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Review Article

China's Capital Export Within the through of Belt and Road Initiative: A Model Application for Turkey

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Abstract - *In today's world, where the global balance has shifted from Atlantic to Pacific, China is the most important and leading country of this change. According to some economists, Belt and Road Initiative is the most important project in China in carrying out this change. Increasing worker wages, Made In China 2025 concept, and high savings rates of Chinese people have to lead to a great capital surplus. Belt and Road initiative can be defined as China's effort to export this capital surplus. One of the main aims of BRI is sharing the capital surplus with the world in the manner of infrastructure investments and through the export of other labor-intensive industries to developing countries include Turkey, within a mutual benefit basis. In this study, the reasons underlying China's capital exports will be brought to light via a LED and energy-saving bulb production enterprise founded in Turkey with Chinese capital while explaining Turkey's investment environment, advantages provided to foreign investors in Turkey through the foundation stages of this enterprise. Also, the enterprise utilized the Turkish Investment Incentive System. Enterprise was founded in Şanlıurfa province and has utilized Region 6 incentives. Additionally, problems that occurred during the foundation process and their solution methods will be emphasized.*

Keywords - *Capital Export, Foreign Capital, China, Belt and Road, International Trade*

I. INTRODUCTION

China State Council ratified two main action plans in 2015 regarding Belt and Road Initiative: Silk Road Economic Belt and 21st Century Maritime Silk Road. According to the project, the Silk Road Economic Belt includes six corridors. These are New Eurasia Land Bridge from Western China to Western Russia, China-Mongolia-Russia Corridor from Northern China to Eastern Russia, China-Middle Asia-Western Asia Corridor from Western China to Turkey, China-Indochina Peninsula Corridor from Southern China to Singapore,Bangladesh-China-Myanmar Corridor from Southern China to Myanmar, and China-Pakistan Corridor from South-western China to Pakistan. 21st Century Maritime Silk Road is projected to form connections between regional waterways spanning from China's eastern and southern coasts to the Indian Ocean and Africa and from Hormuz Strait to the Mediterranean[1–3].

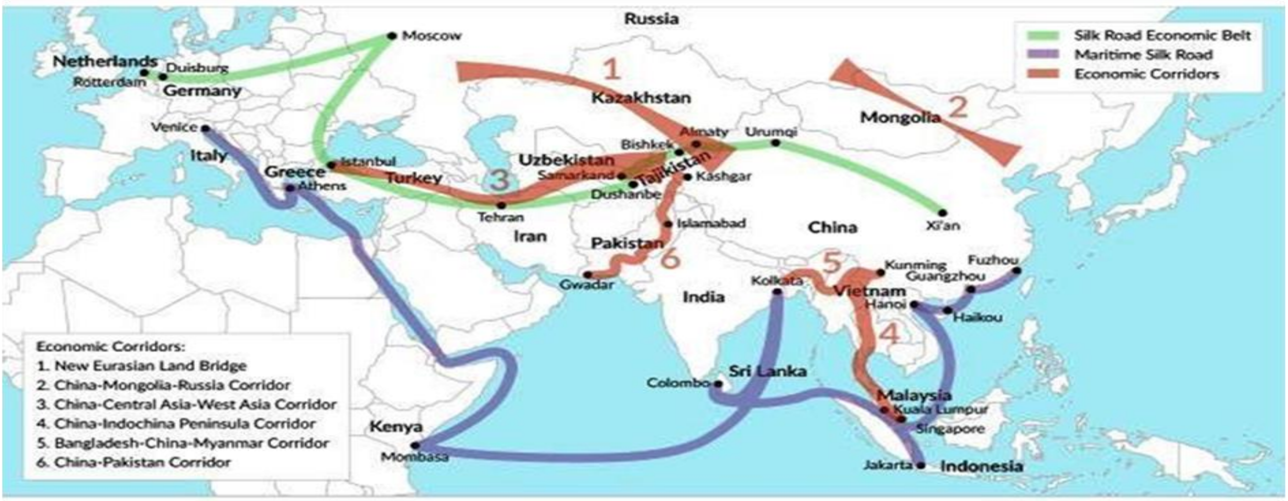

Fig. 1 BRI and Six Corridors [3]

