European markets through the Trans Adriatic Pipeline (TAP). TANAP and TAP together constitute the backbone of the Southern Gas Corridor, which is planned to become fully operational in 2020 and will help the EU to reduce its energy dependence on Russian natural gas (Erşen and Celikpala, 2019).

The State Oil Company of Azerbaijan (SOCAR) owns 58 per cent of the shares in the pipeline, while Turkey’s national pipeline company BOTAS owns 30 per cent and British Petroleum (BP) owns the remaining 12 per cent. As discussed below, in addition to trying to attract Chinese investment into Turkey for its national connectivity and infrastructure projects, Ankara is also pleased by AIIB’s financing for transboundary energy projects that also strengthen Turkey’s national energy security and foster its status as a cross-regional energy hub.

**AIIB lending in Turkey**

With a capital contribution of $2.6 billion to the AIIB, Turkey is the eleventh largest contributor to the Bank. This financial contribution plus the AIIB’s share formula give Turkey a 2.54 per cent voting share on the Board of Governors (BoG). Turkey is represented by Berat Albayrak, Minister of Treasury and Finance, as ‘governor’ on the BoG, and Bülent Aksu, Deputy Minister of Treasury and Finance, as ‘alternate governor’ on the BoG.1 An experienced Turkish bureaucrat from the Treasury, Mehmet Alper Batur, serves as one of the twelve directors on the AIIB’s non-resident Board of Directors (BoD), and he is the ‘Director’ (chair representative) of the constituency group that includes Azerbaijan, Brunei Darussalam, Georgia, Kyrgyzstan, Pakistan and Turkey.2 Turkey’s Ministry of Treasury and Finance has been representing the country in official negotiations with the AIIB.

Turkey’s chair on the AIIB BoD provides Ankara with significant influence in the AIIB’s project lending decisions, as the BoD is responsible for approving the Bank’s strategy, annual plan and budget, establishing policies, taking decisions regarding Bank operations, supervising the Bank’s management and operations, and establishing an oversight mechanism (see the Chin Introduction for this collection). So far, the AIIB has provided loans worth $900 million to Turkey for two different projects, which account for about 11 per cent of the Bank’s total amount of approved loans. turkey is the Bank’s third largest investment recipient after India and Indonesia, which have received 28 per cent and 11 per cent of AIIB’s total loans (AIIB 2019b; see the essays by Kumar and Arora, and by Basri).

In line with Ankara’s expectations, the AIIB’s project lending in Turkey has been concentrated, so far, in the energy sector. The AIIB’s biggest loan to Turkey is the expansion of the Tuz Gölü (or Salt Lake) underground gas storage facility in Central Anatolia. This AIIB loan is for a project co-financed with the World Bank, with each lending US$600 million to expand and improve the sustainability of the existing facility. BOTAS, Turkey’s national pipeline company, is the project borrower and implementing agency. This project aims to meet the national policy objective of strengthening Turkey’s energy security by assuring long-term gas supply. The AIIB echoed the country’s national developmental and energy security concerns, when approving the loan, writing that the project responds to the fact that ‘domestic production of natural gas [in Turkey] is insignificant’, and the ‘country relies entirely on imports to meet the domestic consumption of natural gas’; and that ‘Turkey’s heavy dependence on energy imports (mostly oil and gas) constitutes a macroeconomic challenge and an energy security risk’. The main project result, according to the AIIB, is that it will increase the ‘reliability and stability of gas supply [for Turkey] by extending underground gas storage capacity’ (AIIB 2018a: 2). By the mid-2020s, the facility is expected to store 5.4 bcm of natural gas. This would increase Turkey’s total gas storage capacity to about 10 bcm, which would account for an estimated 17 per cent of projected annual gas consumption in the mid-2020s (AIIB, 2018a).

