

TURKEY, CHINA AND THE SILK ROAD OF ENERGY:
THE TRANS-ANATOLIAN NATURAL GAS PIPELINE

ZEYNEPCAN AKAR

BOĞAZİÇİ UNIVERSITY

2019

TURKEY, CHINA AND THE SILK ROAD OF ENERGY:
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Thesis submitted to the
Institute for Graduate Studies in Social Sciences
in partial fulfillment of the requirements for the degree of

Master of Arts
in
Asian Studies

by
Zeynepcan Akar

Boğaziçi University

2019

DECLARATION OF ORIGINALITY

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ABSTRACT

Turkey, China and the Silk Road of Energy:

The Trans-Anatolian Natural Gas Pipeline

This thesis analyzes the motives behind involvement of Turkey and China in the Trans-Anatolian Natural Gas Pipeline (TANAP). Referred as the Silk Road of Energy, TANAP is a fundamental section of Southern Gas Corridor which is an international new route for diversifying energy sources of Europe. TANAP is a recently constructed pipeline crossing Turkey and will carry 16 bcm of natural gas of Azerbaijan delivered from Shah Deniz 2 field, 6 bcm of which will be consumed in Turkish national market and the rest will be transferred to Europe. As an international project, TANAP received loans from various institutions, while World Bank and Asian Infrastructure Investment Bank (AIIB) are co-financing the project. As a newly established institution spear-headed by China in 2015, AIIB aims to support infrastructure development in Asia, while TANAP is a section of a new energy route benefiting Europe, which is not directly within the spectrum of AIIB. Even though not directly involved, China imposes a role in TANAP through AIIB. The involvement of China through the loan provided by AIIB implies China's interest in this new energy route and is a subtle cooperation between Turkey and China on future energy relations. On the other hand, TANAP is a significant part of Turkey's aim to become an energy hub and highlights Turkey's strategic position between Asia and Europe while complimenting Turkey's energy security. The motives of Turkey are both strategic and energy security based while China has only strategic motives in involving in TANAP.

ÖZET

Türkiye, Çin ve Enerjinin İpek Yolu:

Trans Anadolu Doğalgaz Boru Hattı

Bu tez, Türkiye ve Çin'in Trans-Anadolu Doğal Gaz Boru Hattı'na (TANAP) dahil olmasının ardındaki nedenleri analiz etmektedir. Enerjinin İpek Yolu olarak adlandırılan TANAP, Avrupa'nın enerji kaynaklarını çeşitlendirmek için uluslararası bir rota olan Güney Gaz Koridoru'nun ana parçalarından biridir. TANAP, yakın zamanda inşa edilmiş olan Türkiye sınırları içerisindeki bir boru hattıdır ve Azerbaycan'ın Şah Deniz 2 sahasından temin edilen 16 bcm doğal gazı taşıyacaktır. Bunun 6 bcm'i Türkiye pazarında tüketilecek ve geri kalanı Avrupa'ya iletilecektir. Uluslararası bir proje olan TANAP çeşitli kurumlardan krediler almakta ve Dünya Bankası ve Asya Altyapı Yatırım Bankası (AIIB) projeyi ortak olarak finanse etmektedirler. Çin'in öncülüğünde 2015'de kurulmuş bir kurum olan AIIB Asya'daki altyapı gelişimini desteklemeyi hedeflerken; TANAP ise doğrudan AIIB'in kapsamı içinde olmayan, Avrupa'nın faydalanacağı yeni bir enerji rotasının bir bölümüdür. Çin, doğrudan dahil olmasa da, AIIB aracılığıyla TANAP'a bir rol üstlenmektedir. Çin'in AIIB'nin sağladığı kredi yoluyla katılımı, bu yeni enerji rotasına olan ilgisini ifade etmekte ve Türkiye ile Çin arasında gelecekteki enerji ilişkilerinde iş birliğini belirtmektedir. Diğer taraftan TANAP, Türkiye'nin bir enerji merkezi olma hedefinin önemli bir parçasıdır ve Türkiye'nin enerji güvenliğine katkı sağlarken, Türkiye'nin Asya ve Avrupa arasındaki stratejik konumunu güçlendirmektedir. Türkiye'nin TANAP'a olan ilgisi hem stratejik hem de enerji güvenliğine dayalıdır; ancak Çin'in AIIB aracılığı ile TANAP'a ilgisi yalnızca stratejik nedenlere sahiptir.

ACKNOWLEDGEMENTS

First and foremost, I would like to express my sincere gratitude to Prof. Selçuk Esenbel for her attentive guidance and continuous encouragement throughout my journey in M.A. in Asian Studies and especially during the writing process of this thesis. I feel indebted to my advisor Prof. Asım Karaömerlioğlu for his great patience, consistent guidance and keen support in my thesis study. This thesis is a product of the encouragement of my co-advisor, Dr. Altay Atlı, as he guided me in shaping my research question, supported the development of this thesis thoroughly and shared his invaluable insight into China – Turkey economic and political relations.

I would also like to thank the SRM team for their encouragement and profound belief in my work in Asian Studies. It was through our multiple social impact assessment and livelihood restoration field studies of TANAP that I had the chance to see the pipeline route and its impact on Turkey starting from Türkgözü border until İpsala border. My inspiration in studying this pipeline is rooted in our fruitful field study days and site visits with local stakeholders of TANAP in the villages of Turkey.

I would also like to express my heartfelt gratitude to my dear friends and fellow future Asian Studies colleagues Görkem Demirbulak, İrem Cihan Muter, Alp Anıl Ateş, Gözde Can and Aslı İdil Kaynar for their valuable advice, continuous support and encouragement throughout our M.A. journey and the writing process of this thesis. Last but not least, I dedicate this study to my dear family, my mother Gülseren, my father Metin, and especially my dear grandmother Fidan Pirli who have always encouraged and supported me in every way possible.

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ABBREVIATIONS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
BOTAS	Petroleum Pipeline Corporation
BRI	Belt and Road Initiative
CCIEE	China Center for International Economic Exchanges
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
HGA	Host Government Agreement
IBRD	International Bank for Reconstruction and Development
IFI	International Finance Institution
MDB	Multilateral Development Bank
SCPX	South Caucasus Pipeline Expansion
SGC	Southern Gas Corridor
SOCAR	The State Oil Company of Azerbaijan Republic
STEAS	The State Oil Company of Azerbaijan Republic Turkey Energy Inc.
TANAP	Trans-Anatolian Natural Gas Pipeline
TAP	Trans Adriatic Natural Gas Pipeline
USD	United States Dollar
WB	World Bank

CHAPTER 1

INTRODUCTION

Energy is an issue of security and strategy in international relations. Nations commit to energy projects with political and economic benefits while considering their strategic interest and need of energy security. Especially while determining involvement in international energy projects, nations demonstrate coherent motives that are strategic and/or security-based. Trans-Anatolian Natural Gas Pipeline (TANAP) is one of the international projects where involved nations, Turkey and Azerbaijan express consistent goals for realizing the project, whereas some other involved nations have complex and ambiguous relations with the project.

Involvement of the China through the loan given by China-led International Finance Institution (IFI), Asian Infrastructure Investment Bank (AIIB) for TANAP, is a critical example of this complex and ambiguous position. The interest of China in this international project raises questions and intrigues questions on sources of motives.

TANAP, also referred as the Silk Road of Energy, is the central section of Southern Gas Corridor (SGC), which consists of construction of three pipeline projects and a gas field. SGC is the new natural gas pipeline route of Europe from Asia. SGC plans to transfer natural gas in the constructed Shah Deniz 2 gas field in Caspian Sea to the Turkish border via South Caucasus Pipeline Expansion (SCPX), carry the gas through Turkey via TANAP and at the Greek border transmit the natural gas to the last pipeline component, Trans Adriatic Natural Gas Pipeline (TAP) to deliver the natural gas to Europe. TANAP is the section of SGC within Turkish borders and is the only pipeline that is not a cross-border pipeline of SGC.

When compared to other pipelines in its region TANAP is a unique pipeline project as it creates an uninterrupted new route of energy crossing Turkey while transferring natural gas to Europe without involving Russia.

TANAP was initiated in 2011 following the Memorandum of Understanding signed between Turkey and Azerbaijan.¹ In June 2012 the legal background of the pipeline was established with the Intergovernmental Agreement between the Government of the Republic of Turkey and the Government of the Republic of Azerbaijan.² The attachment of this document, The Host Government Agreement (HGA) was signed between the Government of the Republic of Turkey and Trans-Anatolian Pipeline Gas Company B.V. at the same date but was amended and entered into force later in May 2014.³

As a commercial private company, TANAP Company B.V. has various significant shareholders. The shareholders of TANAP are SGC Closed Joint-Stock Company with 51%, Petroleum Pipeline Corporation (BOTAS) of Turkey with 30%, British Petroleum (BP) with 12% and The State Oil Company of Azerbaijan Republic Turkey Energy Inc. (STEAS) with 7%.⁴ The State Oil Company of Azerbaijan Republic (SOCAR) with 49% and the Ministry of Economy of Azerbaijan with 51% are the two shareholders of SGC Closed Joint-Stock Company.⁵ Therefore, TANAP is a project of Turkey and Azerbaijan mainly in its establishment while SGC is a project of Azerbaijan.

¹ Trans-Anatolian Natural Gas Pipeline, “About TANAP.”

² “Intergovernmental Agreement Between The Government of Turkey and The Government of The Republic of Azerbaijan Concerning The Trans Anatolian Natural Gas Pipeline System,” 2.

³ Türkiye Büyük Millet Meclisi, “Kanun No. 6553.”

⁴ Southern Gas Corridor, “Trans Anatolian Pipeline.”

⁵ Southern Gas Corridor, “About Us.”

The aim of SGC is to “increase and diversify European energy supply by bringing gas resources from the Caspian Sea to markets in Europe”.⁶ While TANAP’s vision is to:

open up a new gas supply corridor from Azerbaijan to Europe in order to enhance supply security and diversity in Turkish and European Gas Markets and strengthen the economic cooperation between countries in the supply chain by stimulating investments and fostering gas to gas competition.⁷

According to the current agreements, TANAP will only carry the natural gas of Azerbaijan from Shah Deniz 2 gas field but the route is also reviewed for potentially carrying natural gas from other nations such as Turkmenistan, Northern Iraq, Iran and Eastern Mediterranean. TANAP is 1850 km long and is planned to carry 16 billion cubic meters (bcm) of natural gas, 6 bcm of which will be used in Turkish national market and 10 bcm of which will be delivered to Europe via TAP.⁸ The amount of natural gas that the pipeline will carry will be increased after several years of operation. Construction of the pipeline initiated in March 2015 and the first delivery of gas to TAP is planned to be in 2019.⁹ In June 12th, 2018 the Inauguration Ceremony of TANAP in Turkey took place and the first section of the pipeline which carried natural gas to the Turkish national grid was opened. The first delivery of gas to Europe is planned to take place in the second quarter of 2019.

As an international project, TANAP has various financing sources. The project cost is 8,600 million United States Dollar (USD). World Bank (WB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB) and AIIB are the IFIs that are involved in the funding of the project. TANAP is co-financed by WB and AIIB

⁶ Southern Gas Corridor, “What is Southern Gas Corridor.”

⁷ Trans-Anatolian Natural Gas Pipeline, “Vision.”

⁸ Trans-Anatolian Natural Gas Pipeline, “Technical Aspects of the Project.”

⁹ “Dubbed the ‘Silk Road of Energy,’ TANAP Begins Gas Delivery.”

with a total of 1,400 million USD of loans. EIB provides 1,300 million USD of loans to the project, while EBRD lends 500 million USD of loans to the project. The co-financing of WB and AIIB consists of WB lending 400 million USD to BOTAS and 400 million USD to SGC, while AIIB lending 600 million USD to SGC.¹⁰ According to this AIIB provides a major loan for the project while supporting SGC to build TANAP. The loan is provided following the application of the state of Azerbaijan.

AIIB is a multilateral development bank which was established by China and aims to become an IFI that supports the social and economic growth in Asia. AIIB is strictly connected to China as it was spearheaded by Chinese government. In October 2013, President Xi Jinping announced that AIIB will be established and on 2015, December 25 the articles of the bank entered into force and 17 founding states signatories deposited their initial capital subscriptions. The number of nations involved in AIIB increased to 93, as of January 2019.¹¹ According to the subscriptions of involved nations, their voting powers are assigned following the By-Laws of AIIB. China has subscribed 30.89% of the total subscriptions of the bank and holds the strongest voting power of 26.78%.¹² As similar to other IFIs, this major voting power constitutes a decisive role for China with a veto power. The headquarters of the bank is located in Beijing, capital city of China. The President of AIIB, is the former Chinese Vice Minister of Finance, Jin Lique. Major influence of China can be seen through these details on AIIB. Even though AIIB does not state a policy connection with Chinese government, AIIB's investments in the last couple of years have been in line with Chinese government's economic and strategic interests.

¹⁰ Asian Infrastructure Investment Bank, "Project Document of The Asian Infrastructure Investment Bank Republic of Azerbaijan Trans Anatolian Natural Gas Pipeline (TANAP) Project," 11.

¹¹ Asian Infrastructure Investment Bank, "Members and Prospective Members of the Bank."

¹² Ibid.

It is highly likely that AIIB continues to not contradict with Chinese interests, as China holds the major power in the bank.

Since its establishment, AIIB has been questioned for whether it is a fund for the grand new Chinese project, the Belt and Road Initiative (BRI). BRI is comprehensive project of China which consists of several routes of trade but the establishment is still vague and the progress is slow on creating the promised connections between the nations involved. Even though AIIB can not be definitely stated as the bank of BRI, the correlation between these two parallel establishments can not be denied since they both focus on Asia and its connections beyond. BRI focuses on trade and cultural partnership, while AIIB has an infrastructure development focus, which serves to the goals of BRI. As BRI finds its fit in the international order and develops further, the relationship between AIIB and BRI can be further analyzed.

Taking into account the presence of China in AIIB and its relations with Chinese interests, AIIB is directly associated to China and is a representative of the power of China in the world of IFIs. Commonly, even though stated to be international organizations, WB IFIs are considered a tool of United States policy while EIB and EBRD follow the EU agendas. The IFIs are not simple finance establishments; rather they are complex institutions that are strategic economic tools for major power holding nations. The funding provided by these institutions are leverages for the power holding nations in IFIs. AIIB is the fresh breath of China in international financing and the decisions made by this financial institution follows strategic interest of China.

The AIIB funding of TANAP proposes a problem because even though TANAP is an energy project that does not transfer natural gas to Asia, it is a major

investment of AIIB within energy sector. TANAP is an investment that has a clear intention of supporting energy needs of Europe and there is no obvious rationale of China to follow –up with this funding. Also, TANAP is one of the first energy projects of AIIB and for it to be a project delivering gas to Europe is problematic considering the energy infrastructure need of Asia. China has no apparent economic relations with the project and involved nations around the TANAP project.

Therefore, the loan of AIIB to TANAP and Chinese interest is thought provoking.

Moreover, TANAP is an important project for Turkey. This project promises to deliver 6 bcm of natural gas directly to Turkish national grid but also the pipeline uses Turkey as a bridge to deliver gas to Europe. These two aspects of TANAP strengthens both the security-based interest and strategic interest of Turkey.

Turkey is dependent on energy imports and especially on natural gas imports. The natural gas demand of Turkey is increasing and its dependency on imports are growing stronger. TANAP plays a vital role in this realm. It should be noted that “Turkey’s existing pipeline based natural gas trade creates significant bilateral interdependencies with its suppliers.”¹³

There is a growing discussion on Turkey’s potential of becoming a regional energy hub. Muftuler and Baskan points out that

Turkey will play an increasingly critical role for the future of energy security in Europe as most of the pipelines from the energy producing countries in the East to the energy consumer countries in the West will pass through Turkish territory.¹⁴

As Europe wants to diversify its energy sources and develops pipelines such as TANAP, Turkey will play an increasingly critical role for Europe to transfer the

¹³ Global Relations Forum, “Turkish Energy Strategy in the 21st Century,” 28.

¹⁴ Muftuler and Baskan, “The Future of Energy Security for Europe: Turkey’s Role as an Energy Corridor”, 361.

uninterrupted and secure energy. In recent years, especially in natural gas Turkey has developed important project and increased the discourse on energy-hub in its international relations. TANAP is one of the two major energy projects in Turkey, the second being TurkStream that will carry 31.5 bcm of natural gas.¹⁵ There are also discussions on Turkey's potential to become only an energy transit country. This discussion is yielded on the analysis that Turkey does not have sufficient energy storage facilities. However, through another AIIB supported project, Turkey is expanding its natural gas storage units of Tuz Golu Storage Facilities. Tekin and Williams states that "[...] treating Turkey's capacity and willingness to serve as a transit country, primarily in terms of gas, as a matter to be addressed within existing frameworks of cooperation may not be enough to ensure Europe's energy security."¹⁶ TANAP's role in strengthening the energy hub or energy transit country role of Turkey is an important question.

This thesis will attempt to answer 'What is motive of Turkey and China in TANAP?'. Following this main question there are several subtopics that needs to be covered in order to answer this question. These sub questions are 'What is the role of TANAP in SGC?' 'What is the role of AIIB in TANAP?', 'Does China has an energy security based interest or strategic interest in TANAP, through the AIIB loan?', 'How does TANAP support the role of Turkey as an energy hub or transit bridge nation in the new energy route?', 'How does TANAP, the Silk Road of Energy, relate to BRI?'. Overall, the research problem is, understanding TANAP through AIIB funding, while developing a further analysis on energy politics of Turkey and China.

¹⁵ TurkStream, "Info."

¹⁶ Tekin and Williams, "EU – Russian Relations and Turkey's Role as an Energy Corridor", 352.

This thesis aims to examine the energy politics collaboration around TANAP, with a focus on the relations of Turkey and China. The main subject of thesis is therefore TANAP while important subjects submerged in the thesis includes AIIB, Turkey's energy outlook and future roles, China's goals and role in future energy relations between Asia and Europe. This thesis aims to investigate the role of Turkey and China in newly developing energy routes between Asia and Europe. TANAP could be considered as the case study to understand the energy leadership and role goals of China and Turkey. The thesis will become a compass in understanding complex relations around energy while providing detailed information and analysis of recent developments of China in international relations such as AIIB and Turkey's energy role outlook. According to this analysis, thesis will define future challenges and outlooks of energy relations of Turkey and China.

The thesis will answer the main question and sub-questions following a comprehensive ground. Initially, TANAP will be introduced in detail in order to provide a solid working ground for analysis. Chapter 2 will firstly define TANAP and its technical aspects, later it will analyze the founding documentation between Turkey, Azerbaijan and IFIs. In the last two sections of Chapter 1 significance of TANAP will be discussed and the chapter will be finalized with a presentation of the current developments.

Chapter 3 will specifically focus on AIIB. This chapter aims to prove that AIIB is directed by China and is a strategic economic tool of China. Within this chapter, the establishment history of AIIB will be presented and role of China in AIIB will be discussed in detail. The governance and voting structure of AIIB will be evaluated. Furthermore, the projects of AIIB will be analyzed and the prospective direction of the investments will be explored.

Chapter 4 will be the profound analysis chapter of this thesis. The chapter will focus on roles of China and Turkey in TANAP. Firstly, the Chinese interest will be questioned. As the chapter considers security- based or strategic interests, it will delve into China's relations in the region of TANAP. The chapter will start off by discussing energy security and economic security of China considering possible energy and economic interest in TANAP. Later the chapter will discuss the geopolitical and strategic interest of China and its relation with TANAP. China – United States rivalry will be introduced in this chapter including a short analysis of Trade Wars. In the analysis section of China's strategic interest in TANAP, the AIIB loan and China's interest in supporting the energy hub ambition of Turkey will be framed with the China's strategic interest in befriending Turkey as a possible ally in the China –United States rivalry. The tools of AIIB and BRI in altering the world order by China will be analyzed in this relation to TANAP. After determining the details of relations with China, the chapter will move on to focus on Turkey and its relation with TANAP. The significance of TANAP for Turkey will be analyzed in this chapter in both Turkey's strategic interest and energy need based motives around TANAP. Discussion on energy hub or transit bridge country role of Turkey will be forming the core of this section with a focus on TANAP. TANAP's role within Turkish energy politics will be introduced in this chapter and strategic importance of supporting Turkey's ambition if becoming an energy hub will be discussed in detail

This thesis aims to develop an understanding of the AIIB funding to TANAP. The rationale of AIIB funding highlights the “strategic importance” of SGC.¹⁷ As TANAP is a part of SGC, through the application of Azerbaijan to AIIB the loan supports development of the new route of natural gas. In the opposite direction of

¹⁷ Asian Infrastructure Investment Bank, “Project Summary Information,” 1.

Asia, developing a new route to Europe, TANAP is the bridge pipeline project between Asia and Europe.

In TANAP project documentation of AIIB, the objectives of the TANAP project are stated to be “a) integrate Azerbaijan with regional and European energy markets by strengthening its connectivity and transit role; (b) diversify Azerbaijan’s gas export markets; and (c) to improve the energy supply security of Turkey and South Eastern Europe”.¹⁸ The first objective focuses on connections between Asia and Europe which is a strategic interest of China, considering newly establishing BRI. The second objective, underlines economic support for Azerbaijan which is part of the strategic goals of AIIB of improving economies in Asia. The third objective, is rather complicated since it includes South Eastern Europe. The Turkey part of this objective follows the energy security need of Turkey and matches interest of AIIB in supporting infrastructure development in Asia. Nonetheless, improving energy security of South Eastern Europe does not relate to AIIB’s mission.

The support of China, to AIIB through the loan for TANAP project is strategic while discounting the energy security need of Asia. Especially considering the changing relations in the world order and rising United States – China rivalry, the AIIB loan to TANAP can be considered as a token of friendship between Turkey and China. The support of China for Turkey’s ambition of becoming an energy hub through energy investments of AIIB is important to note. Overall, the funding of AIIB provides a leverage to China for taking part of the creation of a new and important route of energy. Through this loan, China does not only become an observer in the project but also has a power of changing the investment if it contradicts with Chinese interest. Nevertheless, SGC as well as the TANAP section

¹⁸ Asian Infrastructure Investment Bank, “Project Summary Information,” 2.

does not threaten the energy security of China since the route does not aim to carry a daring amount of natural gas. However, the pipeline route of SGC is critical since it does not involve Russia, which is the major power holder in natural gas markets in Europe. In the future, as the sources of natural gas to SGC are diversified this route would become a significant connection between Asia and Europe. In this realm, the economic support of AIIB in TANAP with a loan highlights China's strategic interest in SGC and Turkey's developing energy hub-bridge nation role.

The conclusion of the thesis reveals a new perspective on the importance of TANAP and presents an outlook for energy relations in the region. As briefly mentioned above, the conclusion chapter will highlight the strategic interest of China in TANAP and security-based interest of Turkey in TANAP. It will also highlight unanswered further questions about China and Turkey energy relations and introduce further research areas in pipeline politics.

This thesis is significant because it focuses on very recent developments such as TANAP, AIIB and BRI while defining the relations between them. The literature does not sufficiently provide detailed connections between TANAP and China-led AIIB. The energy concentrations of AIIB and Belt and Road Initiative is overlooked and needs further analysis for energy politics provisions in between Asia and Europe. TANAP is the knot in-which recent energy need based and strategic interests of Turkey and China collide. This thesis is one of the first researched on AIIB – TANAP relation and analysis of China's interest in TANAP. Understanding TANAP through this thesis will not only provide holistic and thorough analysis for energy relations in the region but also will offer information for creating future energy politics outlooks of China and Turkey.

The thesis will use qualitative data analysis for examining the primary and secondary data obtained through research. The primary data will mainly focus on official documentation of TANAP, AIIB, Chinese government and Turkish government. The statements and speeches of state officials and project officials will also be used as sources. In addition, as secondary data scholarly written articles, opinion and analysis pieces and news will be used to support the background of the thesis.

This thesis puts on the table a fact that is not considered for analysis before as it looks at an interesting loan of AIIB in an almost non-Asian project and a complex discourse on the role of Turkey in this energy route. The thesis uses TANAP's case study to further develop the literature on pipeline politics and combines interest analysis of two nations that are not considered together China and Turkey. The results of this research is important for providing reasoning for further energy partnerships between Turkey and China. As China's reasons of interest in TANAP project reveals, its involvement in other projects can be further analyzed. As Turkey's potential energy nation role is determined through this thesis, the prospective policy direction of Turkey can be understood.

CHAPTER 2

TRANS ANATOLIAN NATURAL GAS PIPELINE PROJECT (TANAP)

2.1 Introduction

The fundamental focus of this thesis is TANAP, thus it needs to be comprehensively introduced in order to provide a solid background for analysis. Focusing on familiarizing the reader with TANAP, this chapter shows the interesting details of TANAP which the research question of the thesis lies on.

This chapter aims to deliver a thorough analysis on TANAP and has four main sections. The first section focuses on describing the history of TANAP. The history of TANAP is not presented as a timeline but rather shows why and how it was developed including other related projects. The significance of TANAP in relation to SGC for various nations are submerged in this section as well. After this historical background, the technical details and shareholder structure of the pipeline are discussed in the next section. It is important to understand the basic technical details of the pipeline as the analysis will delve into whether TANAP could be a response to the energy security needs of related nations. Analysis on the shareholders of TANAP takes place in this section as well. In the next section, institutional documentations of TANAP are examined in order to form the backbone of the analysis. The institutional documentations on TANAP are the primary sources of this thesis and presents vital information on the international dynamics around this pipeline. The agreements around TANAP are official statements of the settlements between nations and IFIs. In this vein, not only the governmental agreements but also official documentations with IFIs are presented. The chapter is concluded in the

last section with a review of the recent developments for TANAP and provides an outlook on the operation phase of the pipeline.

The objective of this chapter is to create comprehensive knowledge for answering initial questions on TANAP. As an international project, TANAP has a complex history as well as the relations with its involved nations are complicated. TANAP is the outcome project of Europe's energy needs and is a major part of the energy corridor Europe aims to implement. This chapter emphasizes that TANAP has been developed with the aim to provide a new energy route for Europe by transferring natural gas from Azerbaijan and highlights that this new route has more potential such as carrying natural gas from other nations as well.