More than 60 countries with Gross National Product (GNP) totaling 21 trillion $ have stated their intentions to participate in Belt and Road Initiative. The project involves countries that makeup approximately 65% of the world population, one-third of world GNP, and one-fourth of all goods and services movements. Various institutions have been established to finance the Initiative. For example, Asia Infrastructure Investment Bank (AIIB) with 100 billion $ capital, one-third of which is provided by China, Silk Road Fund with a capital of 40 billion $ and New Development Bank with 100 billion $ investment capital [3].

Looking at the original full text of the Belt and Road Initiative, it is seen that the word mutual is used 18 times. Alongside this, words mutual learning and cooperation are used 45 times. When we look at these details and the spirit of the full text, it is seen that Belt and Road Initiative is worthy of attention not only because of its economic aspect but also because it is a new paradigm[4]. Since the start of the Initiative, infrastructure investments amounting to 300 billion $ have been made, and in the following 20 years, this amount is projected to reach one trillion $.

Belt and Road Initiative should not be considered as a project with solely economic aspects. This initiative, considering the philosophy at its foundation, has the aim of creating a new world. Although Western Philosophy, also known as modern philosophy, is uncreative, restricted, and xenophobic, it is acknowledged as the mainstream philosophy in the world currently. And although it is acknowledged as the mainstream philosophy, it ignores Chinese, Indian, African philosophies, in short, all philosophies except itself. It has always aimed to teach somethings to them instead of learning from them.

Countries of the Belt and Road have their own resource advantages, and their economies complement each other. Thus, they have a great potential for cooperation. This will support coordination of policies, the connection of facilities, free trade, financial consolidation, and developing human relations as the five main targets and will strengthen the cooperation.

II. MOTIVATION OF BELT AND ROAD INITIATIVE

Shortly after World War II, with its capital surplus after the war, the USA provided European countries with large financial and economic boosts within the scope of the project called the Marshall Plan in order to revitalize the collapsed economies of Europe and establish new markets. Today, although China has different motivations and practices, Belt and Road Initiative follows the same method.

Since its reform and openness policies, using the advantages of backwardness (Advantage of Backwardness: Less developed economies can get technologies, business models, and marketing procedures from more advanced economies; and imitation may be easier and faster than innovation on which the leading economies have torely.

In literature, it is called "advantage of backwardness" [5]. China has become the world's factory in regard to the production of labor-intensive goods. Recently, rapidly increasing worker wages in China have started to eradicate the mutual advantage of labor with other developing and less developed countries. The per capita income of other countries in the Belt and Road Initiative is less than China. Thus, the fact that China transfers its labor-intensive production to these countries is seen by them as an ideal situation for both China and themselves. In another sense, the advantage of under-development has shifted from China to other countries in the region. Infrastructure investments and factories that will be built for labor-intensive production will decrease unemployment and increase the exports of Belt and Road countries.

In the '60s, when Japan relocated its labor-intensive production to foreign countries, 9.7 million Japanese had been working in those sectors. In the '80s, four Asian tigers relocated their labor-intensive production to foreign countries in the same manner. These countries have carried on their development by moving from labor-intensive production to capital-intensive sectors since those dates. With this aim, within Made in China 2025 concept, China also wants to undertake this transformation Japan and Korea carried out successfully [6].

III. CAUSES THAT LAY THE GROUND FOR CAPITAL EXPORT WITHIN THE SCOPE OF BELT AND ROAD INITIATIVE

Belt and Road Initiative has been designed on the grounds of mutual profit and interest. Alongside this, the current global economic situation and some circumstances and transformations in China's economy have been influential in choosing the method for the Initiative. These circumstances and transformations are explained in the following:

A. China's Capital Surplus

The 2008 global financial crisis led to a decrease in the demand for Chinese goods, and consequently, the demand for certain goods that are produced in China decreased. Alongside this, great incentives and capital support are given by regional governments to those who want to build factories to produce and increase the supply of these goods. As a result, excess capacity emerged in some industries in China. Considering increasing worker wages and a high savings rate, it is seen that a serious amount of capital has been amassed in China. We will study these reasons below.