As stated in the AIIB project approval document (AIIB 2018a), the main environmental concern for the Tuz Gölü expansion project is the potential adverse impacts on the Salt Lake. The Salt Lake has been designated a Special...
Environmental Protected Area by the Turkish Ministry of Environment and Urbanization. According to the AIIB, the project’s social concerns include possible impacts on downstream users of Hırfanlı Dam, and potential economic and livelihood impacts due to involuntary land acquisition. It is noteworthy that, the AIIB, in approving the loan, agreed to use the World Bank’s Environmental and Social Safeguard Policies (Safeguard Policies) since, ‘they are consistent with the AIIB’s Articles of Agreement and materially consistent with the provisions of the Bank’s Environmental and Social Policy (ESP) and relevant Environmental and Social Standards (ESSs);’ and ‘the monitoring procedures that the WB has in place to ascertain compliance with its Safeguard Policies are appropriate for use under the AIIB project’ (AIIB 2018a). According to the AIIB, the proposed project has been assigned Category A under the World Bank’s Safeguard Policies, which is consistent with the provisions of the Bank’s ESP. The project’s potential ongoing impacts on the protected area were assessed as part of the World Bank’s original environmental assessment and they were revisited with additional studies in 2013. The World Bank’s assessments concluded ‘there were no significant adverse impacts on the Salt Lake’ (AIIB 2018a, p. 3) The AIIB accepted that during the preparation of the additional finance for the World Bank’s ongoing project, dam safety assurance measures were agreed with the dam operator (State Hydraulic Works or DSI), Electricity Generation Corporation of Turkey (EUAŞ), and the main national project implementor, BOTAŞ, for implementation by the DSI field organization. These measures were updated and revised in line with the WB review and its plans for the proposed project (AIIB 2018a).

The co-financing arrangements for the Tuz Gölü project demonstrate Turkey’s pragmatism in attracting funds for its infrastructure projects. The co-financing also serves the AIIB and China’s interests as an example of how the AIIB is not a direct rival to the World Bank and the Asian Development Bank; evidence that the AIIB is willing to pursue co-financing with the established MDBs and play by existing rules (Akçadağ Alagoz, 2018; see the Freeman essay in this collection). This multiple-win situation has allowed Ankara to pursue alternative and additional sources of financing for its national energy and connectivity projects without alienating its traditional donors. The World Bank is the lead co-financier of the Tuz Gölü gas storage project and has played the key role in determining crucial dimensions of the project including procurement, disbursement, environmental and social safeguards compliance, as well as monitoring and reporting. In addition, the Islamic Development Bank has provided a $300 million loan for the project, and the remaining costs will be financed by commercial loans worth $450 million, and another $735 million will be invested by BOTAŞ, the main borrower and national implementing agency for the project.

Broader geo-economic considerations related to Tuz Gölü project were alluded to, when former Minister of Energy and current Minister of Treasury and Finance Berat Albayrak, said at the financing agreement ceremony in June 2018, that the gas storage facility will strengthen Turkey’s bid to become a ‘natural gas trade center’ (Đunya, 2018). Albayrak also referred to TANAP, TurkStream, and LNG terminals as other projects that contribute to Turkey’s energy hub goal, alongside the Tuz Gölü gas storage facility.

The AIIB’s second project loan in Turkey is for the TSKB (Turkish Industrial Development Bank) Sustainable Energy and Infrastructure On-lending Facility. The AIIB project loan foresees the creation of a sovereign-backed loan facility, for an amount of up to US$ 200 million to TSKB. The main borrower and implementing agency is Turkiye Sinai Kalkınma Bankası A.Ş. (TSKB), Turkey’s first privately owned development and investment bank and a leading investor in the Turkish infrastructure sector, particularly in renewable energy projects (AIIB 2018b). In approving the project, the AIIB noted that Turkey has been facing worsening macroeconomic conditions, slowing growth, stagnating income growth, and rising unemployment since 2012; and more recently, increasing currency volatility. The country needs to re-stabilize and grow the economy if Turkey is to continue to ‘progress toward reaching high-income status and reducing income inequality’ (AIIB 2018b, p. 1). The main objective of this AIIB project is to ‘support sustainable infrastructure development’ in Turkey through providing a ‘long-term source of financing.’ The project is understood by the Bank to be ‘well-aligned’ with the AIIB’s mandate to, first, ‘foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors’, and second, ‘promote regional cooperation and partnership in addressing development challenges by fostering partnerships with commercial and development banks such as the Borrower’ (AIIB 2018b, p. 2). According to the AIIB, loan proceeds will be primarily used to finance ‘renewable energy projects (including solar, hydropower, wind, geothermal and biomass), energy efficiency projects’ and to a ‘smaller extent, in other infrastructure fields such as transport, water management and treatment, power transmission and telecommunications’ (AIIB 2018b, p. 2).