The new pipeline, TANAP, has apparent ties with Europe, Azerbaijan and Turkey. Especially it has indispensable links to the energy policy of Turkey. The direction of this relation is a sub-question for this thesis. Therefore, understanding the rights of Turkey in TANAP agreements is important for further analysis on TANAP's role in energy outlook of Turkey. The grounds of Turkey's relation with TANAP is set within the history section and official documentation analysis sections of this chapter. On the other hand, the relations between TANAP and China is obscure. Even though China is not within the direct shareholders of the project, the China-led IFI AIIB is co-funding the pipeline. The specifics on this relationship is introduced in this chapter via analysis of official AIIB TANAP documentation but the reasoning behind the loan will be discussed further in Chapter 4.

2.2 History of TANAP

TANAP is the central section of Southern Gas Corridor (SGC), which is a new natural gas route from Caspian Sea to Europe. Development of TANAP was initiated

with discussions on SGC and altered through the changes in SGC. As Huseynova states “TANAP is part of Southern Gas Corridor and its assessment cannot be considered to be in isolation from its interrelated parts.”¹⁹ In order to present a comprehensive history of TANAP, therefore, the narrative should be initiated with discussing the development of Southern Gas Corridor.

The natural gas demand of Europe has been continuously increasing. Harriet Thomson and Stefan Bouzarovski states that “The oil crises of the 1970s provided an additional impetus towards the rise of natural gas demand in Europe.”²⁰ Since Europe’s need of energy increased and alternative natural gas routes other than the ones controlled by Russia became an interest of European Union (EU), the idea of SGC emerged. In order to address the increasing energy need of Europe and high dependency on other nations, Commission of the European Communities produced the *Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy* in 2006. The document was a strategy for EU for “balancing sustainable development, competitiveness, security of supply”²¹ for energy. Even though at that time the number of renewable energy plants were increasing in EU, there was a significant dependency on energy imports, specifically natural gas. This caused the EU energy market to be volatile towards economic and political changes within the nations that provided energy for EU. Amongst the list of these providers, the first was (and still is) Russia. According the official data of EU, “more than three quarters of the EU's imports of natural gas came from Russia (40 %), Norway (25 %) and Algeria (12 %), while almost three quarters of solid fuel (mostly coal) imports

¹⁹ Huseynova, “TANAP Gas Pipeline as an Alternative Route to Ensure Energy Security of Europe,” 103.

²⁰ Thomson and Bouzarovski, “Europe’s Energy Geographies,” 268.

²¹ Commission of the European Communities, “Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy,” 3.

originated from Russia (30 %), Colombia (23 %) and Australia (15 %).”²² As Russia had disputes with Ukraine and the crisis impacted the EU natural gas imports, European nations that relied on Russian natural gas were left in a volatile position. This accelerated Europe’s search for a supplementary energy route. The Green Paper clearly stated interest in:

[...] the upgrading and construction of new infrastructure necessary for the security of EU energy supplies, notably new gas and oil pipelines and liquefied natural gas (LNG) terminals as well as the application of transit and third-party access to existing pipelines.²³

Possible routes of these pipelines highlighted the transfer of natural gas from Caspian to Europe.²⁴ Following the Green Paper, EU started efforts for building the connection from Caspian to EU. However, creation of this new route had several challenges. Firstly, since the route did not include Russia, the Russian government initially approached the idea as a threat to their natural gas trade with EU. Secondly, the project had a long route and needed to involve many nations with different needs.

The idea of SGC was initiated by EU in 2007. As EU countries depend mostly on Russia for natural gas, with the interest to diversify their energy sources and scale down their dependence on Russia, EU commenced this proposal of the new natural gas route in 2007.²⁵ The EU carried a geopolitical practice towards realizing this new energy corridor and treated “energy as a strategic good that governments need to secure through political, diplomatic and economic involvement in energy trade”.²⁶ The President of the European Commission at time, Jose Manuel Barroso

²² European Commission, “From Where Do We Import Energy and How Dependent Are We?”

²³ Commission of the European Communities, “Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy,” 15.

²⁴ Ibid., 15.

²⁵ Bremen, “The Southern Gas Corridor: Initiated by the EU, Completed by Others? TANAP, TAP, and The Redirection of The South Stream Pipeline,” 6.

²⁶ Siddi, “The EU’s Botched Geopolitical Approach to External Energy Policy: The Case of the Southern Gas Corridor,” 1.

stated that “[t]he Southern Gas Corridor is more than a pipeline. It will be a strategic energy avenue for the 21st century, a true geostrategic project”²⁷ and highlighted that the SGC aimed not only energy development but also included a strategical aspect.

As a very complex project, SGC was not developed and realized as smoothly as planned initially by EU. As pointed out in the project documentation “(t)he Southern Gas Corridor is a one-of-a-kind Program. At an estimated cost of about US\$46 billion and with over a dozen shareholders on four different projects, it is by far one of the largest infrastructure investments currently under development.”²⁸ As Faig Galib Abbasov stated this new route of energy would increase the control of EU in the changes in export markets and “minimise the ability of the exporters and transit countries to manipulate energy flow and tailor it to their political/economic objectives” through the development of international energy projects.²⁹

Some of the pipelines planned to be a part of SGC was later cancelled and the routes were altered accordingly. These changes resulted in lagging of the finalization of SGC. Bremen refers to this process as “pipeline struggles” faced by SGC and defines it as “the status of the planned pipelines has undergone significant changes and/or faced uncertain futures for a long period”³⁰. The elongated negotiations of SGC involved weighing different pipelines and considered different routes.

²⁷ Barosso, “The Southern Gas Corridor will be a strategic energy avenue for 21st century.”

²⁸ “International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan in the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project,” 16.

²⁹ Abbasov, “EU's External Energy Governance: A Multidimensional Analysis of the Southern Gas Corridor,” 36.

³⁰ Bremen, “The Southern Gas Corridor: Initiated by the EU, Completed by Others? TANAP, TAP, and The Redirection of The South Stream Pipeline,” 6.

Since the beginning the route of SGC was planned to initiate from Shah Deniz 2 Gas field. However, the route from Shah Deniz 2 to Europe involved various pipeline options. The construction of the gas field as a part of SGC was initiated in 2014³¹ and became the single source for this new corridor. According to the capacity of the Shah Deniz 2 field determined the amount of natural gas that will be carried as 16 bcm.

After exiting the Shah Deniz 2 field the gas was planned to be transferred to SCPX. This pipeline became an extension project that passed through Azerbaijan and Georgia. The South Caucasus Pipeline existed since 2006 following the route of Baku-Tbilisi-Ceyhan pipeline using 42-inch pipes.³² However this extension developed a new pipeline using 48-inch pipes to carry natural gas to the Turkish border.³³ This route until reaching the Turkish border was definite, however the route after the Turkish border planning changed over the years.

Initially, the Nabucco project was planned to become a part of the SGC. Nabucco originated in 2012 and intended to carry natural gas from Erzurum to Europe passing through Turkey, Bulgaria, Romania, Hungary and Austria.³⁴ The project planned to carry up to 31 bcm of natural gas every year. However, as the project was assessed for financial viability, it was later scaled down in 2012 to which only concentrated on the route after Turkish border and focused on the European connection of the SGC. The project was renamed as Nabucco-West. TANAP became the replacement for the route within Turkey. However even though the Nabucco pipeline was restructured it still had competition for the route after Turkey. Out of a

³¹ Tekfen Construction, "Azerbaijan - Shah Deniz Stage 2 (SD2) Project Fabrication Of Offshore Facilities and Hook Up and Commissioning Support."

³² British Petroleum, "South Caucasus Pipeline."

³³ Southern Gas Corridor, "South Caucasus Pipeline."

³⁴ VandeGraaf and Sovacool, "Thinking Big: Politics, Progress, and Security in the Management of Asian and European Energy Megaprojects," 20.

long list of possible pipelines, finally Nabucco West and TAP were the two pipelines that were considered to carry the natural gas from Shah Deniz 2 field. In 2013 it was announced that SGC chose TAP as its route rather than Nabucco West and Nabucco West was also cancelled.

The failure of Nabucco West had several financial, technical and political reasons. Russia played an important role in the failure of Nabucco West even though it was not a shareholder of the project. As a part SGC, this project aimed to diversify the natural gas market of Europe. Van de Graff and Sovacool states this as:

Gazprom forged a deal with OMV to buy a 50% stake in the Baumgartengas hub, which was to be the terminal for Nabucco, there by under- cutting Nabucco's strategic rationale to lower dependency on Russia. key producer countries such as Azerbaijan and Russia. First, the Nabucco consortium did not engage SOCAR or other members of the Shah Deniz consortium. This way, it had no guaranteed access to the necessary gas volumes to fill the pipeline and it had no other option but to down size to Nabucco West when SOCAR announced its plans to build TANAP.³⁵

Since the project did not guarantee resources, it scaled down to only a European portion. However, this yielded meant that it was not sufficient for the needs of Europe. The Nabucco-West project would have delivered 10 bcm every year to Europe which would have only constitute %2 of EU nation's gas consumption.³⁶ Van de Graff and Sovacool points out that Russia "played divide-and-rule politics to preserve its dominant position on the European gas market, stirring fragmentation among Nabucco's European stakeholders. In 2007, it came up with a proposal for a rival gas pipeline[...]" This rival pipeline was named as South Stream and even though it had a different route than SGC, it became an interest for Europe.

³⁵ VandeGraaf and Sovacool, "Thinking Big: Politics, Progress, and Security in the Management of Asian and European Energy Megaprojects," 21.

³⁶ Ibid., 21.

The resource and route issues of Nabucco yielded in financial difficulties as well. As Dempsey pointed out “Nabucco was originally budgeted at €7.9 billion, or \$11.1 billion. But according to an internal study by the British oil company BP, it may cost €14 billion to finish the pipeline. That threatens to make the venture unprofitable”.³⁷ Overall, Nabucco involved many nations, its route was too complicated, it did not guarantee the promised natural gas sources and it became financially unviable. The most important reason for Nabucco’s failure is that a consensus between Russia and Azerbaijan could not be reached and the elongated negotiations resulted in the cancellation of the Nabucco West pipeline. As stated by Sevim the relations with Russia yielded in the choosing TAP.³⁸ Furthermore, Ozdemir points out that TANAP became a better choice for Russia compared to Nabucco.³⁹ One of the main reasons for this can be that the amount of gas that will be carried via TANAP is almost half of initially planned Nabucco, which imposed a smaller issue on Russian dependence of European gas market.

In addition, with respect to Turkey TANAP was a more logical project as well.

Ibrahimov explained this as:

The difference between the two projects for Turkey is that its participation in the Nabucco project would have been limited to a transit role, meaning that Turkey could not buy gas from this pipeline. Conversely, in TANAP, Turkey serves as both a transit and an importer of Azerbaijani gas. In addition, Turkey’s share in TANAP is almost twice more than in Nabucco.⁴⁰

In this sense Russia and Azerbaijan have shared the gas distribution routes in Europe, Russia dominating the north and Azerbaijan entering the market through the south. It is very important to highlight that the amount of gas that is planned to be

³⁷ Dempsey, “European Pipeline Project Faces Formidable Obstacle.”

³⁸ Varol, “Importance of TANAP in Competition between Russia and Central Asia,” 357.

³⁹ Ozdemir, “Balkan Piyasalarını Hedef Alan Doğal Gaz Boru Hattı Projeleri Arasında Rekabet: NABUCCO-Güney Akım ve Trans-Adriyatik Boru Hattı (TAP) Projeleri Örneği,” 264.

⁴⁰ Ibrahimov, “Turkish-Azerbaijani Energy Relations: Significant Leverage in the Implementation of the Foreign Policy Interests of Both Countries,” 90.

carried to Europe through the new corridor via SCPX, TANAP and TAP does not even come near the amount of gas delivered to Europe by Russia. However, the opening of such corridor signifies that in the long run the corridor could be used for alternatives. The opening ceremony of TANAP also signifies such a perspective as it involved a show of various leaders like Turkmenistan even though not it was not a part of the project route at all.

This new corridor of natural gas, SGC finalized its route as starting from Shah Deniz 2 gas field using SCPX to carry gas until Turkish border, there transferring to TANAP and finally transferring to TAP to reach Europe. The final route map is shown below in Fig. 1.



Fig. 1 Map of SGC

Source: <https://www.sgc.az/en>

Covering the history for SGC it is noticeable that TANAP is highly important for this new route and for Europe's aim of diversifying its energy sources. Not only TANAP assumed a global geopolitical role but also lead the geo-economics changes in the region.⁴¹ TANAP was initiated by Azerbaijan's state energy company SOCAR and Turkey's state pipeline operator BOTAS in 2011 as reaction to the long and

⁴¹ Ozdemir, Yavuz and Tokgoz, "The Trans-Anatolian Pipeline (TANAP) as a Unique Project in the Eurasian Gas Network: A Comparative Analysis," 135.

ineffective negotiations on the Nabucco project. On December 24, 2011, the Government of the Republic of Turkey and the Government of the Republic of Azerbaijan signed the Memorandum of Understanding on TANAP. Following this, the Intergovernmental Agreements between Azerbaijan and Turkey was shaped. According to this agreement, TANAP Entity was established. The construction was planned in 2014 and initiated in 2015. The first phase of TANAP was complete in the summer of 2018 and the second phase is planned to be completed in 2019 which will allow the pipeline to start its full operation by 2020. Bremen pointed out that

Azerbaijan and Turkey have taken advantage of the EU's weak position on the pipeline projects in the Caspian region. Azerbaijan helped to reformulate the initial idea of a Southern Corridor in its favour so that it became not only the key gas supplier in the project but also the key stakeholder and decision-maker.⁴²

As planned, initially the pipeline will carry 16 bcm of natural gas every year but this amount is planned to be increased in the following years. Varol states that “TANAP carrying Turkmen gas is a nightmare scenario for Moscow” since the connection would threaten Russia's access to Turkmen gas supplies.⁴³ Also, it is important to note that as TANAP allows for the new route creation, it becomes a hope for Central Asian nations to transfer their gas to Europe without the dominance of Russia.⁴⁴ This is an interesting aspect that will be analyzed as the capacity of TANAP increases.

⁴² Bremen, “The Southern Gas Corridor: Initiated by the EU, Completed by Others? TANAP, TAP, and The Redirection of The South Stream Pipeline,” 8.

⁴³ Varol, “Importance of TANAP in Competition Between Russia and Central Asia,” 357.

⁴⁴ Ibid., 357.

2.3 Technical aspects and shareholders of TANAP

TANAP is a pipeline project that carries natural gas. It receives the natural gas extracted in Shah Deniz 2 gas field via SCPX and delivers to TAP for further distribution to Europe. The pipeline is 1850 km with 19 km running under Dardanelles strait. Even though TANAP is a part of an international project, it is the only pipeline in SGC that is not cross border. TANAP only remains within Turkey's borders and passes through 20 provinces in Turkey. The pipeline starts at Turkgozu border in Ardahan province next to Georgia and exits Turkey at Ipsala border in Edirne province transferring the natural gas to Greece. The map of TANAP is shown below in Fig. 2.

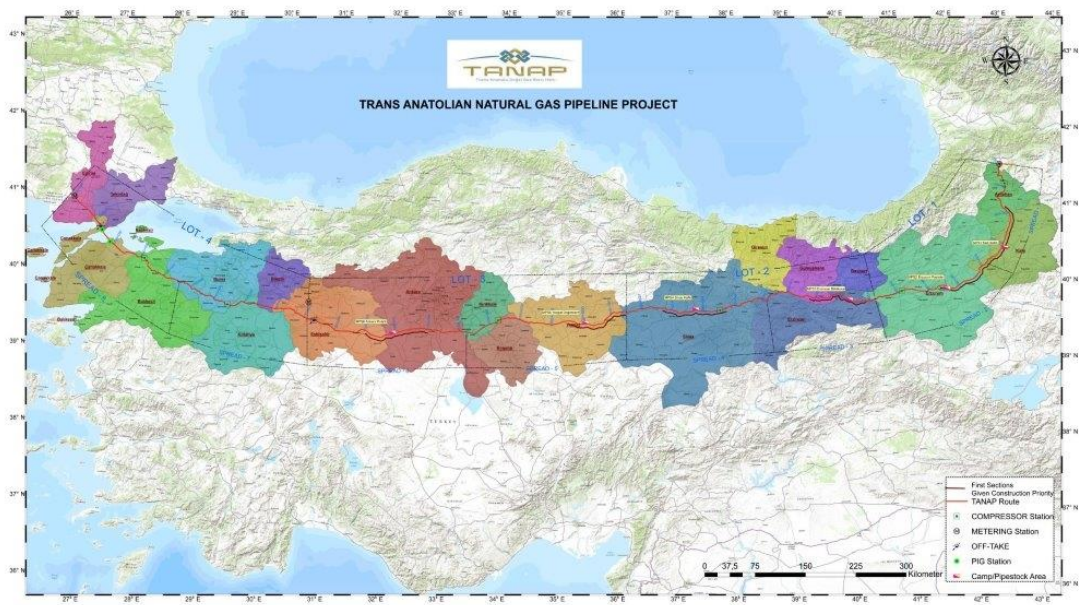


Fig. 2 Map of TANAP

Source: EBBA Elektrik, (n.d.)

<http://www.ebba.com.tr/proje/projeler/trans-anadolu-dogalgaz-boru-hatti-tanap-lot4-bvs>.

TANAP aims to carry 16 bcm of natural gas per year by 2020 and this amount will increase as capacity develops. The amount of natural gas that will be

carried is planned to be increased to 23 bcm by 2023 and 31 bcm by 2026.⁴⁵ Even though TANAP is a part of an international natural gas route to Europe, additionally it aims to deliver natural gas to Turkish national market as well. Out of the 16 bcm, 6 bcm of natural gas per year will be delivered to Turkish natural gas market. In order to connect to the Turkish national natural gas network, TANAP has two off-take stations located in Turkey, one in Eskisehir and one in Thrace.⁴⁶ Considering the significance of TANAP in Europe Table 1 below shows the operational pipelines and pipelines under construction in Europe that carry natural gas.

Table 1. Comparative Percentages of Natural Gas Pipelines of Europe

Name of the Pipeline	Amount of Natural Gas Carried (bcm/year)	Percentage of Total	Source
NordStream	55	11.3%	Russia
NEL	20	4.1%	Russia
OPAL	35	7.2%	Russia
Northern Lights and Yamal-Europe	84	17.3%	Russia
Soyuz	26	5.4%	Russia
Brotherhood	132	27.2%	Russia
Blue Stream	16	3.3%	Russia
Russia Gas- West	16	3.3%	Russia
Nord Stream 1 Nord Stream 2	55	11.3%	Russia
TurkStream	15.75	3.2%	Russia
Eastring	20	4.1%	Russia
TAP - TANAP (SGC)	10	2.1%	Azerbaijan
Total	484.75	100.0%	

Source: South Front, 2015
<https://southfront.org/network-of-power/>.

⁴⁵ “International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan In the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project,” 20.

⁴⁶ Trans-Anatolian Natural Gas Pipeline, “Information Note.”

Accordingly, when TANAP becomes fully operational it will constitute to around %2 of the natural gas that will be carried to Europe via pipelines. Even though this amount does not seem to be diversifying, the creation of this new route that does not involve Russia is significant for Europe.

Other important structures of TANAP includes, 7 compressor stations, 4 measuring stations, 11 pigging stations and 49 block valve stations which are vital facilities for the pipeline.⁴⁷ As the pipeline increases the amount of gas that will be carried, the number of these stations will be increased with small additional investments. All of these structures are located above ground while the pipeline is submerged under the soil and a section under the water.

1340 km of the pipeline uses 56-inch pipes through the route between Ardahan and Eskişehir.⁴⁸ After the take-off station in Eskişehir the gas is carried in 48 inch pipes for 476 km until Edirne, while using parallel twin 36 inch pipes for 17.6 km passing through the Dardanelles strait.⁴⁹ The entrance point of TANAP which is Ardahan starts off the pipeline at a mountainous terrain and the route reaches a plain plateau in the mid-section and ends on hilly to mountainous terrain at the exit point in Greece border.⁵⁰

The detailed design of the pipeline was initiated in May 2014 and the construction initiated in 2015, May 18.⁵¹ The project consisted of two phases which are the construction of section until the connection to Turkish natural gas market and later the second phase which finalizes the pipeline construction connection to TAP. Accordingly, the initial phase of the project was finalized in 2018, June 12. The

⁴⁷ Trans-Anatolian Natural Gas Pipeline, "Information Note."

⁴⁸ Ibid.

⁴⁹ Duzyol, "Lessons Learned From Mega Pipeline Projects: TANAP Case."

⁵⁰ Ibid.

⁵¹ Ibid.

inauguration ceremony took place in Eskişehir with the attendance of Recep Tayyip Erdoğan, President of the Republic of Turkey and İlham Aliyev, President of the Peoples Republic of Azerbaijan.⁵² The second phase of the project is planned to be finalized by June 2019.⁵³ Following the completion of construction phase, the project will enter its operational phase, which it will focus on managing the gas flow and increasing capacity for the future.

The construction of the pipeline was carried out in four parts, named as Lots. The engineering, procurement and construction management was carried out by Worley Parsons, while the ILF Consulting Engineers provided the designing and consulting for the project.⁵⁴ The bid for Lot section constructions of TANAP was won by different companies. Lot 1 was constructed by Fernas Construction, a Turkish firm. Lot 2 was constructed by a consortium Sicim, an Italian firm, Yuksel, a Turkish firm and Akkord, an Azerbaijani firm. Lot 3 was constructed by Tekfen Construction, again a Turkish firm.⁵⁵ The section which will connect to Greek border, Lot 4 was constructed by a consortium of Punj Lyod, an Indian firm and Limak, a Turkish firm.⁵⁶

One of the most important technical aspect of the TANAP pipeline, likewise many other pipelines, are the pipes of the project. The steel pipes that were used through the construction of the project was an important bid for Turkish national steel market. Of the 1850 km long route the %80 of the pipes were constructed by Turkish companies which are Borusan Mannesmann, Noksel Boru, Erciyas Boru,

⁵² Trans-Anatolian Natural Gas Pipeline, “An International Ceremony for Inauguration of TANAP.”

⁵³ Shirinov, “TANAP’s Second Phase Construction to be Completed Next Summer.”

⁵⁴ “WorleyParsons Wins Trans Anatolian Natural Gas Pipeline Contact.”

⁵⁵ Hydrocarbons, “Trans Anatolian Natural Gas Pipeline Project (TANAP).”

⁵⁶ “Punj Lloyd-Limak JV Wins TANAP Pipeline Contract.”

Toscelik, Emek and Umran.⁵⁷ The 30% of steel pipes worth 420 million USD were supplied by the consortium of Borusan Mannesman, Noksel and Erciyas, while the 25% of the steel pipes were supplied by Toscelik Profil and the remaining 25% of the steel pipes were supplied by the consortium of Ümran and Emek firms.⁵⁸ Turkish Steel Exporters Association noted the contracts as great opportunities and the head of the association stated that these contracts impacts the steel production in Turkey as such mega international projects appear only every 5-10 years in Turkey.⁵⁹ The remaining %20 of the pipes of 370 km were supplied by Baoshan Iron & Steel Company which is part of the second largest steel company of China, Baosteel.⁶⁰⁶¹ Baoshan Iron & Steel Company is the European branch located in Germany of the Chinese Baosteel. As Baosteel, the second largest steelmaker of China entered the European market, international contracts in the region became vital such as the contract with TANAP. As pointed out by Baosteel this contract was the largest single purchase within the European market deliveries of Baosteel.⁶² This contract is important to note especially considering that in the following chapters China's relation with TANAP will be further analyzed.

Following understanding technicality of TANAP it is vital to analyze the shareholder structure. Under Turkish Commercial Code, TANAP Dogalgaz Iletim Anonim Sirketi was established as a private company that will implement the TANAP project.⁶³ Initially, SOCAR owned 80% of TANAP shares and Turkish

⁵⁷ "Turkish Firm to Supply 80% of Pipes to TANAP."

⁵⁸ "Turkish Companies to Supply 80 pct of TANAP Pipes."

⁵⁹ "Türk Çelik Sektöründe TANAP Sevinci, Çelik İhracatçıları birliği."

⁶⁰ "Baosteel to Supply Gas Pipes for TANAP."

⁶¹ "China's Baosteel to Supply Gas Pipes for Turkey-Azerbaijan Pipeline."

⁶² "The Custom-tailored Products Meet the User's Individual Needs, Baosteel Welded Pipes was Launched into the European Market."

⁶³ "International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan in the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan

BOTAS and TRAO owned 20% of shares. In 2013, British BP which is also the operator company of the Shah Deniz consortium bought %12 of TANAP shares. Later in June 2014 SOCAR sold 10% of its share to BOTAS, reducing SOCAR's share in TANAP to 58 percent. Finally, TANAP is owned by SOCAR with 51% of the shares, BOTAS with 30% of the shares, BP with 12% of the shares and STEAS with 7% of the shares.⁶⁴ As SGC is owned by Azerbaijan's SOCAR and Ministry of Economy of Azerbaijan, TANAP's major shares are of Azerbaijan. However, the second largest shares are owned by BOTAS in which "all capital belongs to Republic of Turkey under secretariat of Treasury and is a related institution of Republic of Turkey Ministry of Energy and Natural Resources."⁶⁵ Therefore, with the second largest stake, the government of Turkey holds a 30% economic power in the investment of TANAP. BP purchased 12% of the shares in the earlier stages of the project in 2015.⁶⁶ STEAS which is the Turkey branch of SOCAR holds the %7 of TANAP shares. STEAS joined as the last shareholder of TANAP in 2017 after purchasing part of SGC's shares. STEAS is owned by SOCAR with 87% of shares and Goldman Sachs International with 13% shares.⁶⁷

On the other hand, the shareholder structure of SGC highlighted the power of Azerbaijan. The shareholder structure of SGC is shown below in Fig. 3.

in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project," 11.

⁶⁴ Duzyol, "Lessons Learned from Mega Pipeline Projects: TANAP Case."

⁶⁵ BOTAS, "About us."

⁶⁶ "BP is Now a Shareholder in TANAP."

⁶⁷ "SOCAR Türkiye Şirket Profili 2017," 3.