B. Excess Capacity

China's infrastructure building work with other countries and relative advantages in areas like construction products industry etc. lifted it to an advantageous position compared to other countries.China produces more than half of the construction products in the world annually, including cement and steel. China's construction engineering companies are amongst its most capable and competitive companies. But the economic stagnation that emerged after the 2008 crisis caused an excess capacity in China. Figure 2. Shows worlded cement production in 2016, and you can see considerable China's share.

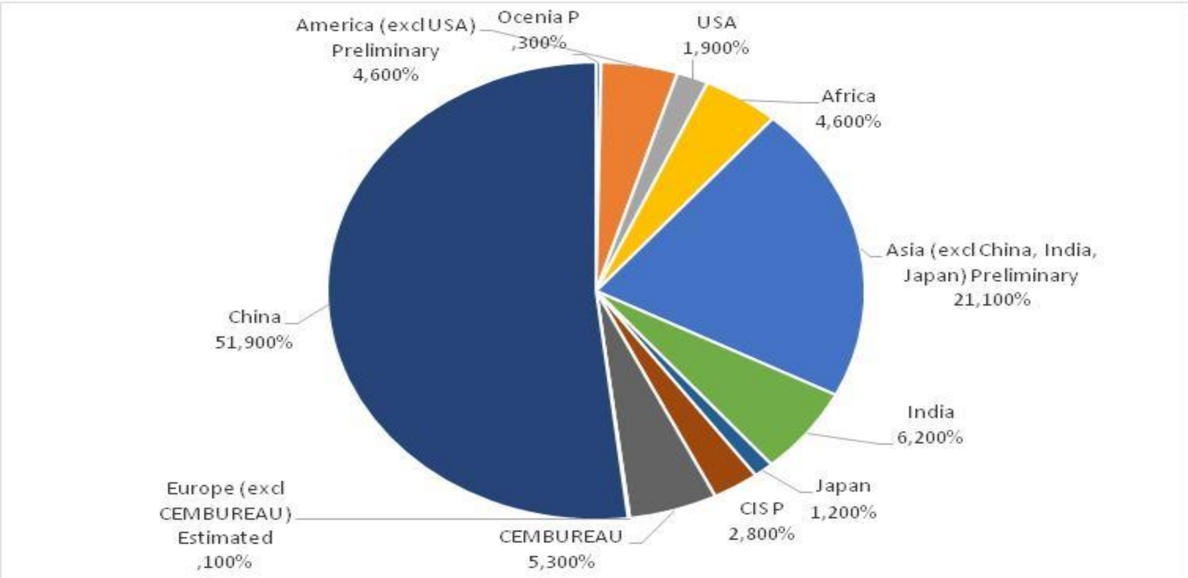

Fig. 2 World Cement Production 2017 [7]

Excess capacity is the situation in which a company produces less than it could. When the demand for the goods and services of a company is less than the company's production capacity, the company has to produce less than it could [8].

China's excess capacity problem, despite not being exclusive to China, may lead to devastating results both for the economy of the country and the global economy. The financial crisis, which started in 2008 and has been showing its impact since 2009, led to a decrease in the demand from developed Western countries to Chinese goods, while the Chinese government's recovery package leads to a further increase of the capacity surplus by causing the construction of new facilities[9].These new companies are supported financially as a consequence of China's recovery packages. As a result, they have become "zombie" companies that do not profit but continue to operate due to financial aid[10]. The main reason behind the excess capacity in China's investment-basedgrowth model. Although there is excess capacity in many industries in China, the growth rate has started to decelerate. This situation has further increased the stagnation in global commodity prices since 2014 and has decreased China's potential to steer these prices. Alongside this, China is headed to become one of the biggest capital-exporting countries of the world in these new conditions[11].