Importantly for Ankara, the AIIB’s loans provide a measure of respect for Turkey’s national and regulatory sovereignty, in that the AIIB has agreed to delegate to the ‘Borrower [TSKB] the decision-making on the use of AIIB funds insofar as the projects meet the eligibility criteria and environmental and social (E&S) conditions agreed with AIIB, including the selection, appraisal, approval and monitoring of the Sub-projects’ (AIIB 2018b, p. 2). However, the AIIB has retained the ‘right to conduct prior review of the E&S due diligence of the Sub-projects’, throughout the course of the facility by engaging with TSKB. According to the AIIB, TSKB has developed an ‘extensive environmental, social and governance management system’ with individual policies on sustainability, environmental and social impact, human rights, occupational health and safety and anti-bribery and corruption.

For the Turkish government, this AIIB project is especially important because it supports the priority that the government has placed on promoting infrastructure growth, and
The pursuit of multiple public-private partnerships, by offering guarantees to lower the risk threshold for private investors in the sector (AIIB 2018b). The Turkish government, moving ‘in concert’ with the AIIB’s mission, and the G20 efforts to increase private sector investment in infrastructure development, sees the domestic banking sector as playing a ‘key role in bridging the gap between financing needs and available financial resources of the government and private sector (especially when it comes to long-term capital needed for infrastructure investments’ (AIIB 2018b, p. 1).

TSKB was established in 1950, as Turkey’s first privately owned development and investment bank, and it concentrates on infrastructure investments, and particularly renewable energy. As of 2018, 50.65 per cent of the TSKB’s shares are held by the Turkiye İş Bankası Group, the largest private commercial bank in Turkey; the second largest shareholder is Turkiye Vakıflar Bankası, with 8.38 per cent, and the remainder is minor holdings of other institutional shareholders and free-float trades on the Turkish stock market, Borsa İstanbul. According to TSKB, the Bank will use the sovereign-backed loan to finance private sector renewable energy projects including solar, hydropower, wind, geothermal and biomass. While the AIIB is the only financier in this project, TSKB has also worked on other sustainable and renewable energy projects with other multilateral development banks.5 Since 2004, the World Bank has provided a $2.9 billion loan for TSKB’s projects, followed by the European Investment Bank with a $2 billion loan, and the Council of Europe Development Bank with a $584 million loan.

The AIIB’s third project in Turkey is a US$ 100 million loan to Gürmat Elektrik Uretim A.S., for the Efeler 97.6MW Geothermal Power Plant Expansion Project (Gürmat-2 GPP Expansion or the Project). The AIIB loan is part of a US$ 350 million project finance facility alongside the European Bank for Reconstruction and Development (EBRD), Türkiye İş Bankası, Türkiye Sanayi ve Kalkınma Bankası and the Black Sea Trade and Development Bank, to support the construction and operation of the Efeler 97.6MW Geothermal Power Plant expansion. The goal of the entire Project is to increase power generation of renewable geothermal resources in Turkey (AIIB 2019c). The AIIB Project will help Gürüş Holding, a Turkish conglomerate with interests in the construction, energy, and industrial sectors, to expand its renewable capacity, support the development of geothermal energy in Turkey, and mobilize private capital into the country’s renewable energy sector (AIIB 2019c). The intended results of the Gürmat-2 GPP Expansion project are, first, to complete the construction of the Project and add 97.6 MWe of installed capacity by November 2020; second, achieve a stable baseload geothermal power generation level of at least 810 GWh per annum from 2022; and third, help mobilize commercial co-financing from commercial lenders.

The AIIB notes that the Gürmat-2 GPP Expansion Project, comprising Efe-6, Efe-7 and Efe-8 GPP units, is co-financed with the EBRD, and has been prepared in accordance with the EBRD Environmental and Social Policy (E&S Policy) and the EBRD Performance Requirements (AIIB 2019c). According to the EBRD E&S Policy, the main project risks are associated with the over-ground network of connecting pipelines, their location near populated areas and agricultural land, cumulative land acquisition for the Company’s geothermal power plants, and operational carbon dioxide (CO2) and hydrogen sulfide (H2S) emissions. The EBRD does state that the indirect, cumulative and induced social impacts related to these risks may affect areas larger than the sites or the physical works and planned operations of the Project. The AIIB noted that the EBRD is ‘cooperating with the Ministry of Environment and Urbanization’s efforts to complete by end-2019 a Cumulative Impact Assessment of Turkey’s geothermal resources exploration and development to address the concerns of civil society organizations (CSOs) and standardize best E&S practices for the sector and reduce cumulative impacts’ (AIIB 2019c).