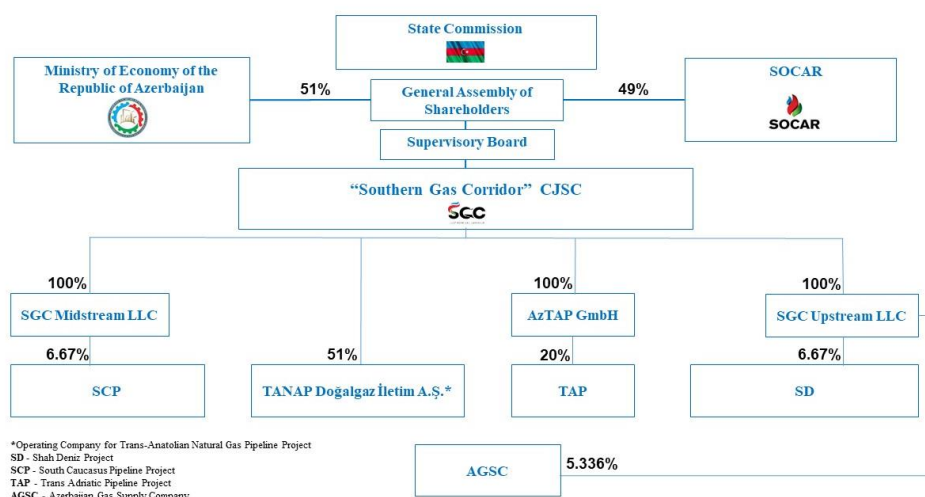


Fig. 3 Shareholders of SGC

Source: Southern Gas Corridor, (n.d.)
<https://www.sgc.az/en/about>.

Overall the majority of the shareholder of the TANAP project involve Azerbaijan government sources. On the other hand, Turkey holds the second greatest power in TANAP shares with BOTAS. Even though the history of the TANAP project represent an emergence from EU policy making, the project does not have direct ownership of EU and does not have beneficiary EU states in its shareholders. The main owner of the project can be defined as Azerbaijan since the project planning and financing is initiated by Azerbaijan. Nonetheless, Turkey is referred as an owner of TANAP as well since both the project only lies within Turkish borders while also the shares of Turkey are vital. The project has been initiated with the agreements between these nations and followed the goals of partnership between these nations. Most of the construction in TANAP was carried out by Turkish firms while the bids on production of pipes were also mostly won by Turkish firms. However, the vice president of International Institute of Welding, Hulya Gedik pointed out that the welding materials and valves for the project were not supplied by firms in Turkey and rather used European sources. Gedik stated that “TANAP had

promises on local purchasing and did not meet these promises in welding and valve works”.⁶⁸ The contract for valves was awarded to Valvitalia S.p.A., an Italian firm.⁶⁹ A detailed list of TANAP’s awarded contracts, including the above described contracts can be found in Appendix A.

TANAP became a viable project with various funding sources including major loans from international institutions. The financing of the pipeline shown below in Table 2.

Table 2. Financing Structure of TANAP

		Amount (Million USD)
BOTAS	Borrower	970
	SGC (Loan to BOTAS)	430
	European Investment Bank (EIB)	800
	International Bank for Reconstruction and Development (IBRD)	400
Sub-total BOTAS		2600
SGC	Borrower	1000
	EIB	500
	IBRD	400
	Asian Infrastructure Investment Bank (AIIB)	600
	European Bank for Reconstruction and Development (EBRD)	500
	Foreign Private Commercial	2000
Sub-total SGC		5000
BP		1000
Total		8600

Source: International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan In the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project.

⁶⁸ “Hulya Gedik’in İthal Malzeme İsyanı.”

⁶⁹ Trans-Anatolian Natural Gas Pipeline, “List of Awarded Contracts.”

According to this IBRD provides 800 million USD for the realization of the project, while AIIB provides 600 million USD.⁷⁰ As the project benefits European gas markets, it is not surprising to see that EIB provides 1,300 million USD and EBRD provides 500 million USD.⁷¹ Other than the IFI loans, TANAP is financially backed up with BOTAS's 970 million USD, SGC's 1430 million USD and BP's 100 million USD.⁷²

Another important aspect that should be mentioned is that TANAP meets international standards. TANAP is an international project that has IFIs funding. Therefore, the project follows the international standards both financially and technically. TANAP followed international environmental and social guidelines during planning, construction and operation phases. For international investments, it is required for the project to follow these guidelines and the activities of the project are monitored and evaluated for consistency with the guidelines throughout construction and operation phases. As the project involved many IFIs such as WB, EBRD and EIB, the project followed WB's guidelines since WB took the leading role for environmental and social assessment. TANAP prepared a Social Impact Assessment to identify the possible social effects of the project in the 20 provinces that the pipeline passes through and defined measures to be taken especially on stakeholder engagement activities. TANAP also developed a social policy that included its corporate social responsibility aiming to improve environment, and identify actions in local communities for contributing to social welfare⁷³. Many other

⁷⁰ "International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan in the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project."

⁷¹ Ibid.

⁷² Ibid.

⁷³ Trans-Anatolian Natural Gas Pipeline, "Social Responsibility."

social documentations such as resettlement action plan were prepared to meet the international social standards.⁷⁴ Furthermore, considering the linear structure of the project and its environmental impacts throughout the pipeline route, a comprehensive Environmental Impact Assessment was carried out. According to Turkish national legislation, Environmental Impact Assessment is a requirement but the project documentation went further to meet the international environmental assessment requirements. According to these, assessment measures were taken to minimize the impacts on environment and as the project progresses they are monitored via internal and external environmental and social teams.⁷⁵

2.4 TANAP official documentation

As an international project that involves many nations and institutions, TANAP has various important official documents. The three most important documents that set the grounds of TANAP are the governmental agreements between states of Azerbaijan and Turkey. Other important documentations are loan agreements of the project with IFIs. In this section, firstly the governmental documentation will be reviewed since they were the initial documents that shaped TANAP. Following this, the IFI documentations on TANAP will be analyzed.

TANAP was officially initiated by the Memorandum of Understanding between Turkey and Azerbaijan. It was signed on 2011, December 24.⁷⁶ This document framed the cooperation between two states and formed the backbone of the pipeline. It was the first official documentation between two governments on

⁷⁴ Trans-Anatolian Natural Gas Pipeline, “Resettlement Action Plan for Above ground Installations.”

⁷⁵ Trans-Anatolian Natural Gas Pipeline, “Integrated Management System Policy.”

⁷⁶ BOTAS, “Trans Anatolian Natural Gas Pipeline Project (TANAP).”

realizing the pipeline. The project consortium was built based on this document and the document defined initial shares of Turkey and Azerbaijan as 20% to 80%.⁷⁷

The structure of pipeline and details on the financial and technical aspects of TANAP were drawn with the Intergovernmental Agreement concerning the Trans-Anatolian Natural Gas Pipeline System between the Government of the Republic of Turkey and the Government of the Republic of Azerbaijan. The Intergovernmental Agreement was signed in 2012, June 26 in Istanbul.⁷⁸ According to this agreement, Turkey and Azerbaijan assured working together in this partnership to finalize the pipeline. The agreement was ratified in both Turkey and Azerbaijan following the signing. The document starts off by highlighting the previous energy cooperation of Turkey and Azerbaijan and their success such as the Baku-Tbilisi-Ceyhan Main Export Crude Oil Pipeline and the Baku-Tbilisi-Erzurum Gas pipeline. The document defines TANAP project as:

as a new, independent and standalone pipeline to provide secure and uninterrupted Transit Passage of Natural Gas through the Territory of the Republic of Turkey from the Georgia/Turkey border to exit points within Turkey and to exit points on the borders of Turkey with Greece and Bulgaria and other points to be agreed.⁷⁹

Even though the pipeline is a part of SGC, there is no highlight of the larger route of SGC on this document. According to Article 4.3. a committee with two members from Azerbaijan and two members from Turkey assigned to administer the application of this agreement.⁸⁰ Article 4.4. points states “[...] SOCAR (or its Affiliates) will establish an Entity in order to construct, install, possess, own, control

⁷⁷ “Intergovernmental Agreement Between the Government of Turkey and The Government of The Republic of Azerbaijan Concerning The Trans Anatolian Natural Gas Pipeline System,” 3.

⁷⁸ Trans-Anatolian Natural Gas Pipeline, “Agreements.”

⁷⁹ “Intergovernmental Agreement Between the Government of Turkey and The Government of The Republic of Azerbaijan Concerning The Trans Anatolian Natural Gas Pipeline System,” 1.

⁸⁰ Ibid., 4.

and operate an electronic communication infrastructure (fiber-optic cable) along the Pipeline Corridor of the TANAP System [...]”.⁸¹ This will allow the control of the pipeline through this operation. The works on land rights for the construction and operation will be facilitated by Turkey according to Article 5, which defines one of the responsibilities of Turkey. According to Article 7 Turkey will adapt a transit passage role in the project. Article 7.1 states:

The Republic of Turkey shall ensure the freedom of Transit Passage and shall take all measures and actions, emergency or otherwise, to prevent the taking of any Transit Passage Gas by any State Authority or State Entity (except where the State Entity is entitled to take such Gas as a party to a commercial gas transportation agreement with the TANAP Project Entity).⁸²

Following this Turkey will not require a passage fee for the pipeline and the further details of this is defined in the HGA which is the annex of Intergovernmental Agreement. Article 7.8 writes that:

The States expressly agree that all volumes of Gas belonging to the Republic of Azerbaijan and planned to be shipped via the TANAP System in excess of an initial volume of sixteen (16) billion cubic meters per Year will first be offered to buyers in the Republic of Turkey.⁸³

This guarantees that Turkey will receive natural gas from the pipeline and allows first access to the source. While Article 7.9. states “The expansion of the TANAP System above the initial capacity of thirty two (32) billion cubic meters per year shall be subject to the mutual agreement of the States”. In case of a planned expansion, following this article both Azerbaijan and Turkey will have a say in the changes of volume of gas. Accordingly, the Article 7.11 points out that “The States agree that the participating interest of state entities owned by the Republic of Azerbaijan in the TANAP Project Entity shall not be less than 51% (fifty one per cent) of the total

⁸¹ “Intergovernmental Agreement Between the Government of Turkey and The Government of The Republic of Azerbaijan Concerning The Trans Anatolian Natural Gas Pipeline System,” 4.

⁸² Ibid., 5.

⁸³ Ibid., 6.

participating interest”. These articles form the ground of the TANAP Project. It is important to note that rights of Azerbaijan are protected via the agreement while roles and responsibilities of Turkey is well defined.

The most detailed agreement on TANAP is the appendix of the Intergovernmental Agreement. The appendix is the HGA between the Government of The Republic of Turkey and Trans-Anatolian Gas Pipeline Company B.V. Concerning the Trans-Anatolian Natural Gas Pipeline System. This agreement is an essential part of Intergovernmental Agreement signed in June 2012. This agreement defines the details on principles and procedures of TANAP project while portraying financial and technical aspects. The HGA was first signed at the same date with Intergovernmental Agreement on June 12, 2012. Following this as an appendix, it was also published on the Official Gazette of March 19 2013 and was ratified.⁸⁴ However as the technical details of the project was altered the HGA was amended and signed again on May 26, 2014.⁸⁵ The amended agreement was published on the Official Gazette and entered into force September 10, 2014.⁸⁶ After this date, there was no amendments on the official intergovernmental agreement on TANAP.

The appendix of HGA focuses on particular details on the project’s application and management. The document starts off by stating that the agreement continues for 49 years for the primary term.⁸⁷ The Host Government of TANAP is Turkey and according to Article 3.2 ensures “uninterrupted, unimpeded, unrestricted and uncurtailed” gas flow in transit.⁸⁸ Turkey not only becomes a partner of TANAP

⁸⁴ Trans-Anatolian Natural Gas Pipeline, “Agreements.”

⁸⁵ Ibid.

⁸⁶ Ibid.

⁸⁷ “Host Government Agreement Between the Government of The Republic of Turkey and Trans Anatolian Gas Pipeline Company B.V. Concerning the Trans Anatolian Natural Gas Pipeline System,” 11.

⁸⁸ “Ibid.” 11.

but also abides to not interfering in the transfer of gas within its borders through this pipeline. Article 5.2 defines the authority within Turkey as the Ministry of Energy and Natural Resources of the Republic of Turkey and states any state related actions such as permits and licenses will be facilitated by this authority.⁸⁹ The important article within the agreement is Article 8.2 which states that “The Host Government shall co-operate with the TANAP Project Entity in relation to the process of raising finance for the TANAP Project.”⁹⁰ This article is important because it forms the financial base of TANAP and points out that Turkey will collaborate on financial decisions of TANAP. The decisions on loans from IFIs are considered under the framework set by this article. Another important article is Article 23 which is on taxes. According to article 23.1 TANAP is exempt from Value Added Tax in Turkey which is an important incentive for the project.⁹¹ On the other hand as Article 23.2 states TANAP will pay Corporation Tax following Turkish national law.⁹²

From a legal standpoint, these agreements are vital for the states of Turkey and Azerbaijan for realizing the TANAP Project without disputes and disagreements. In a comprehensive legal analysis of the agreements İslam Safa Kaya points out that:

When TANAP HGA is reviewed, it is observed that at the least it stipulates the obligations of TANAP Project Company, but, on the other hand, it imposes a lot more obligations on Turkey. From this aspect, it is possible to state that it has the general characteristics of HGA’s. The obligation of compensation imposed to the governments under HGAs takes place under similar agreements. However, the scope of this obligation is more comprehensive in HGAs. [...] In addition, like other HGA’s, TANAP HGA does not have the feature of international agreements. Because, TANAP Project Company, a party to the contract, does not have a personality in terms of international law.⁹³

⁸⁹ “Host Government Agreement Between the Government of The Republic of Turkey and Trans Anatolian Gas Pipeline Company B.V. Concerning the Trans Anatolian Natural Gas Pipeline System,” 13.

⁹⁰ Ibid., 15.

⁹¹ Ibid., 25.

⁹² Ibid., 26.

⁹³ Kaya, "Evaluation of TANAP Agreements in Terms of International Law and Expropriation Law," 107.

Pertaining the HGA document of TANAP, as stated above, the agreement defines strict roles for Turkey while these obligations can be seen in other HGAs on different projects. It is important to note that through this agreement Turkey realizes a vital role for the project and abides to maintain environment for the construction and operation of the project. As Intergovernmental Agreement portrays the natural gas flow through TANAP is guaranteed to continue within Turkish borders by the Turkish state. Kaya states that this Intergovernmental agreement aims “to prevent possible harms during the maintenance of the project by setting forth international technical, safety and environmental standards”.⁹⁴ The Intergovernmental Agreement and HGA are the pillars of this project while other important documents include the agreements signed with IFIs.

Various IFIs are involved in the financing of this project. The finance agreement documentations of the project on TANAP are fairly similar but have some nuanced differences. Two of the IFI documentation is extremely important for this thesis. These are the project documentation with WB and AIIB. Firstly, we will look into agreement with WB.

The official project documentation of WB on TANAP is titled as International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan In the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project. International Bank for Reconstruction

⁹⁴ Kaya, "Evaluation of TANAP Agreements in Terms of International Law and Expropriation Law," 113.

and Development (IBRD) is an IFI within the WB and operates to provide loans on international projects. As the name of this document portrays, the loan is given in two separate sections to companies with two different nations' guarantee. The project is seen as owned by governments in this sense. The document was prepared and released on November 22, 2016. It draws the details on project and presents the role WB will play in the project with the loan provided to SGC Closed Joint Stock Company and BOTAS. The document defines Turkey as the host country of the project and refers to the project as an important section of the SGC. The loan has three main objectives and these are "diversifying, Azerbaijan's natural gas export markets, improving the security of Turkey's energy supply and improving the security of South East Europe's energy supply".⁹⁵ All three objectives are equally important for the WB and the two parts of the loan provided will allow realization of these objectives. The document states that:

The participation of the World Bank in the TANAP project adds value as follows: (a) the Bank brings its advice and experience in the application of international best practice with regards to environmental and social issues, including citizen/stakeholder engagement, as well as fiduciary issues, through its due diligence, which collectively help TANAP enhance the quality of project implementation. This extensive environmental, social and fiduciary due diligence has enabled SGC to seek financing from AIIB and EBRD and it also helped guide the due diligence by all IFIs; and (b) the Bank's role as a mobilizer and catalyzer of finance from other partners strengthens: (i) the ongoing collaboration with the European Commission, EBRD and EIB in the development of the Southern Gas Corridor; and (ii) the new rapidly-developing collaboration with AIIB in the financing of high priority infrastructure projects in accordance with the Co-Financing Framework Agreement between AIIB and the World Bank. In Turkey, TANAP is an integral component of the World Bank's engagement in gas market reform. In Azerbaijan, as part of the Bank's overall engagement in the energy sector, the Bank is supporting the Government in developing and implementing a program on mainstreaming the Extractives Industry Transparency Initiative

⁹⁵ "International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan in the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project," 11.

(EITI) practices into the public reporting system. This concurrent program will be implemented in parallel with the TANAP project.⁹⁶

According to this, WB believes that through this loan the project will adjust to better environmental and social standards guided by WB. Moreover, the project will strengthen the relation of WB with other IFIs and especially AIIB which is a newly developing IFI. TANAP matches with country goals of WB on Turkey and Azerbaijan as both governments are supported economically with this project. As stated by WB this project is part of reform for both Turkish and Azerbaijan natural gas markets. Moreover, considering WB, TANAP “aims at leveraging the WBG institutions’ comparative advantages and instruments for the achievement of improved development outcomes.”⁹⁷ Also, WB sees TANAP as an integral part of energy reform and specifically gas sector reform of Turkey which is a goal within the policy program of WB for Turkey.⁹⁸ For Azerbaijan similarly the project contributes to the policy program of WB. The document states that:

The Project also contributes to the realization of the objectives of the Azerbaijan CPF for FY16-20. TANAP and the Southern Gas Corridor Program contribute to CPF Focus Area 2, Economic Competitiveness, by integrating Azerbaijan with regional and European energy markets, strengthening its connectivity and transit role and increasing its exports. The Bank will also participate in the implementation of the Government’s program (described in paragraph 19) to mainstream the extractives industries transparency reporting in country systems.⁹⁹

Accordingly, financing TANAP strengthens the role of WB in Azerbaijan and Turkey’s energy future. The loan is logical strategically. Financially, as the

⁹⁶ “International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan in the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project,”

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⁹⁷ Ibid., 9.

⁹⁸ Ibid., 9.

⁹⁹ Ibid., 10.

governments guarantee for the national firms this investment does not become a risk for the IFI. The loan given to SGC is for only TANAP, rather than the overall route.

WB states that

assistance to SGC would be directed towards SGC's investment in TANAP. This enables SGC and the World Bank Group to focus its due diligence on one project and maximize efficiency of Bank financing, also taking into account that SGCs largest financing needs are in TANAP.¹⁰⁰

WB notes that the financing needs of TANAP are major and to raise this amount is not possible through only commercial lenders.¹⁰¹ Therefore, the support of IFIs are inevitable for mega projects such as TANAP. Moreover, IFI loans allow for “longer maturity/lower cost financing to balance the higher cost/short tenure commercial borrowings that they will need.”¹⁰² Overall, WB financing of TANAP is financially reasonable since it matches the country profile goals of WB while making possible the realization of this project as it is a vital part of SGC.

It is also important to highlight that WB aims to raise the standards of the project with this loan. As an obligation of this loan, the project agrees to meet the standards of WB and follow the guidelines. Therefore, all project financial activities, construction and operation activities follow the environmental and social safeguards of WB. This is important for measuring the risks of this investment. As the project meets WB environmental and social standards the risks associated to environmental and stakeholders are lowered while the project completion is guaranteed. According to Project Appraisal Document of WB on TANAP, during construction and operation

¹⁰⁰ International Bank for Reconstruction and Development Project Appraisal Document on a Proposed Loan in the Amount of US \$400 Million to The Southern Gas Corridor Closed Joint Stock Company with the Guarantee of the Republic of Azerbaijan and a Proposed Loan in the Amount of US \$400 Million To Boru Hatları İle Taşıma Anonim Şirketi with the Guarantee of the Republic of Turkey for the Trans-Anatolian Natural Gas Pipeline Project,” 13.

¹⁰¹ Ibid., 14.

¹⁰² Ibid., 14.

phases the project will be continuously monitored and evaluated for reaching the above described obligations of the loan. Not only the changes in natural gas market for Azerbaijan, Turkey and South East Europe will be monitored but also environmental and social aspects will be checked to see whether they meet the standards of WB.

The second IFI documentation on TANAP that is crucial for this thesis is the AIIB's documentation of TANAP. AIIB is the co-financer of WB in TANAP project. Therefore, the project documentations are fairly similar. However, the loan provided by AIIB is given to Azerbaijan.¹⁰³ Even though project is within the borders of Turkey, the loan application is made in the name of Azerbaijan. The project document was prepared in November 2016 and approved in March 2017¹⁰⁴, which are similar to WB project approval dates. Interestingly, the document hardly mentions the goal of diversifying energy market of Europe and even though TANAP is stated to be a part of SGC and the loan is given to SGC by AIIB, the relation to diversifying European energy markets are not the focus of the project document. According to AIIB, the objectives are to “(a) integrate Azerbaijan with regional and European energy markets by strengthening its connectivity and transit role and (b) to improve the energy supply security of Turkey and South Eastern Europe.”¹⁰⁵ Unlike WB, AIIB does not define the benefits of South Eastern Europe separately but chooses to combine it in a bullet point with the aim of the loan to improve Turkey's energy supply. This is important to note because AIIB, since its establishment states that it aims to support the development of overall Asia and specifically infrastructure

¹⁰³ Asian Infrastructure Investment Bank, “Project Summary Information,” 1.

¹⁰⁴ Ibid., 1.

¹⁰⁵ Asian Infrastructure Investment Bank, “Project Document of The Asian Infrastructure Investment Bank Republic of Azerbaijan Trans Anatolian Natural Gas Pipeline (TANAP) Project,” 7.

of the countries in Asia while supporting Europe is not within its the defined scope. In the introduction of the document it is stated that “the positive impact of the project on the economic development of associated countries, specifically Turkey and Azerbaijan, are immense and in line with AIIB’s mission of promoting and strengthening economic growth in Asia through infrastructure investments.”¹⁰⁶ However later in the document it is stated that the eventual beneficiaries of the loan are “the citizens of Azerbaijan and natural gas consumers in Turkey and South Eastern Europe.”¹⁰⁷ According to this South East Europe nations have an equal beneficiary position with Turkey and this proposes an issue since AIIB does not have a particular aim of supporting Europe. The major aspect of the project which is delivery of gas to European network is regarded as a minor outcome of the project in AIIB documentation to rationalize the relation of AIIB and TANAP.

Another important issue is that this document defines WB as the leading IFI for the co-financing of TANAP. The document states that:

The co-financing arrangements for the Project between WB and AIIB will follow the co-financing framework agreement signed by the respective Presidents of the two institutions in April 2016. In essence, the WB’s policies and procedures on safeguards, procurement, financial management, project monitoring, and reporting will be used for the Project activities to be financed in whole or in part out of the loan proceeds (including activities to be financed by AIIB).¹⁰⁸

This loan becomes a learning opportunity for AIIB from WB. Throughout the financing process, and monitoring AIIB will develop further relations with WB while receiving valuable experience in financing international projects. As the project TANAP is a part of a bigger role of SGC, the presence of AIIB develops the role of

¹⁰⁶ Asian Infrastructure Investment Bank, “Project Document of The Asian Infrastructure Investment Bank Republic of Azerbaijan Trans Anatolian Natural Gas Pipeline (TANAP) Project,” 6.

¹⁰⁷ Ibid., 7.

¹⁰⁸ Ibid., 10.

this newly established bank in the world of IFIs. Not only AIIB learns through this project but also it develops its name through the financing of TANAP.

The document also defines SGC as the direct recipient of the loan as the 400 million USD is given to SGC to invest towards TANAP. The payments of SGC back up with AIIB will be used for TANAP construction and operation costs.¹⁰⁹ The document points out that

Given SGC's ability to repay debt is fully dependent on the success of the overall Program, the debt sustainability of SGC was evaluated through its future cash flow and debt amortization profile (refer to Annex 3). The primary source of revenue and cash generation for SGC is through TANAP given its' large majority share in the project compared to the rest of the SGC projects. The World Bank has assessed that SGC's overall financing strategy is robust, and is being carried out with support of reputable international financial advisors with an objective to meet all of its financing obligations at the lowest possible costs.¹¹⁰

Thus, AIIB sees the project as financially viable. According to AIIB at least within 10 years of investment, by 2029 the TANAP entity will repay the loans.¹¹¹

Looking at the WB and AIIB loan documentations two important aspects should be noted. Firstly, there is almost a cover up effect on the AIIB for the aspect of project carrying natural gas towards Europe, whereas WB defines this aspect as a project goal. Secondly, AIIB documents put high emphasis on the leadership goal of WB in co-financing. This allows AIIB to not take active responsibility for the investment but rather have an overall outlook in the financing. AIIB can learn and be present through the financing process and further develops its relations with WB and other participating IFIs. This becomes an opportunity for AIIB to settle in the world of IFIs and develops its standing.

¹⁰⁹ Asian Infrastructure Investment Bank, "Project Document of The Asian Infrastructure Investment Bank Republic of Azerbaijan Trans Anatolian Natural Gas Pipeline (TANAP) Project," 15.

¹¹⁰ Ibid., 14.

¹¹¹ Ibid., 14.

The documentation of other IFIs are not studied in detail for the purposes of this thesis. EBRD, EIB and ADB also provide loans for TANAP. However, WB is the leader within the IFIs in this project and since the research question does not focus on understanding Europe's relation with TANAP the detailed analysis of project documentation is not fundamental.

2.5 Recent developments and future of TANAP

The current developments of TANAP include developments during the construction, opening and operation phase of the project. The construction of the pipeline continued as planned and did not lag in delivery. As defined within WB documentations on TANAP, the project followed environmental and social standards and were monitored regularly. The opening ceremony of the first phase of the pipeline took place in June 2018. The construction of the second phase continued and will be finalized during summer of 2019. Once the operation of the pipeline is initiated to carry natural gas to EU via TAP, the pipeline will enter its operational phase. Throughout operational phase the monitoring and evaluation of IFIs will continue and the project will continue to meet the standards of WB.