Prior to the 2008 financial crisis, Chinese producers were able to mitigate this trade surplus at the local level by directing it to exports. This functioned as a "security valve" for Chinese producers in a sense [12].

According to some experts, this excess capacity in China has started to increase as a result of blind and unnecessary investments of the Beijing government. To solve this situation, XuBeijing, head of the China Iron and Steel Association, has stated that incentivizing consumption by increasing and extending new consumption possibilities and directing labor-intensive industries abroad would solve an excess capacity problem[13].

C. Made in China 2025

Many labor-intensive industries have been moving to countries that have relative labor superiority other than China due to the Made in China 2025 concept, which pursues quality rather than quantity in production as a result of changing environmental, demographic, and economic factors as well as increasing wages and the working population which has decreased due to the single child policy in the past.

To that end, with the concept of Made in China 2025, China also wants to carry out the transformation Japan and Korea achieved.

China, to incentivize the transformation and renovation of innovative manufacturing industry with its "Made in China 2025" strategy, aims for production at the top levels of the global production value chain with high added-value rather than resource-dependent, environmentally hazardous production through a conventional method which is labor and capital intensive and is at the lower spots of the global production value chain. According to the statement of China's Secretary of Industry and Information,ShaNansheng, "China's aim to become an industrial power center can only be achieved through strong brand creation and quality assurance". With the idea of "from made in China to created in China", China now wants to become a country that produces new products with innovation and technology rather than being the world's cheap goods-producing factory. The concrete form of this idea is the "Made in China 2025" strategy[14–16].

D. Increasing Wages

China is the world's leading country in the area of labor-intensive production. China produces approximately half of the consumption of goods such as shoes, clothes, and furniture. Most of the products labeled Made in America or Made in Japan are also assembled in China[17].

"China price" refers to the goods that are produced in China and sold in every market. However, this also means unemployment for Americans and labor working in labor-intensive industries in other countries of the world.

However, China, where labor had been cheap for many years, has lost its so-called relative labor advantage against other countries due to the annually and continuously increasing monthly wages.

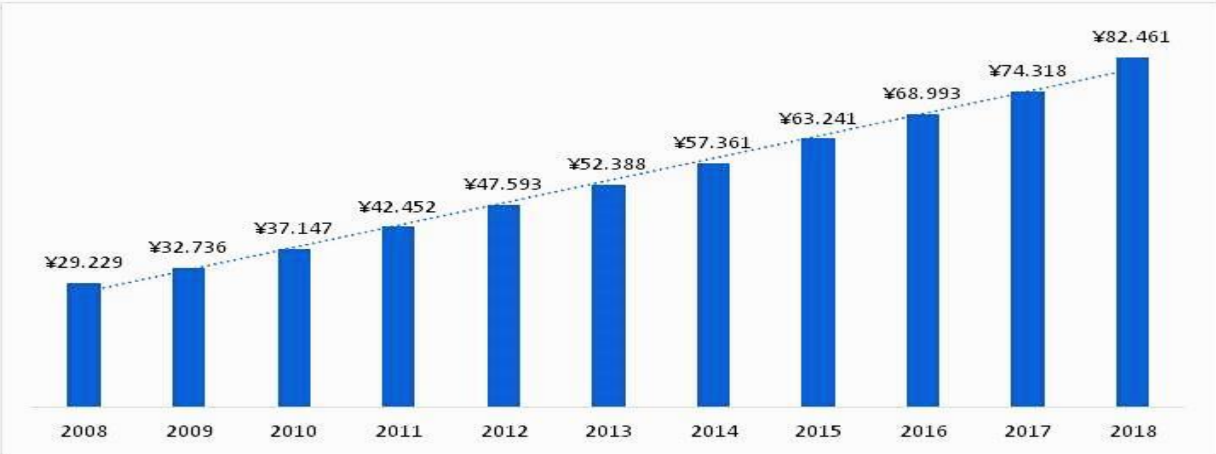

Fig. 3 China Average Yearly Wages [18]

Due to the before-mentioned reasons, China aims to decrease this excess capacity surplus in its home through infrastructure investments in countries that intend to use their underdevelopment advantages via the Belt and Road Initiative and also aims to use its large amount of savings in financing the projects and investments in those countries.Additionally, due to increased worker wages and the concept of Made in China, which aims for a more environmentally friendly production and new product designs based on innovation, China intends to move its labor-intensive industries to economically underdeveloped countries.