There is one further AIIB project, that is also co-financed together with the World Bank, the Trans Anatolian Natural Gas Pipeline (TANAP) Project, which is of crucial importance to Turkey, even though the AIIB’s project financing here is to an Azerbaijani company. The AIIB loan of US$ 600 million, and the World Bank’s US$800 million loan, are to the project borrower, Azerbaijan’s Southern Gas Corridor Joint Stock Company (SGC). The implementing agency is TANAP Natural Gas Transmission Company, but Turkey is the host country for pipeline project. The Southern Gas Corridor Program connects gas fields in Azerbaijan and transmits the gas through Georgia, Turkey, Greece and Albania to Italy (AIIB 2016). The program consists of several infrastructure projects aiming to improve the security and diversity of the energy supply of Turkey and the EU by bringing natural gas from the Caspian region to Europe for the first time. The World Bank estimated that the entire program would cost US$ 8.6 billion. As a part of the Southern Gas Corridor Program (the Program), TANAP will transport natural gas extracted from the Shah Deniz 2 field located in the Caspian Sea in Azerbaijan across Turkey and then to the South and Eastern European market, mostly Italy. The TANAP project, a 1,850 km pipeline, represents 53 per cent of the total 3,500 km of pipeline to be constructed under the Southern Gas Corridor Program.

TANAP’s development objectives are, first, to integrate Azerbaijan with regional and European energy markets by strengthening its connectivity and transit role; second, diversify Azerbaijan’s gas export markets; and third, improve the energy supply security of Turkey and South Eastern Europe (AIIB 2016). AIIB and the World Bank, with the latter as lead
co-financier, are supporting the Program, along with other international financial institutions (IFIs) including the Asian Development Bank (ADB), EBRD and EIB, due to the broader regional strategic significance of the Southern Gas Corridor Program, of which TANAP is one project.

The AIIB agreed to use the World Bank’s procurement policy, and its Environmental and Social Safeguard Policies (ESSP) for the implementation of the project, ‘since they are consistent with AIIB’s Articles of Agreement and materially consistent with the provisions of AIIB’s Environmental and Social Policy and relevant Environmental and Social Standards’, and because the ‘monitoring procedures that the World Bank has in place to ascertain compliance with the WB ESSP are appropriate for the project’ (AIIB 2016). If the AIIB loan for the TANAP Project is included in the calculations of the AIIB’s support to Turkey, then the total amount for Turkey reached more than $1.5 billion by July 2019, or about 17.5 per cent of the AIIB’s total investments of $8.53 billion in all countries.

Conclusions

The main premise of this essay is that Turkey’s interest in the AIIB reflect a combination of economic pragmatism, national developmental needs, and Turkey’s recent geopolitical pivot to Eurasia. When it applied for membership in 2015, Ankara viewed the AIIB largely as a Chinese-led regional project that would fund Belt and Road projects in Turkey. In regard to geopolitics, Turkey pursued closer cooperation with China and active participation in the AIIB amidst deteriorating ties with the US and the EU. Ankara’s strategic repositioning may also explain why Erdogan and the Turkish government have been noticeably quiet on Beijing’s treatment of Uighurs and other Muslim Turkic minorities in the Xinjiang Uighur Autonomous Region.

The AIIB has not disappointed Ankara in terms of supporting its strategic national and regional agendas. In January 2019, in concurrence with Ankara’s policies, AIIB Vice President for Strategy & Policy Joachim von Amsberg explained the Bank’s strategic support to Turkey and its programs to foster a better integrated and interconnected regional network such as the regional energy hub concept: ‘It is critical to enhance cross-border transmission of energy, which is central to matching supply and demand across geographies. A big part of creating a regional energy hub, and a large investment opportunity, will be to build these long-distance transmission lines to export this power to neighboring countries’ (Daily Sabah 2019).