Looking at the recent developments, the most important action is the inauguration ceremony of the first phase of TANAP. The inauguration ceremony took place in Turkey but had strong international presence. The shareholders of TANAP attended the event. Azerbaijan and Turkey became the hosts of the event as the project is a cooperation between two nations.

President of Azerbaijan Ilham Aliyev spoke at the inauguration ceremony and “mentioned several aspects with regard to historic and geopolitical significance.”¹¹²

Aliyev stated:

The commissioning of TANAP today is yet another manifestation of the Turkish-Azerbaijani brotherhood. TANAP is another victory for Turkey and Azerbaijan. TANAP is a historic project. Today we are writing the energy history of the 21st century together. This is a history of cooperation, a history of stability. Our energy projects bring stability to the region. All countries and companies participating in these projects are benefiting from them. People benefit from them. The implementation of such a giant project as TANAP has been possible thanks to the firm political will of the leaders of Turkey and Azerbaijan.¹¹³

Furthermore, during the ceremony within his speech President of Turkey Recep

Tayyip Erdoğan stated that:

With TANAP, Turkey has assumed a critical role in every link of the value chain extending from producer to final consumer and is no longer a transit country. Our country is now one step closer to its vision to become a hub of regional energy lines thanks to TANAP.¹¹⁴

As a representative of BP, the executive officer Bob Dudley also attended the event and stated that TANAP’s inauguration is a critical action for the completion of SGC.¹¹⁵ Other important leaders in the region such as The President of Turkmenistan Gurbanguly Berdimuhamedow attended the inauguration. Berdimuhamedow highlighted “the existing solid mutual potential for enhancing the cooperation, including in the field of energy.”¹¹⁶ For representing the TANAP entity’s point of view, Rovnag Abdullayev who is the SOCAR President and TANAP Chairman at the time stated that:

TANAP will further accelerate the economic development of both Turkey and Azerbaijan and it will contribute greatly toward securing gas supply for

¹¹² “Inauguration of TANAP: Geopolitical Significance of “Energy Silk Road”. ”

¹¹³ “President Ilham Aliyev Attended Inauguration Ceremony of TANAP Project in Turkish City of Eskisehir.”

¹¹⁴ “Our country is Now One Step Closer to Its Vision to Become a Hub of Regional Energy Lines Thanks to TANAP.”

¹¹⁵ “Major Gas Pipeline Opens in Turkey.”

¹¹⁶ “Erdogan Invites Turkmen President to Attend TANAP’s Inauguration Ceremony.”

Turkey and Europe. Bringing Azerbaijani gas directly to European markets will strengthen Turkey's geostrategic position, leading the country to becoming an energy center.¹¹⁷

It should be noted that in all speeches the cooperation between Azerbaijan and Turkey was highlighted. Moreover, the potential future role of the project was briefly mentioned.

However, before looking into TANAP's future, firstly outlook for SGC should be mentioned. SGC's future has an issue of resources for expansion. Currently, the planned 16 bcm is viable through Shah Deniz 2 field. However as the project is expected to expand, SGC might face difficulties. Pirani states that:

The supply issues [...] have been the main constraints on the expansion of the southern corridor. But the level of demand in European and Turkish markets, and the level of gas prices – which are low relative to the costs of delivery of southern corridor gas – have also constrained the southern corridor's progress, and will continue to do so.¹¹⁸

The expansion depends on Azerbaijan's ability to provide natural gas at the demanded price for the demanded amount. Pirani highlights "The realistic prospects for the southern corridor prior to 2030 remain in a range between continuing at the expected 2020 level of supply, or undertaking a moderate expansion, e.g. by a second string of the TANAP pipeline."¹¹⁹ This addition could only cause struggle for Azerbaijan since developing the new resources in Caspian will require time.

The most vital outlook on TANAP is on its operation and expansion as a part of SGC. The pipeline operation will continue for a long period as long as there are natural gas resources to transfer to Europe. However as planned the amount of natural gas to be carried is planned to be increased. This increase is predicted to come from both Azerbaijan's resources as well as other nations joining the route.

¹¹⁷ "An International Ceremony for the Inauguration of TANAP."

¹¹⁸ Pirani, "Let's Not Exaggerate: Southern Gas Corridor Prospects to 2030," 20.

¹¹⁹ Ibid., 23.

The nations that are discussed to provide resources are Turkmenistan, Iraq, and Iran.¹²⁰ Amongst these nations Turkmenistan is the country that raises the most debate. Even though the route connecting to Turkmenistan will be beneficial for EU markets, it is highly unlikely to be completed. Bilgin states this as:

All of the plans and their attendant difficulties associated with Southern Corridor routes do little or nothing for Turkmenistan unless it can solve the problem of getting gas across the Caspian Sea. Establishing the Trans-Caspian pipeline, or some similar route, remains a necessary first step. Russia seeks to frustrate the Trans-Caspian project by lodging two essential objections to a gas pipeline from Turkmenistan to Azerbaijan. First, opponents of this pipeline (largely Russia and Iran) urge that it is environmentally dangerous, claiming that the Caspian Sea is environmentally sensitive and that laying a pipeline might lead to ecological problems.¹²¹

For Central Asia, TANAP becomes a possible route to connect to EU natural gas market as well. Trans-Caspian pipeline has many struggles but most importantly Russia and Iran demand that there should be a distributed governance over the Caspian energy sources while this pipeline will frustrate this demand.¹²² However as Cobanli's finding summarizes the connection is highly unlikely to be beneficial for Central Asia. While discussing the role of Central Asia in Eurasian natural gas markets Cobanli states:

My four most important findings are as follows: (i) Due to ample production capacities in Central Asia, there is no strategic interaction between the West and China and thus, little demand competition for Central Asian gas. (ii) As a result, the Turkmenistan–China pipeline does not affect the strategic impact of the westbound pipeline options on the bargaining power structure. (iii) For Turkmenistan a link via the Caspian Sea to Turkey is the most beneficial westbound option. (iv) Although the European Commission (EC) endorses the projects linking the Caspian Region and Central Asia to the European markets, Azerbaijani and Turkmen supplies bring marginal gains to the European consumers.¹²³

¹²⁰ "Gas May be Shipped Through TANAP from Turkmenistan, Iran, Iraq -Baku."

¹²¹ Bilgin, "Geo-Economics of European Gas Security: Trade, Geography and International Politics," 170.

¹²² Kolb, "The Natural Gas Revolution and Central Asia," 172.

¹²³ Cobanli, "Central Asian gas in Eurasian power game," 350.

Considering his findings, China's presence in the pipeline diplomacy scene between Asia and Europe is not security based but rather has a strategic motive. While China has developed relations with Turkmenistan it is only safe to assume that China might have a slight interest considering its strategic position if Turkmenistan becomes a part of SGC and transfers gas to Europe via SCPX, TANAP and TAP. On the other hand, while analyzing TANAP's impact on Central Asia Furuncu states:

At the same time, the Project foresees that the Caspian and Central Asian energy resources will be exit doors for the world and for Europe, which will need more energy in the near future, and which will be more possible to benefit from this Central Asian energy.¹²⁴

Reflecting on the possibilities of Turkmenistan and other Central Asian countries joining the route of SGC through TANAP, Russia might impact the future of TANAP as well. If the amount of gas to be carried becomes a risk for TANAP.

Bremen points out:

Russia does not want the South Caucasus region and the Balkans to become integral parts of the West; this would mean Russia's loss of influence in these territories. Russia will therefore try to maintain its influence in the future through bilateral economic and, in particular, energy cooperation.¹²⁵

TANAP's future depends highly on SGC'S cooperation with other nations in the region. Russia will play an important role in the region and the further development of this new energy route. Looking from Turkey's standpoint, TANAP will become vital for the energy hub goal Turkey.

¹²⁴ Furuncu, "TANAP'ın Orta Asya ve Avrupa Enerji Pazarlarına Etkisi [Abstract]."

¹²⁵ Bremen, "The Southern Gas Corridor: Initiated By The EU, Completed By Others? TANAP, TAP, and The Redirection Of The South Stream Pipeline," 9.

CHAPTER 3

ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

3.1 Introduction

The main question of this thesis lies on the loan provided by AIIB to TANAP and its indications. Therefore, understanding AIIB is crucial for developing a comprehensive analysis.

In this chapter, firstly the brief history, fundamental characteristics and debates on AIIB is provided.¹²⁶ The membership status of nations as well as discussions around foundation of AIIB will be included in this section. In the subsequent section the goals and strategies of AIIB will be analyzed and investments to-date of AIIB will be presented revealing connections with goals. Finally, a brief future issues will be offered which will highlight areas for further analysis as AIIB continues its operations. This chapter is a concise document on AIIB's foundation, operation and its future.

AIIB is a newly establish institution, which started its operation in 2016, and since then has been actively involved in development projects in Asia. While supporting development in the region, AIIB, also advanced connections between other international institutions and Asia through co-financing of projects. China as the initial founder of AIIB still holds a significant power within the institution.

The aim of this chapter is not only providing essential knowledge on AIIB but also introducing the reader to debates and discussion on AIIB in international politics.

¹²⁶ January 2019 is used as the cut-off date for this chapter. Any news, articles or institutional papers published after January 2019 is not entitled for analysis.

3.2 History, definition and debates

The AIIB is an IFI of which is categorized as a Multilateral Development Bank (MDB). AIIB's mission is stated as "to improve social and economic outcomes in Asia."¹²⁷ The focus of this bank is to support development in three ground points: sustainable infrastructure, cross-border connectivity and private capital mobilization. As of January 2019, AIIB has 93 shareholders, 70 as members and 23 as prospective members.¹²⁸ On January 16, 2016 AIIB began its operations with a USD 100 billion subscribed capital.¹²⁹ Even though as this bank was founded as an international institution, the idea of this new bank was established by a single state, China.

AIIB is often referred as China-led, since the foundation of the bank was initiated, encouraged and realized by China. The idea of AIIB was based on a suggestion mentioned in Boao Forum for Asia held in China in April 2009 by a think tank named China Center for International Economic Exchanges (CCIEE).¹³⁰ CCIEE proposed that investments in infrastructure in Asia was going to be beneficial to obtain high yield in return of investment.¹³¹ Few years later, in 2013 the Chinese President Xi Jinping carried on with the suggestion and announced that China "proposes to prepare for the construction of Asian Infrastructure Investment Bank so as to promote connectivity, construction and economic integration process in the region" during an address to the Indonesian parliament in Jakarta.¹³²¹³³ Xi Jinping's announcement included a statement that China will support the establishment of

¹²⁷ Asian Infrastructure Investment Bank, "Who We Are."

¹²⁸ Asian Infrastructure Investment Bank, "Quick Facts."

¹²⁹ Asian Infrastructure Investment Bank, "Treasury."

¹³⁰ Callaghan and Hubbard, "The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road," 121.

¹³¹ Ibid., 121.

¹³² "President Xi Jinping Holds Talks with President Susilo Bambang Yudhoyono of Indonesia."

¹³³ Wu and Zhang, "Xi in Call for Building of 'Maritime Silk Road'."

AIIB and that AIIB “will work with the existing multilateral development banks outside the region to make full use of their respective advantages and jointly promote the sustained and stable growth of the Asian economy”.¹³⁴ In this vein, the first announcement of AIIB was done by the President of China and highlighted that this new institutions will work hand-in-hand with other similar international institutions while focusing on developing the infrastructure of Asia.

Later, in July 2014, again in another Boao Forum for Asia, Chinese Financial Minister Lou Jiwei provided details on AIIB and in the keynote speech he stated:

The concept of AIIB derives from China’s new administration that intends to establish a new multi-lateral financial organization to enhance Asia’s infrastructure development and connectivity. It originates in China, but in my view, as a new multilateral financial organization, it will migrate to an important platform for Asian countries to build partnership, and for countries around the world, developed countries and developing ones, Asia and other regions alike. It will play an important role in fostering connectivity, financial cooperation and many other fields. I believe in the end it will also stimulate the world’s economic recovery.¹³⁵

The keynote speech highlighted cooperation and suggested that AIIB is not a rivalry to other IFIs but a new source for Asia. It also underlined that this new bank is a product of China and its establishment is a part of the administrative decisions of the Chinese government.

After Lou Jiwei’s speech, AIIB’s first chief negotiations meeting was held in Kunming, China in November 2014 with 22 countries¹³⁶¹³⁷. It was not surprising that the first meeting was held in China since the idea of this bank was developed by

¹³⁴ “President Xi Jinping Holds Talks with President Susilo Bambang Yudhoyono of Indonesia.”

¹³⁵ “A Speech on the Establishment Progress of Asian Infrastructure Investment Bank by Mr Jin Lique, Head of the Working Group for Establishment of AIIB.”

¹³⁶ These countries were Bangladesh, Brunei Darussalam, Cambodia, China, India, Indonesia, Kazakhstan, Kuwait, Lao PDR, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan and Vietnam.

¹³⁷ “The 1st Chief Negotiators' Meeting was held in Kunming on November 28, 2014.”

China. Later in October 2014, 21 regional countries such as India, Thailand, and Vietnam signed Memorandum of Understanding on Establishing the AIIB in Beijing.¹³⁸ On May 22, 2015 in the fifth chief negotiators meeting was held in Singapore and the final text of the articles of the bank was adopted and AIIB Charter was completed.¹³⁹ On June 29, 2015 the articles were signed by 57 prospective founding members.¹⁴⁰¹⁴¹ The Fig. 4 summarizes the timeline of meetings during the founding of AIIB and number participant countries. As it can be observed in the graph the number of participants increased as further meetings were held which meant the participation and contributions in the meetings were more diversified by the time AIIB Charter was finalized. Finally, on December 25, 2015 the articles entered into force and 17 signatories deposited their initial capital subscriptions.¹⁴² In January 2016 with the inaugural meeting of the AIIB Board of Governors, AIIB launched its operations.¹⁴³ The Board of Governors elected the Board of Directors in the following days and the former Finance Vice Minister of China, Jin Liqun was elected as the President of AIIB.¹⁴⁴ During the establishment process, AIIB included both regional and non-regional countries as founding members. Taiwan and North

¹³⁸ “The Memorandum of Understanding on Establishing the Asian Infrastructure Investment Bank (AIIB) was signed in Beijing.”

¹³⁹ Asian Infrastructure Investment Bank, “Our Story So Far.”

¹⁴⁰ “The 5th Chief Negotiators' Meeting took place in Singapore on May 20-22, 2015.”

¹⁴¹ The 57 prospective founding members are Australia, Austria, Azerbaijan, Bangladesh, Brazil, Brunei, Cambodia, China, Denmark, Egypt, Finland, France, Georgia, Germany, Iceland, India, Indonesia, Iran, Israel, Italy, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lao, Luxembourg, Malaysia, Maldives, Malta, Mongolia, Myanmar, Nepal, Netherlands, New Zealand, Norway, Oman, Pakistan, Philippines, Poland, Portugal, Qatar, Republic of Korea, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Tajikistan, Thailand, Turkey, United Arab Emirates, United Kingdom, Uzbekistan and Vietnam.

¹⁴² “AIIB's Charter Enters into Force On 25 December 2015.”

¹⁴³ “The AIIB was Declared Open for Business on January 16, 2016, and Mr. Jin Liqun Was Elected as the Bank's First President.”

¹⁴⁴ “The AIIB was Declared Open for Business on January 16, 2016, and Mr. Jin Liqun Was Elected as the Bank's First President.”

Korea were denied membership and few great powers, such as United States and Japan, abstained in participating in the establishment of this bank.

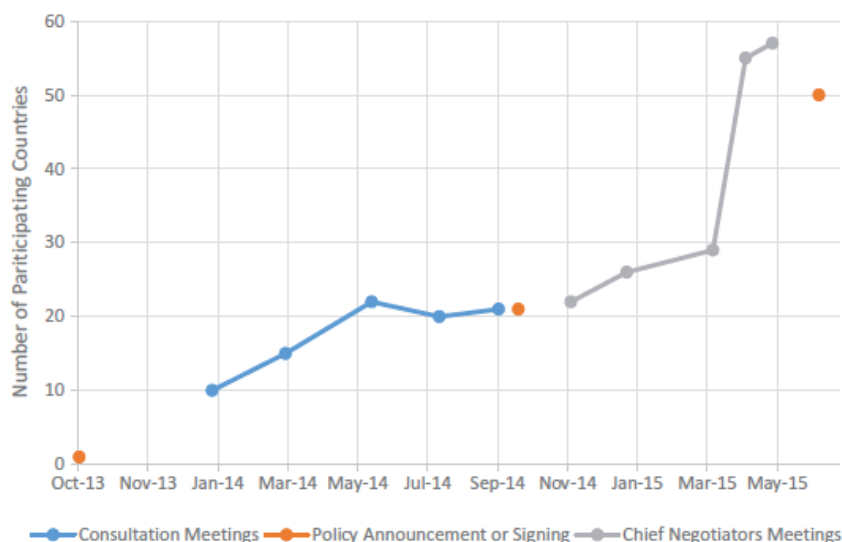


Fig. 4 Timeline of AIIB initial meetings and number of participating countries

Source: Callaghan and Hubbard, “The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road.”

On June 24, 2016, First Annual Meeting was held in Beijing, China where the headquarters of the AIIB is located. During this first annual meeting AIIB Board of Governors approved first four projects that AIIB would finance.¹⁴⁵ As the banks aim is to support infrastructure development in Asia, these first projects had a focus on infrastructure. Three of the four projects were co-financed with other IFIs which were WB, ADB and EBRD.¹⁴⁶ This cooperation with other IFIs, clearly suggested that AIIB is interested in partnership rather than an aim of replacing already established IFIs. In June 2017, Second Annual Meeting of AIIB was held in Jeju,

¹⁴⁵ “AIIB’s Board of Directors Approves \$509 M Financing for its First 4 Projects: Power, Transport and Urban: Investments Span South, Southeast and Central Asia.”

¹⁴⁶ “AIIB’s Board of Directors Approves \$509 M Financing for its First 4 Projects: Power, Transport and Urban: Investments span South, Southeast and Central Asia.”

Korea and Sustainable Energy for Asia Strategy was approved by the bank to support energy projects that promotes sustainability. Subsequently, the first loan to China was given in December 2017 to support reducing the coal use in China.¹⁴⁷

In July 2018 Third Annual Meeting of AIIB was held in Mumbai, India. Later in July 2018 a new model for governance was accepted and trailing this in September 2018 Policy on Public Information was approved by Board of Directors.¹⁴⁸ These were response actions to two main questions raised about AIIB which was its transparency and equality in governance. The new model emphasized roles and responsibilities of the President of AIIB while constructing well-defined reporting and performance guidelines to strengthen the supervision of Board of Directors.¹⁴⁹ In December 2018 AIIB granted permanent observer status by the United Nations, which aims closer cooperation with United Nations.¹⁵⁰

Currently there are 93 total members of AIIB, 70 of which are members and 23 are prospective members. Prospective members reach the membership status once they submit their subscriptions. The members are categorized in two groups, regional and non-regional members. Appendix B presents the 70 members with their regional status, subscription amounts and voting powers. Out of 70 members, 44 are regional and 26 are non-regional members. As a Founding Member, China has the highest amount of subscriptions with USD 29,780.4 billion, which constitutes to the 30.89% of the total subscriptions. Accordingly, China holds the greatest voting power with 26.78% of the total and 300,327 votes. Also, as the total subscriptions of regional members consists of 76.61% of the total subscriptions, they hold 74.57% of the voting power. On the counter side non-regional members only provide 23.39% of the

¹⁴⁷ “AIIB Invests to Reduce Coal Use and Improve Air Quality in Beijing.”

¹⁴⁸ Asian Infrastructure Investment Bank, “Policies and Strategies.”

¹⁴⁹ “AIIB to Transition to New Model For Project Approvals.”

¹⁵⁰ Hong, “AIIB Granted Observer Status at UN.”

total subscriptions and this coincides to only 25.43% of the total voting power. The current total voting power of regional members is much more than voting power of non-regional countries, while China spear-heading the voting power. Table 3 shows that China holds a higher voting power than the total voting power of non-regional members as it holds %26.78 of the voting power while non-regional members hold %25.43.

Table 3. Subscriptions and Voting Power of China, Total of Other Regional and Non-Regional Members of AIIB

	Number of Members	Subscriptions		Voting Power	
		Amount (million USD)	Percent of Total	Number of Votes	Percent of Total
China	1	29,780.4	30.89%	300,327	26.78%
Other Regional Members ¹⁵¹	43	44,074.9	45.72%	536,026	47.79%
Non-Regional Members ¹⁵²	26	22,548.5	23.39%	285,182	25.43%
Grand Total	70	96,403.8	100.00%	1,121,535	100.00%

Source: Asian Infrastructure Investment Bank, 2019
<https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>

According to Article 4.1. of AIIB the capital stock of AIIB is USD 100 billion.¹⁵³ This capital stock is the fundamental source of AIIB's loans and it is comprised of the subscriptions of member countries. Article 4.2. provides further

¹⁵¹ Other Regional Members are Afghanistan, Australia, Azerbaijan, Bahrain, Bangladesh, Brunei Darussalam, Cambodia, Cyprus, Fiji, Georgia, Hong Kong – China, India, Indonesia, Iran, Israel, Jordan, Kazakhstan, Korea, Kyrgyz Republic, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, New Zealand, Oman, Pakistan, Philippines, Qatar, Russia, Samoa, Saudi Arabia, Singapore, Sri Lanka, Tajikistan, Thailand, Timor – Leste, Turkey, United Arab Emirates, Uzbekistan, Vanuatu and Vietnam.

¹⁵² Non-Regional Members are Austria, Belarus, Canada, Denmark, Egypt, Ethiopia, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Luxembourg, Madagascar, Malta, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sudan, Sweden, Switzerland and United Kingdom.

¹⁵³ “Asian Infrastructure Investment Bank Articles of Agreement,” 3.

details, stating that of this USD 100 billion, the USD 20 billion is paid-in and USD 80 billion is callable shares.¹⁵⁴ The callable capital is not required to be submitted like in paid-in subscriptions, this capital is only provided by the countries if the bank requests it. The callable shares are sort of an assurance for the bank as well as it is a way to lower the risks of the MDBs.

As an expert that participated in foundation of AIIB, Lichtenstein N. has written a comprehensive book on AIIB and points out that this structure of shares is aligned with other IFIs. Given that the AIIB capital is divided into two categories of shares it is worth mentioning that shares are not exactly equal to votes. Lichtenstein N. further describes:

Share votes (equal to shareholding) are one component of each member's AIIB voting power, albeit the largest component; each member also has basic votes, and Founding Members also hold 600 Founding Member votes each. As a result, there is difference between a member's percentage of AIIB shareholding and a member's percentage of AIIB voting power. In general, voting power will be less than shareholding for large members and greater than shareholding for smaller shareholders.¹⁵⁵

Examples of this difference can be seen in the differences of percentages in all subscriptions and voting power for the members of AIIB. It should also be noted that this difference can be seen also in other IFIs.

There are three levels of governance in AIIB. Some of these governance levels were mentioned previously in this section. These levels are Board of Governors, Board of Directors and the President of AIIB. All of the levels hold different responsibilities and powers in governing AIIB. Board of Governors is the main source of power within the bank. According to Article 22 every member selects a Governor and Alternate Governor for the Board of Governors.¹⁵⁶ The Board of

¹⁵⁴ "Asian Infrastructure Investment Bank Articles of Agreement," 3.

¹⁵⁵ Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank*, 117.

¹⁵⁶ "Asian Infrastructure Investment Bank Articles of Agreement," 13.

Governors then select Board of Directors which will carry out operational work of AIIB. As specified in Article 25 there are 12 Directors within Board of Directors, 9 of which are regional and 3 non-regional.¹⁵⁷ Board of Directors are required to execute decisions on the strategy of AIIB, preparation of annual planning and all related actions to budget including financing of projects. The Board of Governors also elect the President which has two roles, the AIIB principal executive and Board of Directors Chairman.¹⁵⁸ The hierarchical formation of these levels suggests that, the role of Board of Governors is highly important in forming other decision-making roles of AIIB.

Another important aspect of governance of AIIB is the voting power. Voting power in AIIB constitutes of three parts: the share votes, the basic votes and finally if the member is present since founding then Founding Member votes.¹⁵⁹ Share votes represent one vote for every stock share.¹⁶⁰ The basic votes constitutes the %12 of total votes and are calculated and assigned to every member for every voting action.¹⁶¹ Founding members are only capable of receiving the Founding Members vote which is 600 for each member.¹⁶² The voting member is subject to change as the subscriptions of members are altered over the years. Fig. 5 shows the current ten nations that hold the most power in AIIB which are, respectively, China, India, Russia, Germany, Korea, Australia, France, Indonesia, United Kingdom and Turkey. The slight difference between the percentage of subscriptions and voting power can be observed in the graph as well. Looking at the graph, it should be noted that the

¹⁵⁷ “Asian Infrastructure Investment Bank Articles of Agreement,” 14.

¹⁵⁸ Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank*, 143

¹⁵⁹ Ibid., 150.

¹⁶⁰ Ibid., 150.

¹⁶¹ Ibid., 151.

¹⁶² Ibid., 152.

India, holding the second greatest power in AIIB, has less than one third of China's voting power.