IV. TURKEY'S EXAMPLE WITHIN THE CONCEPT OF BELT AND ROADINITIATIVE

In this chapter, investments between Turkey and China will be examined briefly and subsequently as an example of China's capital export to Turkey within the concept of Belt and Road, the foundation stages of OCIDA Lighting will be explained.

A. Chinese Investments in Turkey

The number of companies with Chinese origin investing in Turkey is as follows: 55 in 2012, 71 in 2013, 96 in 2014, 95 in 2015, 84 in 2016, and 79 in the first 11 months of 2017. Since 2010 giant banks of China, Bank of China and ICBC, have made an effort to branch in Turkey [19].

Chinese technology giant Huawei has ongoing technological infrastructure efforts with Turkcell. R&D giant ZTE has also started a mutual project with Netaş[20]. Within the scope of the Silk Road Project's Maritime Silk Road branch, which is expected to cost 4 trillion $, the majority of shares of the Kumportharbor in Ambarlı have been sold to the Chinese[21–24]. But when we look at the foreign trade between China and Turkey, we see a large deficit in favor of China.The foreign trade balance between Turkey and China was nearly 21 billion $ in favor of China in 2018[23,25]. China's percentage of indirect foreign capital amount towards Turkey doesn't surpass 2-4%, unfortunately. But within the scope of the Belt and Road Initiative, capital inflow and greenfield type investments are expected to increase.

B. OCIDA Lighting Company's Decision to Invest in Turkey

ZhongshanOcida Lighting was founded in 2004 as a company that produces energy-saving bulbs. In this field, the company has exported bulbs to all parts of the world, and in the last five years, it has focused on new products that include Wi-Fi and Bluetooth technologies in the field of LED technologies. As of the end of 2017, the company has transferred a large part of its energy-saving bulb production to Turkey. What lies behind this decision is as follows;

- In recent years, incentives and financial boosts are given by Chinese commonwealth governments led to the foundation of many new companies in the same sector. Excess production has caused excess competition.

- The fact that energy-saving bulb production is a labor-intensive production field and increasing worker wages are causing a decline in the lucrativeness of Chinese companies in the wake of this.
- The fact that the company has shifted its focus from energy-saving bulb production, which is a relatively old technology, to new lighting types of equipment that work with Wi-Fi and Bluetooth and advanced LED technology and the capital intensive and innovation-focused new product range.
- Worker wages in Turkey are less compared to wages in China. In Turkey, the net minimum wage in August 2018 was approximately 267$ monthly. (1$=6 TL).
- Turkey's advantage of Access to the markets stems from its proximity to the Middle East, Northern Africa, and Europe.
- Turkey's investment incentive system advantage: Turkey is an attractive country for foreign investors due to the legislation offering many opportunities for foreign investors. One of the important opportunities in the investment incentive systems that encourages, supports, and Orient investments in order to reduce regional disparities within the country. The other purpose of the investment incentives is to create new employment opportunities. Turkey is divided into six regions in order to determine region-specific incentives. Enterprise was founded in Şanlıurfa, which has been utilized Region 6 incentives such as corporate tax reduction, VAT exemption, VAT refund, customs duty exemption, social security Premium support, interest rate support.

Region 6 incentives, which detailed information can be found about region 6 incentives and Turkish Incentive System in general terms in Republic of Turkey Ministry of Economy Turkish's website [26].