However, it is also important to recognize that over time, the AIIB’s agenda has itself evolved and become more concrete, and its interests in Turkey are also seemingly changing. Ankara’s expectations for the Bank also appear to be evolving. The AIIB’s first project in Turkey, the Tuz Gölü Project, and the TANAP project in Azerbaijan were in non-renewable energy. However, the other two projects that the AIIB has approved for Turkey, TSKB Sustainable Energy and Infrastructure On-lending Facility and the Efeler Geothermal Power Plant Expansion Project, are in renewable energy. So is the next project that is now being considering at the AIIB for Turkey: Türkiye Kalkınma Bankası (Turkey Development Bank) or TKYB (also TKB) infrastructure on-lending facility. Similar to the ongoing TSKB project, this next project will also be a sovereign-backed loan for up to US$100 million. This facility will be primarily used to finance mid-sized renewable energy projects undertaken together with the private sector.6

When the AIIB held an event in Istanbul in March 2019 to reach out to potential investment partners, AIIB Vice President von Amsberg highlighted that the AIIB sees a lot of ‘potential for investing in renewable energy and energy efficiency, as well as transport connectivity across Turkey’s European and Asian neighbors’ (Dündar, 2019). He added that some 15 per cent of the Bank’s investments might flow to Turkey in the next few years (Daily Sabah, 2019). These statements are suggestive of changes in the pattern or focus in the AIIB’s project lending in Turkey, from non-renewables to renewables.

It would be naïve, however, to expect the AIIB to fund Turkey’s mega national construction projects if the current financial situation in Turkey endures. In the AIIB’s inaugural and recently published Asian Infrastructure Finance Report, the Bank praises the Turkish government’s commitment to infrastructure investments, and notes that Turkey has spent nearly $100 billion in the last 15 years to build new railways, roadways, tunnels, bridges and airports, and that the government plans to spend another $325 billion over the next five years. However, the report also questions Ankara’s capability to realize the investment because of Turkey’s current macroeconomic and financial problems. The report notes that, in the near-term, the macroeconomic environment, currency depreciation, and rise in interest rates will weaken the outlook for Turkey’s construction sector. The sharp decline in the value of the Turkish lira in Summer 2018 has exacerbated the already growing private sector debt. As the report indicates, this has raised concerns about the vulnerability of Turkey’s banks due to their dependence on external financing (AIIB, 2019a, pp. 45-48). Interestingly, the country’s heavy reliance on imports for construction materials, the depreciation of the Turkish lira, and the projected increases in construction costs were also noted by the AIIB’s von Amsberg as potential issues of concern (Dündar, 2019).

In fact, since Autumn 2018, the government has postponed a number of its planned infrastructure and energy investments. The AIIB report acknowledges that the slowdown in growth and the currency crisis have impacted the nation’s ability to build power and transport projects that are in the current pipeline (AIIB, 2019a, p. 85). However, von Amsberg emphasizes ‘this is where multilateral development banks like AIIB must step up with additional capital, practical solutions, data and insights to help sustain a higher level of infrastructure investment during challenging economic times’ (Daily Sabah 2019). It is the AIIB’s intention that, as its member governments grapple with macroeconomic stabilization and sustaining high level infrastructure investment to meet growing demands, the Bank will develop strategies to help its members to respond to short and
long-term challenges in infrastructure development, including providing good data to help national policymakers and investors to track the development of infrastructure markets, to help facilitate high-quality discussion among key players. It is still early days for the AIIB in providing this type of advice, and only time will tell whether it can fully deliver, especially for an economy the size of Turkey.

The AIIB remains of the view that there continues to be long-term infrastructure investment opportunities in Turkey, despite the recent market uncertainty and short-term challenges. Moreover, Turkey’s ‘relatively developed financial markets, and the public-private partnership model, can help the private sector sustain infrastructure investment through the challenging environment’ according to von Ambsberg (Dündar, 2019). So far, however, the AIIB has played a safe game in Turkey, focusing its lending to the energy sector, and for projects that are also supported by the World Bank and other established MDBs (see the Freeman essay on AIIB-World Bank and MDBs partnerships). It would be unrealistic to expect a sea change in the AIIB’s approach to Turkey, or in its lending to Turkey, in the foreseeable future. On a final note, considering the policy emphasis that the AIIB has put onto building closer ties between Asia and Europe, it is also worthwhile considering that Ankara could benefit more from the AIIB if it normalized its relations with Europe, which is also Turkey’s major trading partner and source of investment. Moreover, the European member countries form two large voting groups on the AIIB’s Boards and hold two-of-twelve chairs on the influential BoD (see the Gabusi essay), and as such, also have a significant voice in the discussions over the funding decisions of the AIIB along with the Asian members.

Notes

References


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