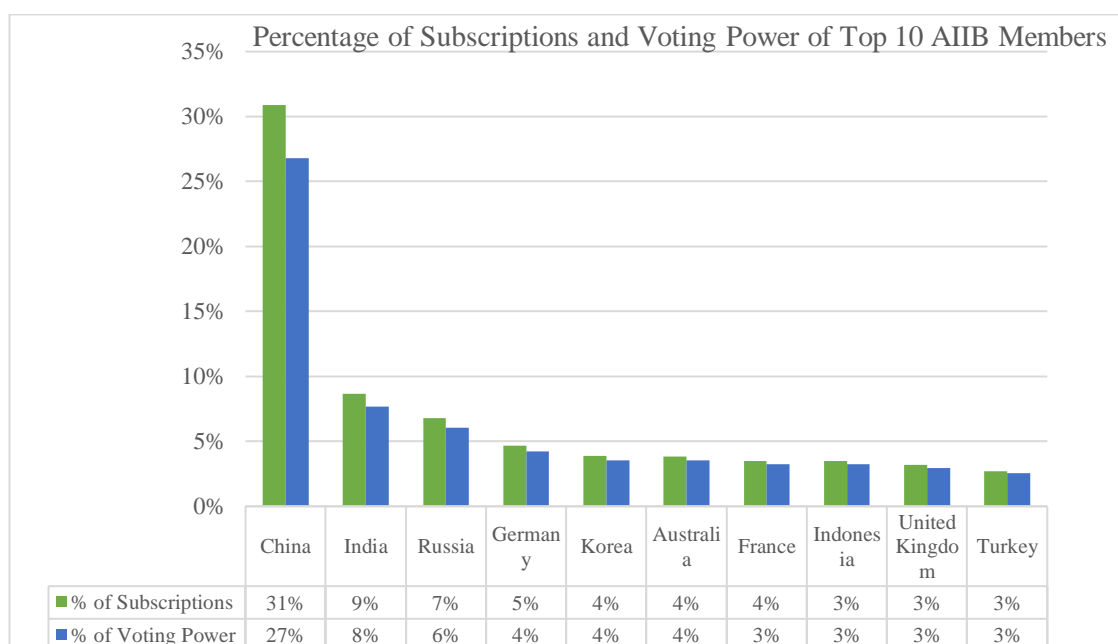


Fig. 5 Percentage of subscriptions and voting power of top ten AIIB members

Source: Asian Infrastructure Investment Bank, 2019

<https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

At this point, after covering the fundamentals of AIIB, it is necessary to delve into the discussions on AIIB. There have been important questions raised about AIIB since the idea of the bank was introduced by Xi Jinping. United States stood against the founding of AIIB and carried a questioning rhetoric in international politics about the aims and goals of this bank. The issues raised about AIIB can be discussed under these three major questions:

- Is AIIB an institution controlled by China?
- Is AIIB in rivalry with the WB, ADB and other IFIs?
- Will AIIB be a transparent institution?

The first question is related to the questionings on voting power of China in AIIB. This has been a significant debate issue since the discussions on establishment of AIIB. Lichtenstein N. underlines:

For the AIIB, the design of the governance took place at a time when the need for governance reforms had been debated for some time in MDB circles. The final AIIB arrangements take up some of these reforms, within an overall structure that is broadly comparable to other MDBs.¹⁶³

As an outcome, there was excitement around AIIB, on whether it can create an equal opportunity for the members in participation, especially through voting power.

Various statements of the bank stressed the aimed international character of the bank and declared that the bank will not be dominated by decisions of China. However, as the subscriptions were submitted and the articles of agreement were accepted, the China dominance could be clearly witnessed. Therefore, the voting power of China in AIIB has been a debate subject since the founding of the bank. The bank stated goals of equal power amongst members however once the subscriptions were submitted as the base of share votes part of the voting power, the promised equality amongst the countries were broken. As it was stated by Lichtenstein N.:

Capital plays [...] [an] important role, in the governance of many MDBs. Voting power is not equal among members but rather weighted principally tied to size of shareholding. [...] As a result, larger shareholders tend to have more say in the institutions, and qualified majority voting requirements for important decisions amplify the impact of capital-based voting power.”¹⁶⁴

AIIB was no different than already established MDBs. Currently, China has submitted 30.89% of the total capital subscriptions of AIIB. Accordingly, the voting power of China became the strongest compared to other regional and non-regional

¹⁶³ Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank*, 127.

¹⁶⁴ *Ibid.*, 101.

countries. The correlation between subscriptions and voting power is not only a case for AIIB but a common character for many IFIs.¹⁶⁵

The interesting part lies on the fact that the country which holds the second greatest power has only 7.69% of the voting power which is India and third, Russia, with only 6.65% of the voting power. The gap between China's and second in line, India's voting power is notably significant. This suggests that China does hold the major power in AIIB, which yields in control over the governance of the bank.

Moreover, even though in establishment of AIIB, China has stated that there is no interest in practicing its veto power, currently China holds the veto power in AIIB. Unlike United Nations, MDBs do not have a defined veto power but if a major powered member holds a significant voting power then that member could have the power to veto a decision. Lichtenstein explicitly explains, "For AIIB, the highest percentage required for major decisions [...] is 75 percent of total voting power. Had [...] China's voting power would [be] just over 26 percent – [China could have] a clear veto power"¹⁶⁶ As of January 2019, since China has a voting power of %26.78, it holds the veto power and could dismiss a decision within AIIB. Overall, to answer the first question, China does have control over AIIB. However, it should not be disregarded that other international members have a say in the decision-making process and since AIIB is a newly formed IFI it does not aim to form a negative reputation as the international bank that is only controlled by China. Callaghan and Hubbard claims:

[...] China would gain significantly if there is no question that the AIIB is a multilateral institution which compares more than favourably with the other MDBs. It would demonstrate that China can make an effective contribution to

¹⁶⁵ Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank*, 101.

¹⁶⁶ *Ibid.*, 161.

providing global public goods and may provide the encouragement to be more active in multilateral leadership.¹⁶⁷

Therefore, China will not constitute AIIB as its own institution and will highlight the importance of diverse international characteristic in control of finance and governance in AIIB.

This being said, it should be noted that it is not likely that decisions made in AIIB will challenge China's governmental policies or actions. As stated by Callaghan and Hubbard "[i]ndeed, there are a number of indirect benefits that China can gain from the careful establishment of the AIIB."¹⁶⁸ Apart from the officially stated goal of AIIB, international politics experts state that there could be various goals for AIIB as its establishment was led by China. Weiss points out that "[t]he creation of AIIB is a part of a broader reorientation of Chinese foreign international economic Policy [...]."¹⁶⁹ In fact, it is in the favor of Chinese government if the investments of AIIB matches with strategy and policy of the Chinese government. However, it should also be noted that "China is not using the AIIB to reinvent Asian regionalism, rather the new bank will strengthen the existing regionalism by increasing connectivity between countries."¹⁷⁰ Moreover, AIIB generally matches the strategic and domestic political actions of China.¹⁷¹ An example of this relationship can be seen with BRI.

The AIIB and BRI was announced around the same time by Chinese government. Establishment of AIIB was questioned for whether it was a fund for BRI. However, as the BRI developed separately the Silk Road Fund these questions

¹⁶⁷ Callaghan and Hubbard, "The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road," 137.

¹⁶⁸ Ibid., 137.

¹⁶⁹ Weiss, "Asian Infrastructure Investment Bank (AIIB)," 2.

¹⁷⁰ Das, "Is China Using the AIIB to Reinvent Asian Regionalism?."

¹⁷¹ Wan, *The Asian Infrastructure Investment Bank: The Construction of Power and The Struggle for East Asian International Order*, 44.

were dismissed. The relationship between AIIB and BRI is not as direct as a fund but is visible since the AIIB finances projects that supports infrastructure development in Asia, which helps into development of BRI. Since 2013 China has been developing the concept of BRI and finally in 2015 China outlined the priorities of the initiative. The BRI aims to advance transportation infrastructures, tighten financial collaborations and diversify cultural interactions. As a result of the BRI, the Chinese government intends to ease investment and trade among the countries within these newly enhanced economic routes. There are two main components of BRI: Silk Road Economic Belt and Maritime Silk Road, which both aiming to create an uninterrupted route from China to Europe.¹⁷² As AIIB commits to projects in Asia laying on the route of BRI “the AIIB is a central part of the ‘One Belt, One Road’ initiative [BRI] that is designed partly to find an outlet for China’s overcapacity in industry and construction.”¹⁷³ The goals of BRI is fairly similar to AIIB and the correlation between these two initiatives of China presents that they follow a common perspective. Fig. 6 shows a map of AIIB member countries and nations included in BRI. There are significant overlaps within these two establishments that were both initiated by China.

¹⁷² Atli, “Turkey as a Eurasian Transport Hub: Prospects for Inter-Regional Partnership,” 121.

¹⁷³ Wan, *The Asian Infrastructure investment Bank: The Construction of Power and The struggle for East Asian International Order*, 54.

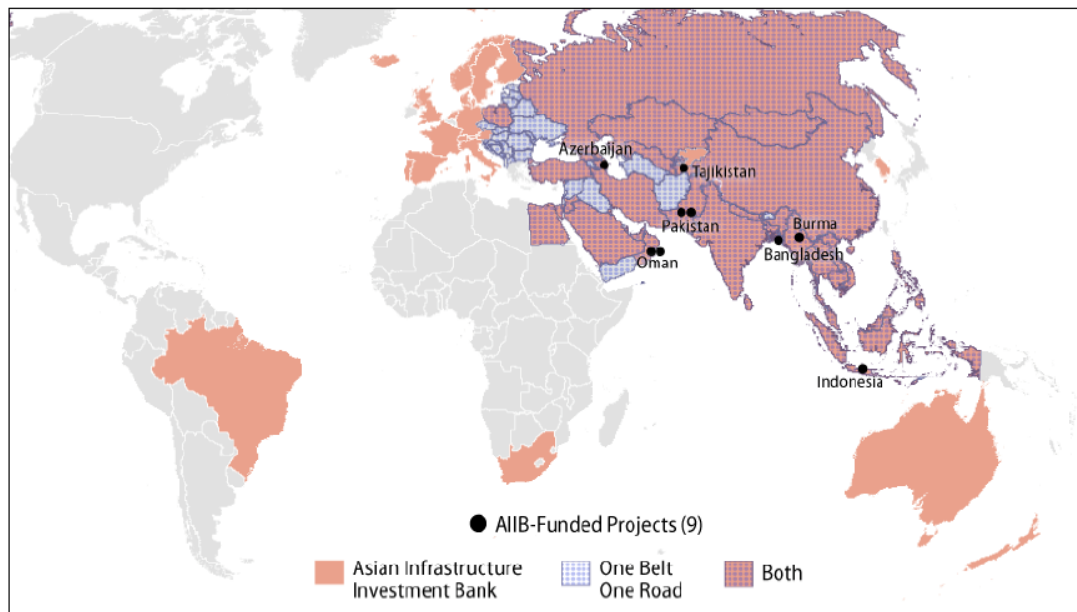


Fig. 6 Map of nations involved in AIIB and BRI

Source: Weiss, “Asian Infrastructure Investment Bank (AIIB).”

The relations between BRI and AIIB is only an example of AIIB’s strong connection with Chinese politics. Wan states that “the AIIB is consistent with China’s recent foreign policy trajectory¹⁷⁴ in Asia and beyond Asia, especially with US and Japan. This relation with AIIB and China could be explained with liberal institutionalism. Wan points out

As liberal institutionalists would predict, China has chosen to create the AIIB because the bank presumably gives Beijing something valuable not readily available in the bilateral route. At the same time, the AIIB would condition China’s behavior just as the World Bank for the United States and the ADB for Japan before China. It is well recognized inside and outside China that it takes more than brute financial power to make an intergovernmental financial institution work.¹⁷⁵

AIIB is an international institution that has strong connections with China, like-wise the connections between other MDBs and other nations. The control of China is visible through the voting power within governance of AIIB, as it should also be

¹⁷⁴ Wan, *The Asian Infrastructure Investment Bank: The Construction of Power and The Struggle for East Asian International Order*, 97.

¹⁷⁵ *Ibid.*, 94.

stressed that AIIB aims for cooperation and integration with other IFIs as an equal and fair partner.

Following this, the second main question on AIIB is more of a concern of whether AIIB is a threat to the already developed international financial order of MDBs or not. Since this bank was initiated by China, a nation that could be considered as a rival to the United States economy, the experts suspected whether AIIB was an attempt to form a new institution to replace Bretton Woods institutions initiated by United States and the IFIs following the similar structures such as ADB. Before initiating AIIB, over the years China have been stating the inequality problems with governance in current MDBs and has asked for change several times. China has critiqued the Bretton Woods institutions for having an uneven balance of power. Griffiths R. states:

The AIIB was the result of China's disillusion with World Bank and the ADB and its frustration with its limited influence in shaping their strategies. The Western powers had written their rules, provided the leadership, dominated the voting and set the agenda – and continued to provide the bulk of the funding.¹⁷⁶

On the other hand, in official statements, by Chinese government, there was no aim stated to address these discontents with other MDBs through establishment of AIIB. While there could be a background intention of slightly amending the IFI system, AIIB through its official documentation and official statements has not made a declaration of going against any MDBs or presented an aim of becoming an opponent institution in international finance.

AIIB models other IFIs such as WB and ADB for its governance and finance structures. AIIB harmonizes with other MDBs' power structure.¹⁷⁷ As AIIB models

¹⁷⁶ Griffiths, *Revitalising the Silk Road China's Belt and Road Initiative*, 9.

¹⁷⁷ Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank*, 155.

these institutions an aim of becoming a rival is not consistent with its own structure. Wan underlines “The AIIB itself is nested to the World Bank and the ADB, thus firmly situated within the existing international financial order. Put differently, the AIIB is a functional equivalent to the existing international financial institutions.”¹⁷⁸ As a new IFI, AIIB follows the footsteps of elder IFIs such as WB and ADB. Even the staff of AIIB included many experts that have worked in these other elder MDBs and the staff have helped shape the institutional structure of AIIB. Needless to say, the challenges and problems with the elder MDBs was not aimed to be repeated in AIIB. Wan clearly describes that “China’s AIIB promises to be faster and more nimble than the existing financial institutions, thus putting pressure on them to reform.”¹⁷⁹ Therefore, modeling other IFIs mainly WB and ADB, AIIB is aiming to become a sibling IFI rather than a rival institution.

In fact, the idea of AIIB, from its first mentioning by Xi Jinping in 2013 highlighted cooperation with other international institutions. AIIB strongly stated that they will cooperate with the Bretton Woods institutions and aim to form a strong relationship with them. Lichtenstein also points out that “The AIIB charter generally directs AIIB to work in close cooperation with other international finance institutions and international organizations concerned with economic development of the region AIIB’s operational areas.”¹⁸⁰ This collaborative perspective could be clearly observed in the current investment of AIIB. Currently out of 35 approved projects, 19 of them are co-financed with other MDBs, mostly WB and including other MDBs. Also, the proposed projects are as well include many co-financings with other MDBs. The case study of this thesis, TANAP is also a clear example of the

¹⁷⁸ Wan, *The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for East Asian International Order*, 86.

¹⁷⁹ *Ibid.*, 86.

¹⁸⁰ Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank*, 131.

cooperation of AIIB, WB, ADB and other IFIs. As it can be seen in the TANAP project development stages these IFIs have held the hand of AIIB throughout financial, social and environmental meetings of the investment. The same IFIs have worked together with AIIB throughout financing stages to sustain the goals and aims of the AIIB. The current project funding history of AIIB, suggests that AIIB is interested in working with the elder IFIs and following their leads. Also, for gaining a strong position in the world of IFIs “[i]t is important that the AIIB positions itself as complementing rather than competing with the other MDBs”.¹⁸¹

Therefore, to answer the second main question, AIIB does not aim to become a rival for other IFIs such as WB and ADB. This is proved with the current investment of AIIB, such as TANAP’s co-funding structure. However, it is interesting that the debate on this issue is still steering and very vibrant. The reason of the still ongoing debate can be traced back to abstaining of United States and Japan in establishment process of AIIB.

Two countries that steered important debate around AIIB during its founding process was Japan and United States. Japan and United States are not members of the bank as they have stood against the establishment since the first discussions of the AIIB. Nonetheless, the international institutions that they are spearheading ADB and WB have signed cooperation frameworks with the AIIB and worked in collaboration with AIIB on several projects.

It is important to note that even though United States did not become a member of AIIB, United Kingdom became a founding member. The action of Britain

¹⁸¹ Callaghan and Hubbard, “The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road,” 136.

to proceed to become a member is significant since it has strong political and economic ties with United States. In the article titled as *New Belts and Roads:*

Redrawing EU-China Relations Xavier Richet, Joël Ruet and Xieshu Wang stated that

UK was the first European country to join the AIIB in March 2015, which was a political message supporting a Beijing-led institution that the UK sees as being useful in the long-term economic development of Asia and Europe. [...] The UK's proactive attitude indicates the primacy it gives to economic and commercial diplomacy, as well as its pragmatic response to the growth of Chinese influence in global affairs.¹⁸²

As the analysis shows United Kingdom choose to become a part of AIIB for economic reasons and considering its prospective relations with China. This supports the idea that there is a shift in the global power as United States is challenged by China while China explores the possibility of leadership in global power. Britain stays on the safe side by involving in AIIB as the new bank has potential to develop and relations with China has a prospect to strengthen.

On the other hand, United States steers clear from AIIB. Once AIIB was announced and called for prospective members to apply, United States declared that they will not become a part of this institution and would recommend its allies to not take part in the institution as well. United States is involved in many other IFIs as shown in Fig. 7. Especially in two banks under the WB institution, United States holds the veto power. United States is also involved in a diverse spectrum of regional development banks and it was interesting to observe such a strong opposition from United States towards AIIB.

¹⁸² Richet, Ruet and Wang, "New Belts and Roads: Redrawing EU-China Relations," 106.

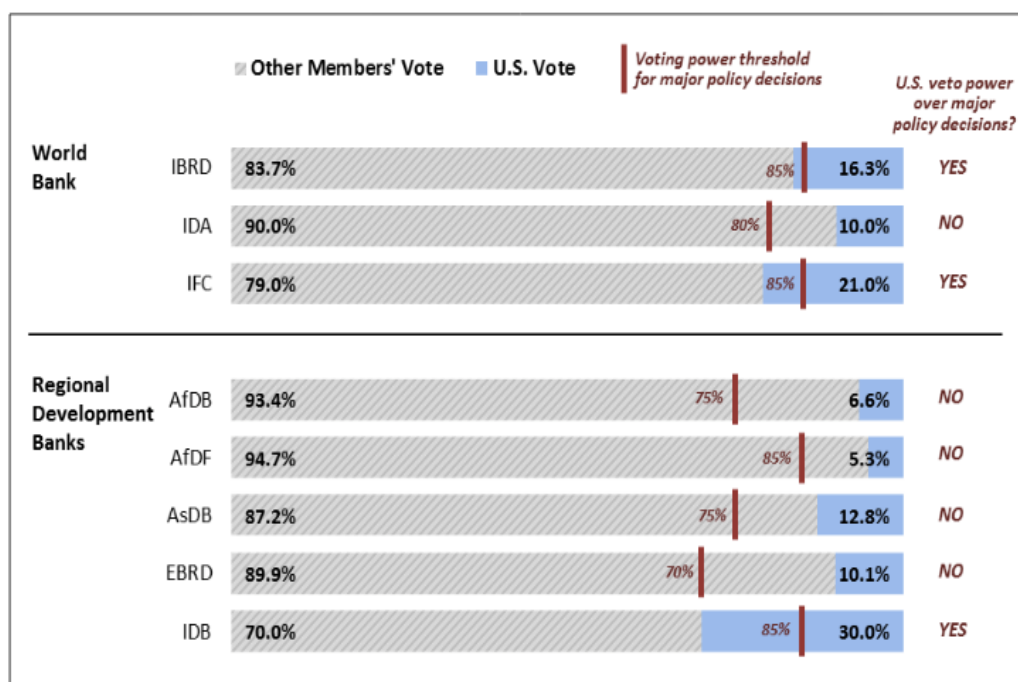


Fig. 7 US voting power in IFIs.

Source: Nelson, “Multilateral Development Banks: Overview and Issue for Congress.”

While opposing the AIIB, United States stated that they have concerns on whether AIIB will be able to have matching standards with other IFIs. These concerns about AIIB were grounded on “[...] China’s poor track record with regard to the transparency and governance of its institutions, not to mention its history of corruption and nepotism along with its lack of a commitment to human rights, intellectual property rights protection, and environmental quality.”¹⁸³ While basing the negative reviews for AIIB on China’s actions, United States used a clear language of disapproval of AIIB and its membership. However, EU countries became members of AIIB and even United Kingdom become a Founding Member. As the development of AIIB was a declaration for a need of change in international

¹⁸³ Chakravorti, “China’s New Development Bank Is a Wake-Up Call for Washington.”

financial order especially for China, the chance to become members in AIIB was “[...] can be regarded as another wakeup call for the EU”¹⁸⁴.

The attempt of United States to dismiss the AIIB in international finance was not accomplished. Therefore, United States’ attitude towards AIIB was soon disregarded. However, Etzioni underlines that:

Although the US response to the AIIB is of limited importance, it illustrates two important issues. First, the US claim that it seeks to integrate China into existing inter-national institutions (Etzioni 2015) falls short when matched against its opposition to the AIIB. Second, a difference exists between all-encompassing multifaceted containment (which includes economic and ideational containment), which the United States seems to be practicing against China today, and aggression-limiting containment, which seeks to contain only acts of aggression.¹⁸⁵

Thus, the stance United States took against AIIB could be seen as a part of the containment policy action towards China.

While analyzing the actions of United States, Callahan and Hubbard states that “[i]n opposing the AIIB, it [United States] has appeared petulant and hypocritical, particularly since the US Congress continues to block reforms to the IMF which would increase the role of the emerging markets, particularly China.”¹⁸⁶ United States’ actions towards AIIB was critiqued heavily. With an overall analysis Griffiths stated “There can be little doubt that the US handling of the AIIB initiative had been an unmitigated disaster – firstly by failing to prevent its allies from joining and secondly, that having failed, making it almost impossible for itself to join”¹⁸⁷ Currently, United States has not stated any interest in joining AIIB.

¹⁸⁴ Hooijmaaijers, “The Asian Infrastructure Investment Bank: Another Wakeup call for the EU?,” 331.

¹⁸⁵ Etzioni, “The Asian Infrastructure Investment Bank: A Case Study of Multifaceted Containment,” 190.

¹⁸⁶ Callaghan and Hubbard, “The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road,” 136.

¹⁸⁷ Griffiths, *Revitalising the Silk Road China’s Belt and Road Initiative*, 10.

On the other hand, Japan clearly stayed out of the establishment of AIIB. Similar to United States Japan stated concerns over the standards of AIIB, but more importantly “there [were] no domestic supporters pushing for the Japanese government to participate in the AIIB”.¹⁸⁸ The two important domestic supporters could have been Ministry of Finance and business leaders. However, The Ministry of Finance did not predict a worth of return of investment through AIIB and AIIB was not appealing for businesses in Japan since the projects were not directly connected to Japanese economy.¹⁸⁹ Another concern of Japan was also whether its “participation would be used to mask the AIIB’s [possible] governance problems.”¹⁹⁰

Following these concerns of Japan and United States, the next question on transparency is strictly related once again power of China within AIIB. China dominating the voting power arose questions on transparency, since within international politics China prevailed a negative image on transparency.

However, Dollard points out that “[c]ompared to China’s policy banks, AIIB is transparent, multilateral, and well-governed. It pays attention to fiscal sustainability and environmental and social standards.”¹⁹¹ AIIB have also implemented an Environmental and Social Framework as well as Risk Management Framework to define the standards that the projects that will be financed needs to meet. In co-financing projects AIIB follows the WB’s lead of implementing and monitoring the social and environmental standards. Also, as Bustillo points out “[the] participation of EU economic powers, albeit limited, was taken as a guarantee of good practice [for AIIB].”¹⁹² AIIB also implemented changes in the structure of

¹⁸⁸ Katada, “At the Crossroads: The TPP, AIIB, and Japan’s Foreign Economic Strategy”, 4.

¹⁸⁹ Ibid., 5.

¹⁹⁰ Ibid., 5.

¹⁹¹ Dollar, “Is China’s Development Finance a Challenge to the International order?,” 23.

¹⁹² Bustillo and Andoni, “China, the EU and Multilateralism: the Asian Infrastructure Investment Bank,” 13.

governance to address the concerns as providing more over-seeing procedures for decision-making.

3.3 Goal, strategies and projects of AIIB

The goal of AIIB is stated in Article 1 as:

The purpose of the Bank shall be to: (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.

Briefly, AIIB aims to promote infrastructural development on Asia while endorsing partnerships. This goal is trailed in the projects that AIIB supports.

For determining and planning investments AIIB acts strategically and systematically.¹⁹³ There are currently five strategic plans implemented in AIIB. These are Sustainable Energy for Asia Strategy, Strategy for Mobilizing Private Capital for Infrastructure, Strategy on Financing Operations in Non-regional Members, Transport Sector Strategy and Sustainable Cities Strategy. Amongst these strategies, one particular has a higher importance for this thesis as it specifically focuses on energy investments. Sustainable Energy for Asia Strategy presents a structure for energy projects that AIIB will provide loans to.

As of January 2019, there are 34 approved projects of AIIB with a total of USD 7,536.99 million in loans. Additionally, there 8 projects that are approved as a part of AIIB Project Preparation Special Fund. Moreover, there are 23 projects that are proposed to AIIB and that have not received approval yet. The list of all of these projects, including loan amounts and other co-financing MDBs can be seen in Tables

¹⁹³ Asian Infrastructure Investment Bank, “Strategies.”

C1 – C3 in Appendix C. As Appendix C shows, out 34 approved projects of AIIB 19 are co-financed with other MDBs such as WB and ADB, while the only MDB financing for other 15 projects are AIIB. The sectoral distribution of the approved projects is shown in Table 4. Accordingly, the majority of approved projects are within energy sector with 12 projects, while transport sector follows as second with 8 projects. This shows that the AIIB is leaning towards energy infrastructure development initially in Asia which supports its presented strategy.

Table 4. Number of Approved Projects According to Sectors

Sector	Number of Approved Projects
Energy	12
Transport	8
Multi- sector	7
Water	4
Telecoms	1
Urban	1
Other	1
Total	34

Source: Asian Infrastructure Investment Bank, 2019
<https://www.aiib.org/en/projects/approved/index.html>.

Looking at the cooperation with other MDBs, AIIB has been very active in co-financing the projects with other MDBs. Out of 19 projects that are co-financed with other MDBs, the two most two MDBs that worked with AIIB was WB with 13 projects and ADB with 4 projects. The co-financed projects are a majority within approved projects but also other MDBs presence in the co-financed projects are greater than AIIB. Table 5 shows the details of co-financing for the total of 19 projects. Compared to the total loans provided by other MDBs AIIB has a smaller share of 34.82%. This supports the idea that AIIB is not aiming to dominate the

projects it finances. Also, as a newly developed MDB AIIB aims to learn from the other MDBs with these co-financing opportunities.