C. Foundation Stages of the Company

In Şanlıurfa province in southern Turkey, 2 Turkish and 2 Chinese citizens representing the OCIDA Companyfounded OCIDA GrupAydınlatmaLtd.Co. on 12.21.2017. Some problems were encountered during the foundation stage of the company even though legal procedures in Turkey for founding a foreign-capitalized company have both been minimized and rendered more understandable to bring foreign capital to the country.

One of the problems was that the Turkish officials who were supposed to apply the procedures for founding foreign-capitalized companies actually didn't know much about them. But thanks to the interventions of senior officials and the flexible approach of the officials, the legal foundation stage of the company lasted four days.

Another problem is that the Chinese partners can't speak any language other than Chinese (their interpreters can only interpret in English) and consecutively the difficulty of finding certified Chinese interpreters in the region during the official approval stage of the documents. These problems were solved via the interpreters brought from other metropolitan cities during the procedures.

Due to political and cultural differences, there were challenges for Chinese partners in understanding the status, rights, and obligations they received in Turkey. Communication and mutual trust have facilitated the solution of the problems.

Foundation stages are as follows:

- The company's foundation legally materialized following the arrangement of articles of incorporation, designation of the tax identification number for foreigners, registering in Turkish Trade Registry and notary certified translation procedures, and completing legal procedures with authorized signatures, etc. İn approximately four days even though mentioned some problems above.
- The company's capital is specified as 1,000,000 $ 500,000 $ of which is provided by Turkish shareholders and the other 500,000 $ of which is provided by Chinese shareholders. The company's daily production rate is 50,000 pieces/day.
- The company has notified the Organized Industry Regional directorate that an inactive factory, where energy-saving bulb production will be carried, on an area size of 1.25 acres in 2nd Organized Industrial Zone out has been rented.
- Being legally founded after actualizing the trade registry, in order to benefit from region 6 incentives, the company applied to the Republic of Turkey Ministry of Economy, presenting proper documents.
- Imported production machines and equipment and other tools and equipment obtained from the domestic market were installed by Chinese specialists and subsequently, for a period of three months, training on production methods, workplace order, etc. Was provided by Chinese specialists.
- The company has benefited from employee support on various durations changing according to the sector by applying to the Turkish Employment Agency. The company, which is the subject of this study, received support from the Turkish Employment Agency. They pay worker wages and social security for a duration of 4 months. In return, it is promised to protect 50% of the current employment after the four months period.
- Apart from these, the company has applied to SMEDO (Small and Medium Enterprises Development Organization) in Turkey in order to receive support on qualified personnel, access to fairs and exhibitions, develop the R&D unit, and develop new products.

V. CONCLUSION

The 2008 global crisis affected China which is on course for becoming the largest economy in the world, too. Belt and Road Initiative is China's new project that will replace the old growth model based on export with labor-intensive production. As a result of the lack of global demand brought by the crisis, the demand for Chinese goods decreased substantially, and as a consequence, an excess capacity emerged, particularly for a lot of goods used as input in the Chinese construction industry. The increase in worker wages in the last ten years has also caused China to lose the advantage it had until now in its most advantageous production factor compared to other countries. On the other hand, in the manufacturing industry, China, which was deemed as the world's factory producing cheap and poor goods until now, has been leaning towards producing expensive, capital- intensive and high-technology products rather than cheap and low technology products. Within the concept of Made in China 2025 established with that aim in mind, China intends to transform from Made in China to Creating China. With the Belt and Road Initiative, which was put forward in light of all these developments, China aims to export its excess capacity to less developed countries, form new partnerships and find new markets.

One example of this capital export is the producer of energy-saving bulbs, OCIDA Lighting, founded in Turkey with 50% Chinese 50% Turkish partnership. OCIDA Lighting company prefers to move part of the investment to Turkey because of both China's new economic conditions and Turkey's investment environment, incentive system, and economical conditions. Especially lower wages in Turkey, geopolitics location and a great incentive system bring new opportunities for investment to Turkey. Through Belt and Road Initiative, Turkey-China relationships will advance and China's investments not only infrastructure but also ways of greenfield and acquiring.

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