Table 5. Loan Amount Distribution of Co-Financed Projects

	Loan Amount (USD million)	Percent of Total
AIIB	3945.6	34.82%
Other MDBs	7384.3	65.18%
Total	11329.9	100.00%

Source: Asian Infrastructure Investment Bank, 2019
<https://www.aiib.org/en/projects/approved/index.html>.

Looking at the 23 proposed projects energy the trends presented in approved projects are different. The Table 6 shows that the majority of proposed projects are within transport sector with 8 projects while the next is water sector and energy sector only in the third place with 4 proposed projects.

Table 6. Number of Proposed Projects According to Sectors

Sector	Number of Projects
Transport	8
Water	6
Energy	4
Urban	3
Other	2
Total	23

Source: Asian Infrastructure Investment Bank, 2019
<https://www.aiib.org/en/projects/proposed/index.html>.

Moreover, 8 of the proposed projects are planning to be co-financed with other MDBs too. Table 7 states for the proposed projects that out of the total loans of MDBs AIIB provides 31.89 of the MDB financing while others' share is 68.11%.

This trend is similar to approved projects and suggests that the strong cooperation with other MDB's will be continuing in the future of AIIB.

Table 7. Loan Amounts of AIIB and Other Co-Funder MDBs

	Loan Amount (USD million)	Percent of Total
AIIB	922.5	31.89%
Other MDBs	1970.5	68.11%
Total	2893	100.00%

Source: Asian Infrastructure Investment Bank, 2019
<https://www.aiib.org/en/projects/proposed/index.html>.

This suggests that AIIB will be continuing its cooperation with other MDBs. As AIIB does not impose a rivalry role in the world of IFIs, especially in such early years it will strive for cooperation and co-financing of the projects. Moreover, AIIB is not taking a leader role in the projects that are co-financed with other institutions as AIIB is still in its early stages of development and takes the co-financing projects as an opportunity to further develop and learn from older MDBs.

3.4 Future of AIIB

In the realm of this thesis, there are two important points for AIIB's future. The first is on the future role of China in AIIB is important, as it includes further answers to debates introduced previously in this chapter. Secondly, Turkey's relations with AIIB is significant for the purposes of the thesis. These subjects could also be directions for further research and analysis, as they will evolving and altering with time.

AIIB is a new MDB. It was only established in 2015 and even though these last 4 years have been very active, it is still a short time to determine a trend for

future. Rather than a trend, it can be suggested that AIIB is following the politics of China. As the subscriptions play an important role in the decision-making mechanism and as China continues to dominate the subscriptions, AIIB will not clash with Chinese political and economic decisions. As the majority of shares of AIIB is within the hand of China, it can be predicted that China's political and economic actions will continue to highly impact AIIB. With this in mind, it should be noted as Lichtenstein states "[w]here one or two members hold a controlling share, the MDBs success can be closely tied to political, economic and financial shifts in those countries."¹⁹⁴ According to this the changes of Chinese politics will alter the policies of AIIB, in the future.

It should be reiterated that even though AIIB is a newly established bank, it aims to fill in an important spot in the world of MDBs. Ming Wan clarifies this as:

The AIIB is most likely to have a strong presence in the international development financial scene. China will work hard to make the bank work because the country's and President Xi's reputation is at stake. There is no reason to believe, however, that the AIIB will necessarily be more successful than the World Bank and the ADB in facilitating development in a broad sense. Economic development is possible since a good number of countries have already done that.¹⁹⁵

According to this as AIIB develops and invests further in international projects it will gain a stronger position in IFIs and China might gain a better standing in controlling the world of IFIs. Wan also points out:

When future historians and political scientists study East Asian international relations, they are likely to view the establishment of the AIIB as a pivotal event, as both a reflection of a changed power equation in Asia and as a catalyst for further strategizing and action for the countries involved.¹⁹⁶

¹⁹⁴ Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank*, 205.

¹⁹⁵ Wan, *The Asian Infrastructure Investment Bank: The Construction of Power and The Struggle for East Asian International Order*, 102.

¹⁹⁶ Wan, *The Asian Infrastructure Investment Bank: The Construction of Power and The Struggle for East Asian International Order*, 104.

The role of AIIB in international relations of China will be developed according to the actions of the institution. AIIB's future is still full of questions. The projects AIIB choose to finance and the subscriptions of member nations will change the place of AIIB in the world of IFIs. Lichtenstein states "As AIIB's membership spans the globe, a broad range of regional and global frictions and friendships will doubtless influence its path forward."¹⁹⁷ The future of AIIB will depend on China's political and economic interests and develop with the support of Chinese government. It should also be noted that "the establishment of the AIIB not only benefits many developing countries in Asia, but also achieves mutual benefit and win-win results between China and Asia and Europe."¹⁹⁸ The interest of not only Asia but China's relations with other regions such as Europe will play a crucial role in shaping the prospective projects of AIIB.

The relation of AIIB and Turkey is a noteworthy topic of interest too. Firstly, in March 2015, Numan Kurtulmus, Deputy Prime Minister at the time, in a diplomatic visit at Japan when asked about AIIB stated "Turkey does not have special works and relations with this bank"¹⁹⁹. Even though Kurtulmus' statement on the initial response of Turkey on AIIB was vague, later on Turkey applied to become a founding member. On April 15, 2015, Turkey was accepted as a founding member to AIIB.²⁰⁰ Following this, the Grand National Assembly of Turkey passed the draft law on establishment agreement of AIIB with 226 affirmative votes and 7 rejection votes and the Prime Minister at the time Recep Tayyip Erdogan approved the law in

¹⁹⁷ Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank*, 203.

¹⁹⁸ Guo and Wang, Ya touxing yi zhounian cheng ji feiran guwu "Yidai Yilu" quanqiu xiaoying 亚投行一周年成绩斐然鼓舞 "一带一路" 全球效应 [The first anniversary of the AIIB has aroused the "One Belt, One Road" effect globally].

¹⁹⁹ "Kurtulmus Acikladi: Turkiye Katilmayacak."

²⁰⁰ "Turkey joins AIIB as a Founding Member."

2016.²⁰¹ Following this, Deputy Prime Minister for economy, at the time, Mehmet Simsek stated that “Turkey became an AIIB member in adherence to its international, political and economic policies which require developing cooperation with Asian countries and enabling the private sector to benefit from financing opportunities.”²⁰² Simsek highlighted that “Turkey will now be able to actualize a number of large-scale projects in the energy, transportation, health and education sectors in the long term.”²⁰³ At this point, it should be highlighted that Turkey as a founding member has been developing its relations with AIIB in the past few years.

The relationship between AIIB and Turkey will grow stronger in the future as the number of projects funded by AIIB will increase. Also, the Chinese-Turkish economic relations will develop through the current projects and future projects that are signed between the two countries. As an example, currently the natural gas pipeline project of TANAP provides an important economic tool for Turkey while the AIIB loan is one of the reasons the project is viable. Turkey is benefiting from the construction and the development of the TANAP financially. Moreover, there are two other projects that are approved for loans by AIIB. On September 2018, AIIB approved to fund TSKB Sustainable Energy and Infrastructure On-Lending Facility. With the loan provided by AIIB up to 200 million USD, TSKB will fund “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.”²⁰⁴ This financing will be important for Turkey’s goal of

²⁰¹ “Cumhurbaşkanı Erdoğan, Asya Altyapı Yatırım Bankası Kuruluş Anlaşmasını Onayladı.”

²⁰² “Asian Bank Partners with Turkey, Opens Doors for Private Sector.”

²⁰³ Ibid.

²⁰⁴ Asian Infrastructure Investment Bank, “Project Summary Document of TSKB Sustainable Energy and Infrastructure On-lending Facility.”

developing its energy sustainability. The second approved project of Turkey is another energy project co-financed with WB. The Tuzgolu Gas Storage Expansion Project of BOTAS was approved to be co-financed by AIIB with a loan of 600 million USD on June 2018.²⁰⁵ This loan will develop the natural gas storage capacity of Turkey. It is a very significant project for Turkey since the country aims to become an energy hub. It is important to note that the two approved project and TANAP which passes through Turkey are all energy projects that are supported by AIIB. AIIB shows interest in Turkey's energy developments. This is expected to grow as AIIB has an attentiveness towards energy projects. Currently the relation between Turkey and AIIB is growing stronger and as the number of projects and amount of funding increases it will continue to grow stronger.

²⁰⁵ Asian Infrastructure Investment Bank, "Project Summary Document of Turkey Gas Storage Expansion Project."

CHAPTER 4

A COMPARATIVE ANALYSIS OF THE INTEREST OF TURKEY AND CHINA IN TANAP

4.1 Introduction

Throughout this thesis, until now the reader has been introduced to TANAP and AIIB. The details of the project have been defined in Chapter 2 while delving into the primary official documents on TANAP. Chapter 3 analyzed the details on AIIB and established that AIIB is directly associated to China as an IFI initiated and led by Chinese investment. The necessary fundamental information on AIIB loan to TANAP has been covered in the previous chapters and this chapter aims to focus on analysis and answering the research question in two parts.

Two countries, Turkey and China are selected as the focus of this thesis in its relationship with TANAP. For this reason, this chapter will be separated in two sections where in the initial section the interest of China in TANAP will be discussed and in the next section the interest of Turkey in the same project will be discussed.

China is associated to TANAP project via the loan provided by AIIB. Participation of AIIB in financing this new pipeline raises questions as there is not a direct connection between the goals of AIIB and TANAP. Even though AIIB reasons this credit as a support for Asian economies, the beneficiary of the project is EU and partially Turkey. The first section of this chapter questions the aim of this credit. China's interest in TANAP could be a strategic interest or an energy-security based interest. This first section answers the question on the source of interest of China.

In the next section Turkey's intentions with TANAP is analyzed. TANAP is a significant energy project for Turkey. Similar for the analysis on China, Turkey's

energy security need and strategic interest in TANAP is presented in the chapter. The highlight of this analysis lies on the discourse of Turkey becoming an energy hub. As the representatives of government of Turkey have increasingly stated the interest to become an energy hub in the region, TANAP's role is significant in realizing this goal. On the other hand, many argue that Turkey only holds the characteristic for becoming an energy transit country and does not hold enough energy sources and facilities to become a hub. Both sides of the argument will be analyzed in terms of its connection with TANAP while this will provide an outlook on Turkey's relations with TANAP.

4.2 The interest of China

China is one of largest energy consumers of the world. This high consumption is due to the manufacturing of China in high amounts. While China produces goods for the world, its energy consumption rises. To meet the energy need for production and manufacturing in China mainly the nation mainly uses coal as its resource. As the production increased and economy grew the consumption of coal increased rapidly. Looking between 1990 and 2016 China has tripled its coal consumption from 1.05 billion tons to 3.97 billion tons.²⁰⁶ Coal became the major source of energy in China. However, this rapid increase in consumption resulted in environmental issues for China. When discussions on the energy consumption of China is presented, one the most prominent issue becomes pollution. As the production of China increased to meet the demands of the world trade, the coal-based energy consumption posed an environmental threat both nationally and globally. Considering this, China initiated its search for lowering coal demands and increasing usage of other energy sources.

²⁰⁶ "How is China's Energy Footprint is Changing?."

Natural gas became a desired option for China to meet its energy demands. The natural gas demands of China increased as the nation started diversion from coal as its main source. The Fig. 8 below shows the natural gas consumption increase of China. Thus, China reached a consumption rate of 238 bcm of natural gas in 2017. The natural gas demand is expected to increase another 30 to 40 bcm by 2019.²⁰⁷ Accordingly International Energy Agency predicts that “China’s rise to the top spot next year as an importer of both piped gas and LNG will knock Japan into second place but they together with South Korea will continue to dominate the markets.”²⁰⁸

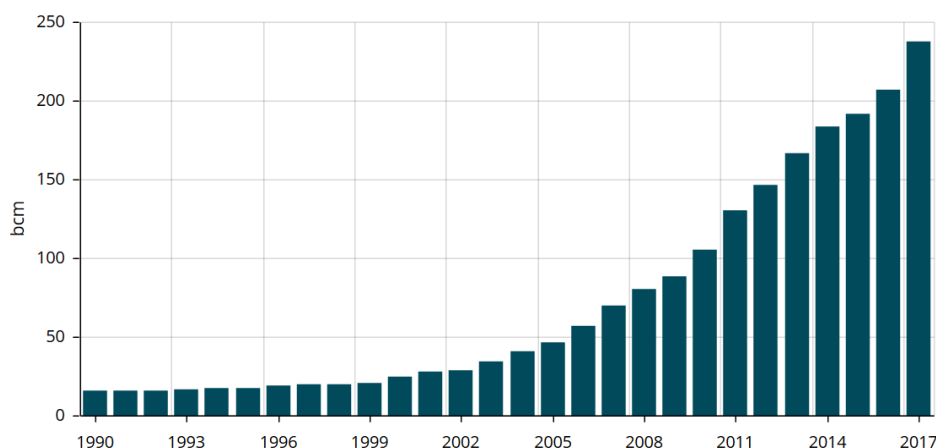


Fig. 8 Natural gas consumption of China over the years

Source: Enerdata, 2018

<https://yearbook.enerdata.net/natural-gas/gas-consumption-data.html>.

This increasing trend is ongoing currently as natural gas interest of China is developing further. Orlov states that “growing demand of gas results from economic growth and it also partially politically driven because China is attempting to reduce

²⁰⁷ Chen and Gloystein, “China as Demand to Surge in 2019, But Maybe Not Enough to Sop Up LNG glut.”

²⁰⁸ “China to Become World’s Top Importer of Natural Gas in 2019, Report Says.”

its coal usage.”²⁰⁹ According to the International Energy Agency, by 2040 the natural gas demand of China will rise to 600 bcm and China will become “the largest source of global gas demand growth: the share of gas in China’s primary energy mix rises from under 6% to over 12% during this period”.²¹⁰ The below Fig. 9 shows the increase of natural gas demand predicted for 2040.

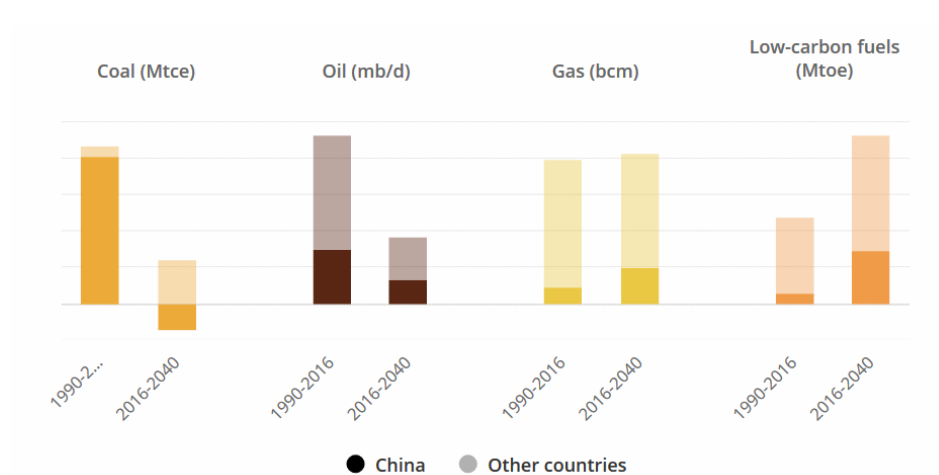


Fig. 9 Change in world primary energy demand by fuel, China and other countries.

Source: EIA, 2017
<https://www.iea.org/weo/china/#section-1-4>.

Looking at the graph it is clear that as China’s demand for coal decreases while its demand for gas and low-carbon fuels will increase. The main reason behind this change will be the environmental degradation that coal consumption creates in China.

The interest of China in natural gas sources will also cause problems as the nation will need more imported natural gas. As the Fig. 10 below shows the imports

²⁰⁹ Orlov, “The Strategic Implications of the Second Russia-China Gas Deal on the European Gas Market,” 2.
²¹⁰ “World Energy Outlook 2017: China.”

of natural gas spiked starting in 2009 and in 2016 reached 5,262,930 terajoules worth of natural gas.

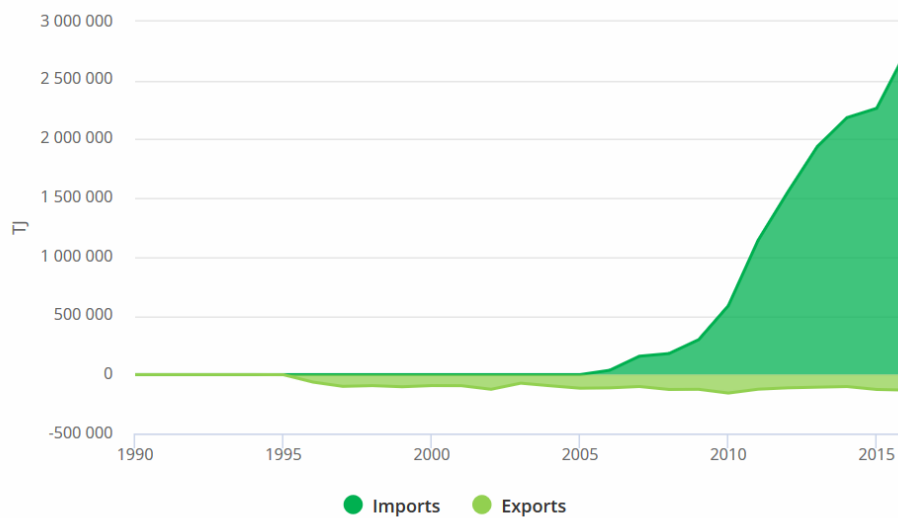


Fig.10 Natural gas imports vs. exports of China (in terajoules)

Source: IEA, 2018

<https://www.iea.org/statistics/?country=CHINA&year=2016&category=Imports/exports&indicator=NatGasImportsExports&mode=chart&dataTable=GAS>.

The International Energy Agency states that “even with this increase in domestic output, meeting China’s gas needs requires a large rise in imports: 150 bcm of imports in 2040 come via pipelines (new links with Russia supplementing strengthened ties with Central Asia) and 130 bcm via LNG.”²¹¹ In 2018 China imported most of its natural gas from Turkmenistan and Kazakhstan.²¹² Looking at the 2016 data of the share of natural gas consumption by sectors in China, 37.6% of natural gas is consumed within industry, 28.1% is used for residential needs and 15.4% is used in transport sector.²¹³

²¹¹ “World Energy Outlook 2017: China.”

²¹² Zheng and Zheng, “Natural Gas Imports Hit Record.”

²¹³ “Share of Natural Gas Final Consumption by Sector, China.”

Overall, as the Chinese economy is growing the energy need of China is increasing and the natural gas demand is rapidly increasing. The lack of resources to meet the energy needs of China, pushes China to expand its imports in energy sources such as natural gas. However, this cannot be a reason for China's interest in TANAP as the pipeline carries natural gas in the opposite direction of China. The only connection between natural gas demand of China and TANAP can be made if the pipeline expands to carry Turkmenistan gas in the future. Even though this connection is highly unlikely because of Russia's opposition to Trans-Caspian Pipeline, if the pipeline expands in the future, the relations with China can be further analyzed. Therefore, considering the fact that TANAP has no connection the pipelines that China consume natural gas from and China has no connection to nations involved in TANAP in natural gas trade, the involvement of China in TANAP through AIIB loan does not assume an energy need based motive.

AIIB credit to TANAP and therefore China's interest in TANAP does not have an energy-based correlation. Simply, the route does not ease the energy needs of China while it delivers natural gas to Europe. There are no Chinese energy firms involved in the project. The only Chinese firm that is related to TANAP is Baosan steel that provides only a little portion of the steel pipes used in TANAP. This cooperation is important but not an essential relation of China for the project as the volume of the contract is not major.

Nonetheless, this thesis argues that AIIB's loan and China's interest has a strategic concern. Although China does not have an energy need based interest, the nation has important strategic intentions in its interest of TANAP. China's strategic interest relies on various strategic aspects. The first and most important lies on the United States – China rivalry. In the recent years there have been an increasing

debate on the change of world order and China's new role in it. Accordingly, the relations of China with United States hit rocky road and rivalry between the two nations spiked. This yielded in increase of China's cooperative actions in its region and globally in order to presume allies in a possible conflict with United States. TANAP loan and interest in Turkey's energy hub ambition could be considered a part of this process as China develops its relations with Turkey throughout these actions. Another important strategic factor for China is that since the project is co-funded with WB and other IFIs, for AIIB this international mega project is a chance to learn and gain experience, especially since it's a newly established IFI. A third strategic interest of China is related to its ongoing BRI project as the route of TANAP, The Silk Road of Energy, clashes with possible BRI routes. Overall, the loan of AIIB provided for the project of TANAP to SGC, has a strategic aim for China. The new route is a potential route for connecting Asia to Europe without the presence of Russia. China strategically wants to become a part of this new route. Through this project China develops relations with WB and the loan becomes an opportunity for AIIB to learn the guiding of such mega projects. Also China has a strategic interest of strengthening its relations with Turkey through supporting Turkey's energy hub ambition which allows energy related connections with Europe. China has been increasing its presence in Turkey via investments of AIIB in new energy project within Turkey. AIIB has various funding projects related to Turkey. China strengthens its role in Turkey and offers an alternative IFI for Turkey, through the initiative it takes in this project.

Delving deeper to the strategic interests of China, in order to understand China's strategic interest, we need to step back and look at the bigger picture in world order. The world order is altering currently with Trump administration in place

for United States and Trade Wars introduced between China and United States.

Trade War between China and United States is very recent and highly important.

Miaojie Yu summarizes this as

In March 2018, the United States threatened to impose high import tariffs on US \$50 billion of Chinese imports, which became a fact in June. Triggered by the U.S. action, China retaliated with the same tariff rates on an identical amount of its imports from the United States. In September, the United States launched its second round of the trade war, by imposing 10% tariffs on an additional US\$200 billion of Chinese imports. In response, China retaliated again, on an additional US\$60 billion of U.S. imports.²¹⁴

As Yu points out China's role in world economy and trade threatened United States and while the United States defined China as its competitor in the world order.²¹⁵

The reason of the initiation of Trade Wars and United States sudden actions are defined by Liu and Woo as

(a) the concern that China's chronically large trade surplus was depressing job creation in the U.S.; (b) the concern that China was using illegal and unfair methods to acquire U. S. technology at an effectively discounted price; and (c) the concern that China seeks to weaken U.S. national security and its international standing.²¹⁶

The economic actions of United States towards China and China's response indicate that the rivalry has a deep rooted reason. Fred Bergsten delivers comprehensive analysis on this and states

The current trade conflict between China and the US obscures the more fundamental and much more important issue between them: the long-term systemic contest for leadership of the world economy. This contest has numerous dimensions. The economic policy, and to an important extent, the ideological dimension, will determine whether the Washington Consensus of market economics or the "Beijing Consensus" centered on state capitalism turns out to be more successful and more likely to be adopted by others.²¹⁷

²¹⁴ Yu, "Introduction to the Special Issue on Understanding the Current China-U.S. 'Trade War'," 1.

²¹⁵ Ibid., 1.

²¹⁶ Liu and Woo, "Understanding the U.S.-China Trade War," 320.

²¹⁷ Bergsten, "China and the United States: The Contest for Global Economic Leadership," 12.

Accordingly, the systematic differences between these two nations will further develop the conflict. China will further force the system to move in a market-oriented and rules-oriented system while United States with Trump administration is looking towards the opposite direction.²¹⁸

China is finding its new place in the world order and creating its position. Economically and politically China is in a rivalry with United States for gaining a permanent position in leading the world economy. As Liu and Woo stated “China’s journey in external economic engagement has been marked by many disputes, and it is safe to predict that its future course will generate new disputes.”²¹⁹ On the other hand China also uses soft power tools such as BRI to strengthen its position in the world order. Wang states that

The Belt and Road initiative has become important topic in international discussion, which has much to do with some broad topics, such as rise of China, the direction of China’s foreign policy and China-US rivalry in Asia Pacific regional order.²²⁰

Also, AIIB is becoming a vital tool of China to deepen dependencies between China and other nations. The loans given by AIIB develop the friendship amongst China and loan receiver nation while also creates an undeniable interdependency. China strengthens its relations with its allies through AIIB supports and develops rather new relationships with allies of United States. In the end, through these tools looking at the greater picture China finds a way to make new friends and possibly lead the politics of the world in the future.

In this realm, the AIIB loan could be considered as part of China’s strategic interest. While China is keeping tabs on this new route through AIIB credit it is also

²¹⁸ Bergsten, “China and the United States: The Contest for Global Economic Leadership,” 37.

²¹⁹ Liu and Woo, “Understanding the U.S.-China Trade War,” 320.

²²⁰ Wang, “Offensive for Defensive: The Belt and Road Initiative and China’s New Grand Strategy,” 455.

important to state that China develops further its relation with Turkey through supporting its role as an energy hub. Moreover, China is interested in building its energy relations with Turkey as Turkey will play an important role between Asia and Europe for energy trade routes and a possible ally for the future against United States. The ambassador of Turkey to China have stated in an exclusive interview that

Turkey is a regional energy trading center, and China has great advantages in technology development and financial support. Both sides have strong cooperation potential in nuclear energy, coal power, renewable energy and natural gas reserves. Although the energy cooperation between the two sides is mainly concentrated in the technical field, it has important strategic significance. Turkey looks forward to working with China to implement the cooperation consensus reached in the energy field.²²¹

Notably, TANAP project is a part of the strategic cooperation between Turkey and China as both nations benefit from the strategic aspects of the project. China becomes an insider for the future of Europe's energy security as it supports Turkey in its energy hub role through loans provided to TANAP and storage facilities such as Tuz Golu. China assumes a motive of subtle control and strategic partnership in the changing energy security relations in Europe through its presence in Turkey via AIIB. Therefore, China is strategically interested in TANAP and presumes continuous interest in Turkey's energy policy and pipeline diplomacy.

Another important argument is that, through this loan China is investing in an international energy project which can be a part of China's overseas investment strategy. Overseas investments of China are within the field of energy and metal minerals.²²² In *The Economic and Politics of China's Energy Security Transition* book this is argued as

²²¹ Tang, "Tuerqi zhu hua dashi: Tu zheng tongguo luoshi jti xiangmu zhichi 'Yi Dai Yi Lu'" 土耳其驻华大使：土正通过落实具体项目支持“一带一路” [The Turkish ambassador in China: Turkey is supporting "One Belt One Road" by implementing specific projects].

²²² Zhao, *The Economic and Politics of China's Energy Security Transition*, 174.

China's energy enterprises' "going out" is a part of overseas direct investment (ODI) and integration into the world economy, to which the security of China's energy and resource is not much related, that is, "going out" is not equal to "taking back."²²³

Considering this, similar to ODIs, this loan provided to TANAP can not impose an energy security for China.

China's energy policy is dependent on energy imports. China to become a energy independent nation is highly unlikely. Looking at the energy demand and consumption of China it can be stated that it would be unrealistic for China to decline its imports and eventually gain energy independence²²⁴ This loan therefore cannot be seen as a part of China's energy policy. However, it should be noted that:

The United States and China, the two largest energy consumers in the world, have many common interests, and both of them desire a stable and reliable energy supply. These two countries are deepening their interdependence in many fields such as trade and investment. If China's energy shortage led to an economic recession, it would also cast a shadow over the growth of the United States and the global economy.²²⁵

The cooperation of WB and AIIB especially on energy projects is reasonable in this realm considering that, they would both benefit from it together. AIIB gains experience on TANAP while the leading co-funder WB defines the relations with TANAP and actions to be taken. China takes a strategic stance in cofounding the project with WB as it develops its IFI and observes the route to funding international mega projects.

The new natural gas route that becomes viable with the completion of TANAP project has a strategic importance. As discussed in Chapter 2 this route opens a new possibility to deliver natural gas to Europe from Asia. Initially the project connects Azerbaijan to European gas network but the project is planned to

²²³ Zhao, *The Economic and Politics of China's Energy Security Transition*, 173.

²²⁴ Ibid., 109.

²²⁵ Ibid., 111.

increase its capacity to involve other nations. This possibility is of interest to China since the Chinese government is leading an interconnected concept of its own named the Belt and Road Initiative (BRI). BRI is still in its early stages of development and currently consists of trade routes of mainland and maritime routes. The maritime route was added since the overland route is highly expensive.²²⁶ Zulang Du and Yifei Zhang states “the OBOR(BRI) initiative is a national strategy of promoting international economic integration implemented in a state capitalism model under an authoritarian regime.”²²⁷ Understanding BRI, as a strategic tool is important for China’s interest in TANAP. It should be pointed out that

the Chinese leaders’ unusually high-profile political and financial investment in the BRI is consistent with the need to elevate China’s status through sufficiently emphatic and coherent international signaling. The kind of social capital generated in its neighborhood through the BRI (and stretching westwards, in accordance with Beijing’s own re-balancing towards Eurasia) naturally reflects China’s growing centrality in this cross-regional space. Beijing’s connective leadership, therefore, while non-hegemonic, aims to socialize other states to an informal hierarchy, a looser notion of superordinate/subordinate relationships that all sides recognize as legitimate, which is especially valuable for coordinating expectations of dominance and deference in strategic interactions.²²⁸

Accordingly, connecting Asia together while developing routes to Europe BRI will support China’s economic and political connections. Ogutcu analyzes BRI having an ultimate goal of transforming the Eurasian area “into an economic and strategic region that will rival – finally surpass – the Euro-Atlantic region.”²²⁹ Rolland points out “BRI is now one of the main instruments of China’s grand strategy, coordinating and giving direction to an extensive array of national resources in pursuit of an

²²⁶ Dollar, “China’s Rise as a Regional and Global Power: The AIIB and the ‘One Belt, One Road’,” 166.

²²⁷ Du and Zhang, “Does One Belt One Road Initiative Promote Chinese Overseas Direct Investment?,” 204.

²²⁸ Andornino, “The Belt and Road Initiative in China’s Emerging Grand Strategy of Connective Leadership,” 17.

²²⁹ Ogutcu, *The New Geopolitical and Economic Journey: Turkey’s Next Ten Years*, 116.

overarching political objective.”²³⁰ It is also important to note that even though not strictly connected BRI and AIIB are a part of China’s attempt in a new world order.

Wang states that

The Belt and Road initiative, working with AIIB is mainly an international economic cooperation project, but will produce influence on regional and global order. Judging from the positive response of Asian and European countries, including major European economies, the Belt and Road initiative and AIIB can be perceived as China’s contribution to international public goods, to meet the growing expectation on China’s leadership role since the Global Financial Crisis. To US, it would be advised to see these initiatives in this way, and be open to more international cooperation with Chinese initiative.²³¹

However, as US-China rivalry rises the United States sees BRI as a threat as well.

China has been acting slowly on developing BRI in order to not alleviate these arguments. Ohashi points out that

The impression that China poses a “threat” is on the rise around the globe. It is a threat that China as an economic superpower would form an exclusive economic area based on the BRI and become a new global rule maker instead of G7.²³²

Although creating a threat to United States, BRI is a cooperative tool for Turkey.

Considering the relations BRI creates Turkey is of great importance through the route. Atli states that:

Turkey’s cooperation with China and its involvement in the BRI project are significant developments and although concrete results of this collaboration are yet to be seen, a stronger partnership between the two countries is likely to contribute significantly to Turkey’s aspiration of becoming a transport hub between Europe and Asia.²³³

²³⁰ Rolland, “China’s “Belt and Road Initiative”: Underwhelming or Game-Changer?,” 136.

²³¹ Wang, “Offensive for Defensive: The Belt and Road Initiative and China’s New Grand Strategy,” 461.

²³² Ohashi, “The Belt and Road Initiative (BRI) in the Context of China’s Opening-up Policy,” 100.

²³³ Atli, “Turkey as a Eurasian Transport Hub: Prospects for Inter-Regional Partnership,” 129.

Even though currently BRI focuses on developing infrastructure for trade routes and cultural connections, in the future this could yield into developing energy route connections. Rolland states:

This part of China's massive scheme is supposed to take shape around a network of roads and railways that will stretch across the 11,000-kilometer-long Eurasian continent, connecting several cities in western China all the way to Western Europe via Central Asia, Iran, Turkey, Russia, the Caucasus, and the Balkans. Together with a parallel network of pipelines, fiber optic cables, and telecommunication links, Chinese authorities view this transportation infrastructure as the first step in creating an economic corridor that will integrate the landlocked economies of the Eurasian hinterland and tie them more tightly to China.²³⁴

The infrastructure development will yield in an increased need of energy which will call for pipelines likewise suggested by Rolland. The linkage of BRI to energy is not yet visible but the future connection is undeniable. Fabio Indeo points out "[e]ven if the Silk Road initiative has an economic rationale, China also aims to achieve energy and geopolitical goals within a security and stability scenario. These interlinked dimensions strengthen Chinese ambitions to extend its influence in Central Asia."²³⁵. Also, as Turkey is an important section of BRI which will be "[...] strengthening energy investment and cooperation with more than 60 countries and regions along the route including Turkey is one of the key nations."²³⁶ As an energy project, TANAP could build a connection to Central Asia in its later stages and strategically this will be of interest to China. However, for now the project is also of strategic interest to China because the link created by this project is important. It is highlighted that "The comprehensive advance of "The Belt and Road" is expected to push forward the transition of China's energy cooperation from bilateral relations in

²³⁴ Rolland, "China's "Belt and Road Initiative": Underwhelming or Game-Changer?," 128.

²³⁵ Indeo, "A Comprehensive Strategy to Strengthen China's Relations with Central Asia," 50.

²³⁶ "Tuerqi qidai Zhongguo zengjia dui Tu nengyuan ye touzi" 土耳其期待中国增加对土能源业投资 [Turkey expects China to increase investment in the Turkish energy industry].

the past to multilateral relations.”²³⁷ This could yield in considering routes such as TANAP to become part of energy links of BRI.

Overall, TANAP as a new energy route has strategic importance for China in developing its relations with Turkey. Even though United States – China rivalry did not spike in 2011 when TANAP was announced, the tensions and fundamental differences between these two nations were considered by China while entering this project through the AIIB loan. Developing AIIB and BRI China strengthened its rival position against United States. As TANAP coincides with both AIIB and BRI it is an important strategic project for China in developing its relations with Turkey while keeping a track of the developments in Europe’s natural gas energy market. The strong tool of AIIB and currently developing tool of BRI helps China establish this potential friendship and ally relation with Turkey through the support provided to TANAP.

4.3 The interest of Turkey

TANAP is a project that strictly located in Turkish borders. The pipeline is not cross border but it is a part of a cross border route named as SGC. TANAP has definite connections to Turkey’s energy policy and strategic interest. Through TANAP 6 bcm of natural gas will be delivered to national natural gas market of Turkey every year. The pipeline became an extra source of energy and strengthened the energy cooperation between Azerbaijan and Turkey. Moreover, during its construction phase TANAP impacted economy in a positive way while creating jobs as well as requiring industrial production in Turkey. TANAP strengthened relations the geopolitical characteristic of Turkey since it supported the creation of a new route of

²³⁷ Zhao, *The Economic and Politics of China’s Energy Security Transition*, 148.

energy for EU. Therefore, TANAP is of interest to Turkey because it serves to energy security needs of Turkey and at the same increase strategic importance of Turkey.

While supporting this argument, initially Turkey's energy policy should be explained. Turkey is an energy importer country, as the country depends outside sources for energy needs. As the Fig. 11 below shows, as of 2015 Turkey imports 75% of its energy.

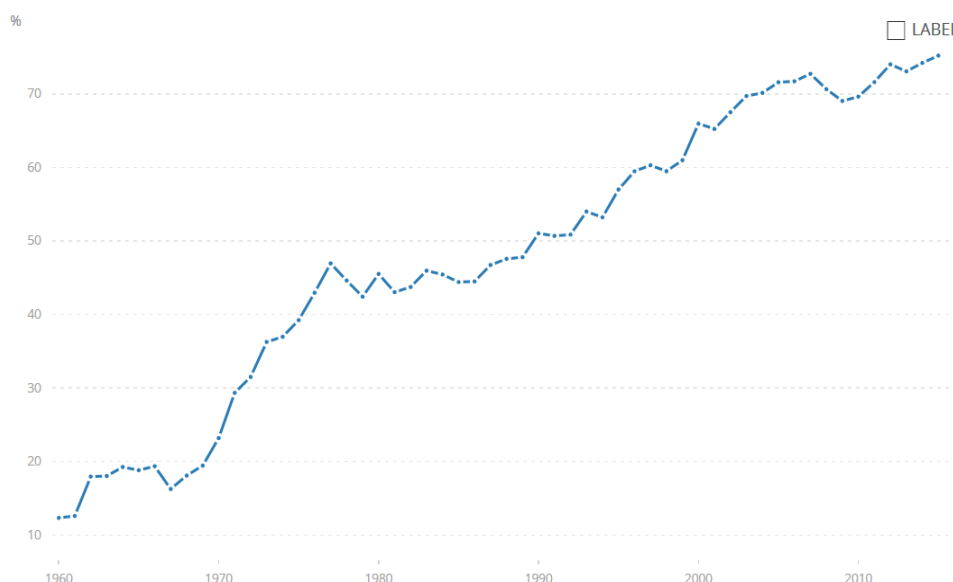


Fig.11 Energy imports of Turkey, net (% of energy use)

Source: The World Bank, 2014

<https://data.worldbank.org/indicator/EG.IMP.CON.S.ZS?contextual=default&locations=TR>.

The Ministry of Foreign Affairs declare that due to increase in population and economic development Turkey is demanding increasing amounts of energy and various natural resources.²³⁸ Amongst energy supplies of Turkey the initial source is oil products while natural gas is in the second place and coal in third place playing an

²³⁸ "Turkey's Energy Profile and Strategy."

important role in energy supplies. The increasing trend in energy need according to EIA sources are shown in Fig. 12.

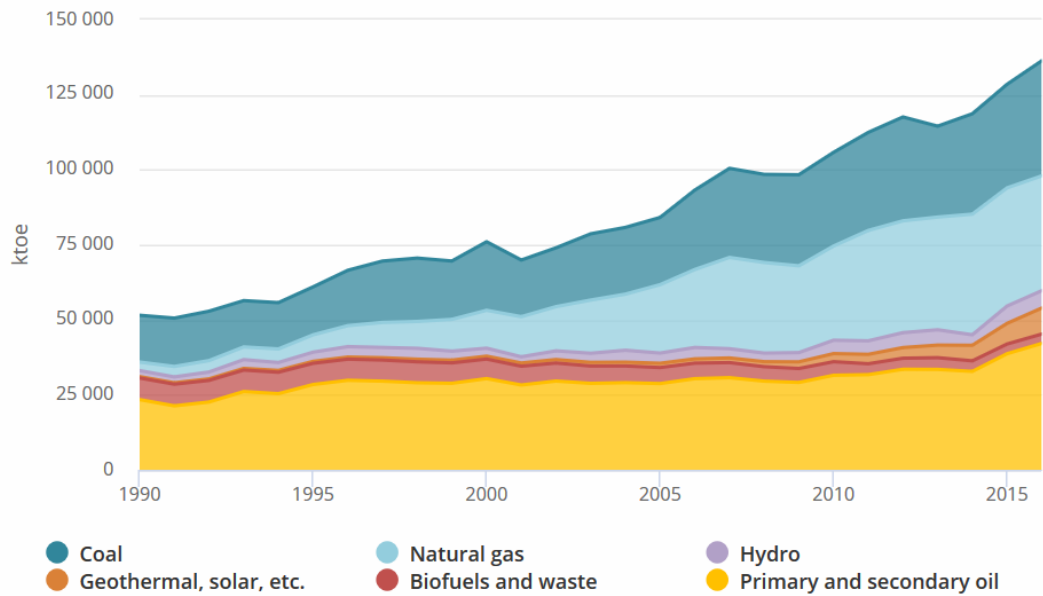


Fig. 12 Total primary energy supply of Turkey by source (excluding electricity and heat trade)

Source: IEA, 2018

<https://www.iea.org/statistics/?country=TURKEY&year=2015&category=Key%20indicators&indicator=TPESbySource&mode=chart&dataTable=BALANCES>.

Natural gas need of Turkey is increasing as shown in the figure above and this yields in increase of natural gas imports. As a part of its energy imports, natural gas demand of Turkey is also increasing. The pie graph in Fig. 13 shows the distribution of natural gas sources in Turkey.

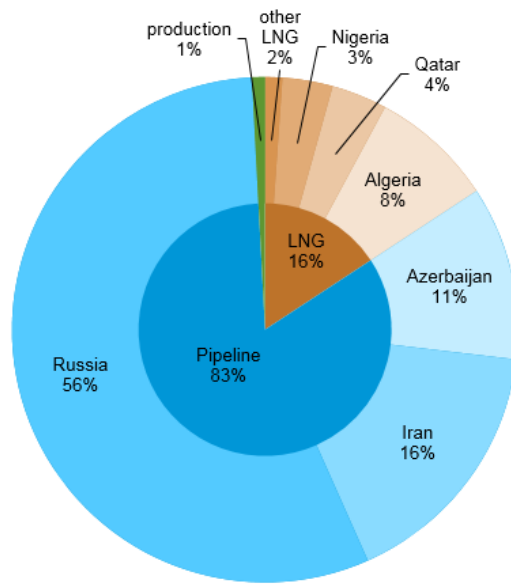


Fig.13 Turkey's natural gas sources, 2015

Source: U.S. Energy Information Administration based BP Statistical Review, 2016.

In 2015, the three main countries that Turkey imports natural gas from are Russia with 56%, Iran with %16 and Azerbaijan with 11%. Natural gas is used in various fields within Turkey. This trend continued in 2017, Turkey imported 28.7 bcm of natural gas from Russia, 9.3 bcm from Iran and 6.5 bcm from Azerbaijan.²³⁹

According to 2017 data, in 2017 in total 53.86 bcm of natural gas was consumed in Turkey.²⁴⁰ The majority of natural gas was used in electricity production with 38.14%, followed by 25.09% used in households and 24.83% used by industry.²⁴¹

There is a fall in the natural gas consumption for electricity generation from 2014 until 2016 in Turkey. Rzayeva predicts that:

The fall in natural gas consumption in the power sector will be balanced by moderate growth in the residential and industry sectors in 2017 and given the calculations above, we forecast that Turkey's gas demand will be no more than 55-56 bcm/year by 2025 and 60-62 bcm/year by 2030.²⁴²

²³⁹ Republic of Turkey Ministry of Energy and Natural Resources, "Investor's Guide for Natural Gas Sector in Turkey", 7.

²⁴⁰ Ibid., 8.

²⁴¹ Ibid., 8.

²⁴² Rzayeva, "Turkey's Gas Demand Decline: Reasons and Consequences," 16.

Overall, Turkey depends on energy imports to meet its energy needs. Natural gas imports are a significant source for meeting the energy needs of Turkey. Natural gas is used in various sectors in Turkey, residential and industrial usage being two main areas of usage. Therefore, Turkey's involvement and interest in TANAP has strict ties to Turkey's energy needs. TANAP serves a role in Turkey's energy security.

Turkey has a definite strategic interest in TANAP as well. Turkey's strategic interest relies on various factors such as its interest of becoming an energy hub country and its energy relations with Europe. Turkey's strategic interest in TANAP due to its energy hub ambition relies on the fact that Turkey has been developing a discourse of hub in various aspects. Turkey has stated its interest in becoming a transport hub as well as an energy hub various time. In order to become a transport hub Turkey took several actions such as developing a new airport in Istanbul. Similar to the goal of transport hub, Turkey's ambition in becoming an energy hub has been taking its place in international politics of Turkey. Turkey repeatedly expressed interest in projects such as BRI which would strengthen its hub role in various sectors including energy and transport. In fact, Turkey's Deputy Prime Minister, Mehmet Simsek stated that "Turkey will actively participate in the Belt and Road construction and push forward cooperation with China in the fields of transport and energy, so as to continuously further bilateral relations."²⁴³

Turkey is located in the mid-section between Europe and Asia and this impacts Turkey's role as an energy bridge between energy exporter nations and importer nations. Many pipelines that carry energy sources such as oil pass through Turkey. TANAP becomes an addition to these pipelines. Ministry of Energy and Natural Resources state that Turkey recognizes its responsibility derived from its

²⁴³ "China, Turkey to Align Development Strategy."

geopolitical position and highlights that “Turkey is far more than its geographical location, constituting a bridge connecting the east and the west, it is a stable and secure energy player in its region.”²⁴⁴ Various energy routes pass through Turkey connecting east to west. Natural gas networks are a part of these routes. The below Fig. 14 shows all of the natural pipelines that are passing through Turkey and TANAP is one these pipelines.

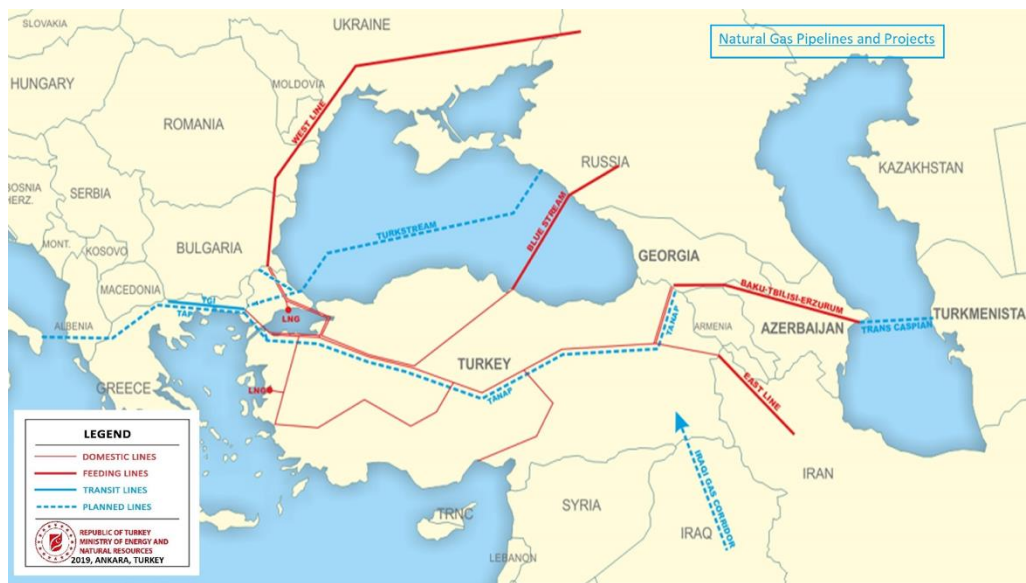


Fig. 14 Natural gas pipelines passing through Turkey

Source: Republic of Turkey Ministry of Energy and Natural Resources, 2019
<https://www.enerji.gov.tr/en-US/Pages/Natural-Gas-Pipelines-and-Projects>.

The map shows that TANAP is one of the three pipelines that are planned to be constructed in Turkey. TurkStream is also under construction currently and will develop a new route. TurkStream (the revised version of South Stream project) is planning to carry 15.75 bcm per year to Turkish national market. Cobanlı points out:

In contrast to the popular view, South Stream and the Southern Corridor are not rival projects. Both will increase supply security of Turkey and Europe, but through different effects. Bypassing Ukraine, South Stream will enhance transit competition for westbound Russian supplies, but will not introduce

²⁴⁴ “Energy Diplomacy.”

any new suppliers to the western markets. The Southern Corridor will connect the eastern suppliers to Turkey as well as Europe and will increase supply competition in western markets.²⁴⁵

There are domestic natural gas lines established in Turkey but the lines are not reserved to carry natural gas to neighboring nations. TANAP will become the first route to connect the two borders of Turkey. On the other hand, the amount of natural gas that TANAP carries will constitute to almost %10 of the natural gas amount that will be carried by pipelines to Turkey for consumption in the national market. The Table 8 below comparatively shows the amount of gas that TANAP and other natural gas pipelines will carry to Turkey starting from 2021.

Table 8. Comparative List of Natural Gas Pipelines in Turkey.

Name of the Pipeline	Amount of Natural Gas Carried (bcm/year)	Percentage of Total	Source
Blue Stream	16	25.7%	Russia
TurkStream	15.75	25.3%	Russia
Eastern Anatolian (Iran - Turkey)	10	16.0%	Iran
Russian-Turkey (West Line)	8	12.8%	Russia
Baku – Tbilisi – Erzurum	6.6	10.6%	Azerbaijan
TANAP	6	9.6%	Azerbaijan
Total	62.35	100.0%	

Source: Republic of Turkey Ministry of Energy and Natural Resources, 2019
<https://www.enerji.gov.tr/en-US/Pages/Natural-Gas-Pipelines-and-Projects>.

Turkey has a strategic interest in TANAP since it connects the Turkish market definitely to the European gas trade network. As a nation, that have continuously stated its aim to become a member of Europe Union, Turkey strengthens its position in membership discussion with involvement in energy

²⁴⁵ Cobanli, “Turkey in the Eurasian Energy Game”, 23.

projects that benefit Europe. Ali Tekin and Paul Andre Williams summarize these strategic aspects as

Authorities in Ankara would like to use the merging energy network involving Turkey and Europe as a lever to advance their country's eventual membership in the Union. Many believe that the energy overdependence of Europe on Russia and Europe's ensuing efforts to diversify energy supplies confer a significant geostrategic advantage on Turkey.²⁴⁶

Turkey has strategic benefits from realizing TANAP in this realm too. While the SGC operated Turkey will have higher importance to EU than before as the nation that carries part of European natural gas need through TANAP.

Moreover, as a vast energy project, TANAP has affected the economy of Turkey. TANAP required 15,000 people for completion of its construction phase.²⁴⁷ The job opportunities TANAP created benefited the Turkish households and Turkish economy in general. After the completion of construction, some job opportunities for maintenance will be available in TANAP but the number of employees will decline. Therefore, the job market TANAP created has a short-term impact as it is only significant for the construction period. However, the pipeline has longer impact on industrial production in Turkey. As explained above natural gas is a major energy source in Turkey. Production of goods in Turkey rely on the price of natural gas. The changes in gas prices impacts the economy while altering industrial production.²⁴⁸ According to research conducted by Yıldırım, Erdogan, Yıldırım and Can "a decrease in gas prices is expected in the competitive environment in imports along with TANAP. A decrease in gas prices is expected to have positive effects on industrial production, and thus, on output."²⁴⁹ According to this, as TANAP brings

²⁴⁶ Tekin and Williams, *Geo-Politics of the Euro-Asia Energy Nexus*, 179.

²⁴⁷ "SOCAR Hakkında Bilgiler."

²⁴⁸ Yıldırım, Erdogan, Yıldırım and Can, "The Effect of the Trans- Anatolian Natural Gas Pipeline Project (TANAP) on Industrial Production in Turkey", 412.

²⁴⁹ Ibid., 412.

natural gas to Turkey the gas prices are expected to decline and industrial production as well as Turkish economy will benefit from these changes.

The most important discussion on Turkey's energy policy and natural gas is the discussion on whether Turkey can become an energy hub or energy transit country. There are various opinions on whether Turkey is capable of becoming an energy hub. Some energy experts claim that Turkey does not hold enough energy storage units and state that the infrastructure of Turkey is not suitable for a bigger role as a hub. Some other experts claim that Turkey could only become an energy transit country where the nation does not benefit much from the energy flow through its grounds. While others state that Turkey is located in a very important geopolitical position where it will allow the nation to serve as hub between energy rich states and energy importers nations in Europe.

Looking into the literature that state Turkey is not capable of becoming an energy hub relies its claim small amounts of gas that is carried through Turkey Austvik and Rzayeva states that:

Even when the SGC's first stage comes on stream in 2018, 10 bcm represents a too small share of the market to make Turkey a hub in the relatively short term. There are market changes that can impede the possibility in the longer run.²⁵⁰

However, they also point out that TurkStream and TANAP will increase capacity of Turkey and depending on the national actions Turkey takes it might develop a short-term energy hub position for Turkey.²⁵¹ Furthermore, the report on Turkey's energy ambitions produced by Centre for Turkey Studies in 2016 states that "Turkey's energy policy considerations dynamically impact and are impacted by those of its

²⁵⁰ Austvik and Rzayeva, "Turkey in the Geopolitics of Energy," 546.

²⁵¹ Ibid., 546.

neighbours.”²⁵² The natural gas pipelines adds on to Turkey vulnerability, as it requires further security within Turkish borders.²⁵³

On the other hand the realization of routes such as TANAP increase the chance of Turkey to become an energy hub. Tunçalp points out

The concept of Turkey as a natural gas hub might still be in the cards, but only in the medium and long term. Rhetoric and geopolitical ambitions can be self-defeating in that respect, as the natural gas sector tends to be dominated by grandiose infrastructure projects and ambitious themes that may not come to fruition²⁵⁴

When these projects are realized Turkey will gain a better position for energy hub discussions. As TANAP is very close to be finalized and starts its operation it positively influences Turkey’s possibility to become grasp an energy hub role. Moreover, Ozturk, Yuksel and Ozek states that “Turkey’s plans to be the Energy Corridor fit well with the geopolitical structure of Eurasia region. Security considerations make Turkey an ideal place for natural gas pipelines.”²⁵⁵ The geopolitical advantage of Turkey is vital for it energy needs and as the number of natural gas pipelines within its borders increase Turkey will gain a better position between east and west.

Considering Turkey’s possibility of becoming a transit country Ekpen states that all transit countries have a weak economy and fragile international presence, while Turkey does not sustain these characteristics²⁵⁶ Ekpen points out:

It was Turkey’s objective to create ‘a corridor between countries with rich energy resources and energy consuming countries, making use of its

²⁵² “Turkey’s Energy (In)security and Energy Ambitions: A Review of Energy Issues in Turkish Foreign Policy,” 18.

²⁵³ Ibid., 3.

²⁵⁴ Tunçalp, “Turkey’s Natural Gas Strategy: Balancing Geopolitical Goals & Market Realities,” 79.

²⁵⁵ Ozturk, Yuksel and Ozek, “A Bridge between East and West: Turkey’s Natural Gas Policy,” 4294.

²⁵⁶ Omonbude, *Cross-border Oil and Gas Pipelines and the Role of the Transit Country*, 129.

geography and geo-strategic location', as stated by the Turkish Prime Minister in 2005. Turkey's strategy in the Caspian region included increasing investment in the oil and gas sectors of the region, enhancing mutual economic links, and securing the flow of new sources of oil and gas to Western markets. The Western view of Turkey's role in the corridor was one of dependence and security.²⁵⁷

The role of Turkey in the regional energy trades becomes vital as the pipelines cross through the nation. TANAP as one these new pipeline routes serves for this aim.

Yılmaz –Bozkus also supports this idea and points out that:

The country has not yet managed to become an energy hub due to a number of reasons, including the instability in its region, its increasing energy demand, the lack of necessary internal energy infrastructure, liberalization in the Turkish energy sector and the failure of the implementation of considerable number of cross-border pipeline projects. However, with the transit of substantial volumes of gas via the Southern Gas Corridor in the future, its potential to become a genuine energy hub might increase.²⁵⁸

SGC and its vital section assumes important roles in Turkey's goal to become and energy hub. However, Turkey needs further enhancement in storage facilities as well as energy politics. Even though it seems that EU and Russia aim to create an alternative route from Ukraine to create a new energy hub, the internal political struggles of Turkey and simply infrastructure shortage does not allow the accomplishment of this aim. While criticizing the energy policies of Turkey Tugce Varol states that:

The most important backbone of Erdogan's energy policy is the pipeline politics. During the Erdogan period between 2002 and 2016, not only has Turkey developed international pipeline projects but also engaged in almost all the proposed pipeline projects. As a result of fourteen years of AKP energy policies, Turkey has a trash list of pipeline projects. Hence, Turkey has not been established as a reliable "energy hub" for European energy security. The only pipeline project that the construction was launched is the TANAP natural gas pipeline from Azerbaijan to southern Europe through

²⁵⁷ Omonbude, *Cross-border Oil and Gas Pipelines and the Role of the Transit Country*, 68.

²⁵⁸ Yılmaz-Bozkus, "Analysis of Turkey's Role as a Possible Energy Hub."

Turkey. The driving power behind TANAP is neither Azerbaijan nor Turkey but the international consortium operating in Shah Deniz-2.²⁵⁹

Accordingly, Turkey has a long road ahead of itself to become an energy hub. If the energy policy of Turkey becomes transparent, politics stable with continuous foreign relations while preserving its geopolitical position, the country will have a chance in becoming an energy hub with developing energy routes such as TANAP and continuing stable energy policies which demand diversified energy sources and advanced energy storage facilities.

The interest of Turkey in TANAP has therefore both energy-need and strategic bases. As TANAP provides national natural gas network of Turkey with 6 bcm every year, it secures part of Turkey's energy need. The natural gas TANAP provides will have positive impacts on economy and industrial production. TANAP also strengthens geopolitical position of Turkey. As Turkey aims to become an energy hub TANAP supports this goal. The strategic interest of Turkey in TANAP derives from its interest for becoming a strategic energy hub between Asia and Europe.

²⁵⁹ Varol, *Energy Policies of Turkey During the Erdogan Era: Facts and Lies*, 243.

CHAPTER 5

CONCLUSION

This thesis aimed to understand involvement of Turkey and China in the new pipeline of TANAP, which is a part of the broader energy route of SGC. This study is significant as it looks into recent developments in Turkey and China through a new energy project titled as the Silk Road of Energy. As there is no analysis of the motives behind the loan provided by AIIB to TANAP and its relation to Turkey's energy policy, this thesis is a first step in shedding light to political energy relations of Turkey and China that are behind the curtains.

In order to define the interest of Turkey and China firstly TANAP is analyzed in Chapter 2. TANAP is a significant section of SGC, which connects Azerbaijan's natural gas sources to European natural gas market. Even though the project does not carry a high amount of natural gas in initial stages as the resources develop, the project will have potential to expand to carry up to 31 bcm of natural gas. Initiated in 2011, TANAP is in its final stages of construction and by 2020 the pipeline aims to deliver natural gas to its correspondent pipeline TAP towards the European natural gas market. When it finalizes TANAP will open a new route of energy that does not include Russia and has a potential to grow further if necessary natural gas resources are connected to the line of SGC such as of Turkmenistan's. The pipeline cultivates a strategic importance because of its future possibilities. As Europe's energy demand increase and Turkey's natural gas needs develop TANAP will continue to be a viable pipeline. Chapter 2 states that TANAP is a project developed after many other pipeline considerations for SGC. The official documentation of TANAP highlights its importance for Azerbaijan and Turkey while down plays the connection of the

project to European energy needs. Especially AIIB's TANAP project documents does not underline its goal to become a new energy corridor for Europe. However, as the recent developments show, TANAP has an important incentive towards developing new energy links between Asia and Europe as it opens up a new route.

In Chapter 3, AIIB is discussed thoroughly since the AIIB became an investor in TANAP. As a new IFI, it is important to understand the debates on AIIB and its future aspects. As the chapter states, China has a vital role in AIIB as a state holding the greatest voting power in decision making processes of AIIB. The investments of AIIB do not contradict Chinese interests and more so match with China's interests such as BRI. Moreover, the chapter states that there is a growing connection between Turkey and AIIB in energy area. AIIB has approved to fund two other energy projects that support Turkey's aim of becoming an energy hub.

After thoroughly analyzing TANAP and AIIB, the thesis moves on to answer the research question in Chapter 4. Initially the chapter presents that even though China has a growing demand for natural gas there is no current connection between TANAP and China's energy security needs. The pipeline delivers gas in the opposite direction of China and has no connection to nations that China imports natural gas from. However, China holds strategic interest in TANAP. The strategic interest has several grounds. Firstly, China is in rivalry with United States and as rivalry deepens China uses tools such as AIIB and BRI to strengthen its position against United States. Looking at the greater picture through the AIIB loan provided to TANAP, China develops its relations with Turkey. Also, through other loans provided to Turkey by AIIB, impose an interest of China in supporting Turkey's ambition to become an energy hub. The support of AIIB results in further development of the relations between China and Turkey with a possibility of becoming allies in the

future. China has strategic interest in TANAP as the route serves as a connection between Asian and Europe. China is aiming to develop connection between East and West by leading BRI. TANAP coincides with this strategic interest of China. BRI is a fairly new project that have vague actions. As BRI develops, it is expected to have energy links such as pipelines. As TANAP goes through a similar route with Silk Road the catch phrase ‘the silk road of energy’ is used for publicizing TANAP. China is interested in TANAP for this strategic reason of possibility to include TANAP in the future energy route of BRI.

Looking at Turkey, Chapter 4 points out that Turkey has both energy security based and strategic interest in TANAP. It is a new energy route between Asia and Europe that assists Turkey’s aim of becoming an energy hub. The pipeline not only will meet %12 of the Turkish national natural gas need but also will emphasize the energy hub aim of Turkey within the natural gas market between Asia and Europe. While TANAP provides Turkey with 6 bcm of natural gas every year the pipeline it will support Turkey’s economy and industry. TANAP becomes an important part of the energy policy of Turkey as it positively impacts energy security of Turkey and diversify the natural gas sources of Turkey. Also, TANAP serves as a part of the energy hub goal of Turkey. Even though Turkey has been aiming to become an energy hub in the region, problems of stability and weak infrastructure did not allow Turkey to reach this goal. TANAP as a new pipeline project that passes through Turkey strengthens the energy hub discourse of Turkey. Strategically Turkey is interested in TANAP because it supports Turkey’s energy hub goal and reinforces its energy and political relations with its neighboring countries.

The most important limitation of this thesis is that it was on very recent developments such as AIIB, BRI and a currently unfinished project, TANAP. As the

projects developed and new actions were taken by these newly established institutions the thesis was altered. Also, a cut-off date was selected for the AIIB chapter in order to have a thorough analysis rather than including every recent development. As there is no current academic analysis of AIIB loan to TANAP and a limited number of primary sources were available. For further research the study could develop to include interviews with field experts and government officials. Moreover, as another limitation the thesis only looked into the two nations that are interested in TANAP project. Comparative analysis of the interest of other nations such as Russia, Turkmenistan and European nations could be discussed in further research. Also, TANAP could be comparatively analyzed with TurkStream for interest of nations that are involved or related to both of the projects.

This thesis states that through the loan provided by AIIB China is interested in TANAP strategically and Turkey is interested in TANAP both strategically and based on its energy security. TANAP plays a vital role in SGC while diversifying the natural gas market of Europe and Turkey. AIIB's loan in this project is significant because of its amount and China's strategic concerns. TANAP is a new route that could change the energy relations between east and West if it can expand to carry higher amounts of natural gas. The energy routes between Asia and Europe can develop further with the completion of TANAP project as a part of the milestone in SGC.

APPENDIX A

LIST OF AWARDED MAJOR CONTRACTS OF TANAP

CONTRACT NAME	CONTRACTOR	CONTRACT SIGNATURE DATE
AGREEMENT FOR PROJECT MANAGEMENT AND OWNER'S ENGINEERING SERVICES	ILF Beratende Ingenieure GmbH	7.11.2012
CONTRACT FOR ENGINEERING SERVICES	BECHTEL International Inc.	23.05.2013
ENGINEERING, PROCUREMENT AND CONSTRUCTION MANAGEMENT CONTRACT	WORLEY PARSONS	16.05.2014
ENGINEER, PROCURE AND CONSTRUCT CONTRACT relating to the MAIN CAMPS AND STOCKYARDS (Selim, Pasinler, Çadırkaya, Hafik) for TRANS-ANATOLIAN NATURAL GAS PIPELINE	TREYSAN Prefabrik Çelik Yapılar San. ve Tic. A.Ş.	26.06.2014
ENGINEER, PROCURE AND CONSTRUCT CONTRACT relating to the MAIN CAMPS AND STOCKYARDS (Doğankent, Polatlı) for TRANS-ANATOLIAN NATURAL GAS PIPELINE	DORÇE Prefabrik Yapı ve İnşaat Sanayi Ticaret A.Ş.	26.06.2014
56" CONSTRUCTION CONTRACT relating to the TRANS-ANATOLIAN PIPELINE LOT 1	FERNAS İnşaat A.Ş.	23.12.2014
56" CONSTRUCTION CONTRACT relating to the TRANS-ANATOLIAN PIPELINE LOT 2	SİCİM-YÜKSEL-AKKORD JV	23.12.2014
56" CONSTRUCTION CONTRACT relating to the TRANS-ANATOLIAN PIPELINE LOT 3	TEKFEN İnşaat ve Tesisat A.Ş.	23.12.2014
THIRD PARTY INSPECTION SERVICES DURING MANUFACTURING OF LINE PIPES AND HOT BENDS VENDORS& OTHER FREE ISSUE ITEMS	INTERTEK Kalite Servisleri Limited Şti.	3.02.2015
EPC CONTRACT RELATED TO SCADA / TELECOMS	ABB Elektrik Sanayi A.Ş.	26.10.2015
48" CONSTRUCTION CONTRACT relating to the TRANS-ANATOLIAN PIPELINE LOT 4	LİMAK İNŞAAT- PUNJ LLOYD JV	25.01.2016
STATIONS EPC	TEKFEN İnşaat ve Tesisat A.Ş.	17.02.2016
ENGINEERING, PROCUREMENT AND CONSTRUCTION CONTRACT RELATING TO TANAP OFFSHORE PIPELINES AND FOC CABLES	SAPURAKENCANA TL OFFSHORE SDN BHD	27.07.2016
Main Line Pipes and Hot Bends	Borusan-Noksel-Erciyas Consortium	14.10.2014
Main Line Pipes and Hot Bends	Ümrân-Emek Consortium	14.10.2014
Main Line Pipes and Hot Bends	Tosçelik Profil ve Sac Endüstrisi A.Ş.	14.10.2014
Main Line Pipes and Hot Bends	Baosteel Europe GmbH	14.10.2014
Main Line Ball Valves and Actuators	Valvitalia S.p.A.	26.02.2015
Gas Turbine Driven Turbo Compressors (CS1 & CS5)	Nuovo Pignone S.p.A.	1.07.2015
Gas Turbine Driven Turbo Compressors (CS5 Offtake)	Solar Turbines Europe S.A.	15.09.2015
Fiscal Metering and Analysers Sample System	Akfel Petrol ve Doğalgaz Mühendislik A.Ş.	6.11.2015
Station Ball Valves (Manual and On-Off Actuated), Actuated Ball Valves NPS 10 and above, Actuated Plug Valves NPS 10 and above	Valvitalia S.p.A.	21.04.2016
AC UPS, Battery and ACDB	Emerson Network Power Güç Sistemleri Ltd. Şti.	25.3.2016
Integrated Control and Safety Systems	Honeywell Teknoloji A.Ş.	25.1.2016
Filters and Filter Separators	Valvitalia S.p.A.	20.1.2016
Gas Engine Generators	İlteknoloji İleri Teknoloji Mühendislik ve Ticaret A.Ş.	1.2.2016
Diesel Engine Generators	IML Impianti S.r.l.	8.2.2016
Gas Turbine Driven Turbo Compressors (CS1 & CS5) (Site Services)	General Elektrik Ticaret ve Servis A.Ş.	1.7.2015
Gas Turbine Driven Turbo Compressors (CS5 Offtake) (Site Services)	Turbomach Endüstriyel Gaz Türbinleri San. ve Tic. Ltd. Şti.	15.9.2015

Source:TANAP, (n.d.)

<https://www.tanap.com/awarded-contracts/>

APPENDIX B

DETAILS ON MEMBERS OF AIIB

No	Member	Date of Membership	Subscriptions		Voting Power		Status
			Amount (million USD)	Percent of Total	Number of Votes	Percent of Total	
1	Afghanistan	Oct 13, 2017	86.6	0.09%	2,616	0.23%	Regional
2	Australia	Dec 25, 2015	3,691.2	3.83%	39,435	3.52%	Regional
3	Azerbaijan	Jun 24, 2016	254.1	0.26%	5,064	0.45%	Regional
4	Bahrain	Aug 24, 2018	103.6	0.11%	2,959	0.26%	Regional
5	Bangladesh	Mar 22, 2016	660.5	0.69%	9,128	0.81%	Regional
6	Brunei Darussalam	Dec 25, 2015	52.4	0.05%	3,047	0.27%	Regional
7	Cambodia	May 17, 2016	62.3	0.06%	3,146	0.28%	Regional
8	China	Dec 25, 2015	29,780.4	30.89%	300,327	26.78%	Regional
9	Cyprus	Jun 25, 2018	20.0	0.02%	2,123	0.19%	Regional
10	Fiji	Dec 11, 2017	12.5	0.01%	2,048	0.18%	Regional
11	Georgia	Dec 25, 2015	53.9	0.06%	3,062	0.27%	Regional
12	Hong Kong, China	Jun 7, 2017	765.1	0.79%	9,574	0.85%	Regional
13	India	Jan 11, 2016	8,367.3	8.68%	86,196	7.69%	Regional
14	Indonesia	Jan 14, 2016	3,360.7	3.49%	36,130	3.22%	Regional
15	Iran	Jan 16, 2017	1,580.8	1.64%	15,169	1.35%	Regional
16	Israel	Jan 15, 2016	749.9	0.78%	10,022	0.89%	Regional
17	Jordan	Dec 25, 2015	119.2	0.12%	3,715	0.33%	Regional
18	Kazakhstan	Apr 18, 2016	729.3	0.76%	8,357	0.75%	Regional
19	Korea	Dec 25, 2015	3,738.7	3.88%	39,910	3.56%	Regional
20	Kyrgyz Republic	Apr 11, 2016	26.8	0.03%	2,791	0.25%	Regional
21	Lao PDR	Jan 15, 2016	43.0	0.04%	2,953	0.26%	Regional
22	Malaysia	Mar 27, 2017	109.5	0.11%	3,618	0.32%	Regional
23	Maldives	Jan 04, 2016	7.2	0.01%	2,595	0.23%	Regional
24	Mongolia	Dec 25, 2015	41.1	0.04%	2,934	0.26%	Regional
25	Myanmar	Dec 25, 2015	264.5	0.27%	5,168	0.46%	Regional
26	Nepal	Jan 13, 2016	80.9	0.08%	3,170	0.28%	Regional
27	New Zealand	Dec 25, 2015	461.5	0.48%	7,138	0.64%	Regional

No	Member	Date of Membership	Subscriptions		Voting Power		Status
			Amount (million USD)	Percent of Total	Number of Votes	Percent of Total	
28	Oman	Jun 21, 2016	259.2	0.27%	5,115	0.46%	Regional
29	Pakistan	Dec 25, 2015	1,034.1	1.07%	10,796	0.96%	Regional
30	Philippines	Dec 28, 2016	979.1	1.02%	12,314	1.10%	Regional
31	Qatar	Jun 24, 2016	604.4	0.63%	8,567	0.76%	Regional
32	Russia	Dec 28, 2015	6,536.2	6.78%	67,885	6.05%	Regional
33	Samoa	April 03, 2018	2.1	0.00%	1,944	0.17%	Regional
34	Saudi Arabia	Feb 19, 2016	2,544.6	2.64%	27,969	2.49%	Regional
35	Singapore	Dec 25, 2015	250.0	0.26%	5,023	0.45%	Regional
36	Sri Lanka	Jun 22, 2016	269.0	0.28%	5,213	0.46%	Regional
37	Tajikistan	Jan 16, 2016	30.9	0.03%	2,770	0.25%	Regional
38	Thailand	Jun 20, 2016	1,427.5	1.48%	16,798	1.50%	Regional
39	Timor-Leste	Nov 22, 2017	16.0	0.02%	2,083	0.19%	Regional
40	Turkey	Jan 15, 2016	2,609.9	2.71%	28,622	2.55%	Regional
41	United Arab Emirates	Jan 15, 2016	1,185.7	1.23%	14,380	1.28%	Regional
42	Uzbekistan	Nov 30, 2016	219.8	0.23%	4,721	0.42%	Regional
43	Vanuatu	Mar 06, 2018	0.5	0.00%	1,928	0.17%	Regional
44	Vietnam	Apr 11, 2016	663.3	0.69%	7,829	0.70%	Regional
Total Regional			73,855.3	76.61%	836,353	74.57%	
45	Austria	Dec 25, 2015	500.8	0.52%	7,531	0.67%	Non-regional
46	Belarus	Jan 17, 2019	64.1	0.07%	2,564	0.23%	Non-regional
47	Canada	Mar 19, 2018	995.4	1.03%	11,877	1.06%	Non-regional
48	Denmark	Jan 15, 2016	369.5	0.38%	6,218	0.55%	Non-regional
49	Egypt	Aug 04, 2016	650.5	0.67%	9,028	0.81%	Non-regional
50	Ethiopia	May 13, 2017	45.8	0.05%	2,381	0.21%	Non-regional
51	Finland	Jan 07, 2016	310.3	0.32%	5,626	0.50%	Non-regional
52	France	Jun 16, 2016	3,375.6	3.50%	36,279	3.23%	Non-regional
53	Germany	Dec 25, 2015	4,484.2	4.65%	47,365	4.22%	Non-regional
54	Hungary	Jun 16, 2017	100.0	0.10%	2,923	0.26%	Non-regional

No	Member	Date of Membership	Subscriptions		Voting Power		Status
			Amount (million USD)	Percent of Total	Number of Votes	Percent of Total	
55	Iceland	Mar 04, 2016	17.6	0.02%	2,699	0.24%	Non-regional
56	Ireland	Oct 23, 2017	131.3	0.14%	3,236	0.29%	Non-regional
57	Italy	Jul 13, 2016	2,571.8	2.67%	28,241	2.52%	Non-regional
58	Luxembourg	Dec 25, 2015	69.7	0.07%	3,220	0.29%	Non-regional
59	Madagascar	Jun 25, 2018	5.0	0.01%	1,973	0.18%	Non-regional
60	Malta	Jan 07, 2016	13.6	0.01%	2,659	0.24%	Non-regional
61	Netherlands	Dec 25, 2015	1,031.3	1.07%	12,836	1.14%	Non-regional
62	Norway	Dec 25, 2015	550.6	0.57%	6,928	0.62%	Non-regional
63	Poland	Jun 15, 2016	831.8	0.86%	10,841	0.97%	Non-regional
64	Portugal	Feb 08, 2017	65.0	0.07%	3,173	0.28%	Non-regional
65	Romania	Dec 28, 2018	153.0	0.16%	3,453	0.31%	Non-regional
66	Spain	Dec 15, 2017	1,761.5	1.83%	20,138	1.80%	Non-regional
67	Sudan	Sep 13, 2018	59.0	0.06%	2,513	0.22%	Non-regional
68	Sweden	Jun 23, 2016	630.0	0.65%	8,823	0.79%	Non-regional
69	Switzerland	Apr 25, 2016	706.4	0.73%	9,587	0.85%	Non-regional
70	United Kingdom	Dec 25, 2015	3,054.7	3.17%	33,070	2.95%	Non-regional
Total Non-Regional			22,548.5	23.39%	285,182	25.43%	
Grand Total			96,403.8	100.00%	1,121,535	100.00%	

Source: Asian Infrastructure Investment Bank, 2019

<https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>

APPENDIX C

DETAILS ON AIIB PROJECTS

Table C1. Details of AIIB Approved Projects

No	Project name	Approval date	Country	Sector	AIB Loan Amount (USD million)	Co-financing MDB	Co-financer(s) Loan Amount USD million)
1	Regional: AIIB Asia ESG Enhanced Credit Managed Portfolio	Dec. 18, 2018	Regional	Multi-sector	500.00		
2	India: Andhra Pradesh Urban Water Supply and Septage Management Improvement Project	Dec. 07, 2018	India	Water	400.00		
3	Indonesia: Mandalika Urban and Tourism Infrastructure Project	Dec. 07, 2018	Indonesia	Multi-sector	248.39		
4	Turkey: TSKB Sustainable Energy and Infrastructure On-lending Facility	Sep. 28, 2018	Turkey	Other	200.00		
5	Egypt: Sustainable Rural Sanitation Services Program	Sep. 28, 2018	Egypt	Water	300.00	WB	300.00
6	India: Andhra Pradesh Rural Roads Project	Sep. 28, 2018	India	Transport	455.00		
7	Indonesia: Strategic Irrigation Modernization and Urgent Rehabilitation Project	June 24, 2018	Indonesia	Water	250.00	WB	250.00
8	Turkey: Tuz Golu Gas Storage Expansion Project	June 24, 2018	Turkey	Energy	600.00	WB Islamic Development Bank	950.00
9	India: National Investment and Infrastructure Fund	June 24, 2018	India	Multi-sector	100.00		
10	India: Madhya Pradesh Rural Connectivity Project	April 11, 2018	India	Transport	140.00	WB	210.00

No	Project name	Approval date	Country	Sector	AIB Loan Amount (USD million)	Co-financing MDB	Co-financer(s) Loan Amount USD million)
11	Bangladesh: Bangladesh Bhola IPP	Feb. 09, 2018	Bangladesh	Energy	60.00		
12	China: Beijing Air Quality Improvement and Coal Replacement Project	Dec. 08, 2017	China	Energy	250.00		
13	Oman: Broadband Infrastructure Project	Dec. 08, 2017	Oman	Telecoms	239.00		
14	India: Bangalore Metro Rail Project – Line R6	Dec. 08, 2017	India	Transport	335.00	EIB	583.00
15	Philippines: Metro Manila Flood Management Project	Sep. 27, 2017	Philippines	Water	207.60	WB	207.60
16	Asia: IFC Emerging Asia Fund	Sep. 27, 2017	Asia	Multi-sector	150.00	IFC	150.00
17	India: Transmission System Strengthening Project	Sep. 27, 2017	India	Energy	100.00	ADB	50.00
18	Egypt Round II Solar PV Feed-in Tariffs Program	Sep. 04, 2017	Egypt	Energy	210.00		
19	India: Gujarat Rural Roads (MMGSY) Project	July 04, 2017	India	Transport	329.00		
20	Tajikistan: Nurek Hydropower Rehabilitation Project, Phase I	June 15, 2017	Tajikistan	Energy	60.00	WB EURASIAN DEVELOPMENT BANK	265.70
21	India: India Infrastructure Fund	June 15, 2017	India	Multi-sector	150.00		
22	Georgia: Batumi Bypass Road Project	June 15, 2017	Georgia	Transport	114.00	ADB	114.00
23	India: Andhra Pradesh 24x7 – Power For All	May 02, 2017	India	Energy	160.00	IBRD (WB)	240.00
24	Bangladesh: Natural Gas Infrastructure and Efficiency Improvement Project	March 22, 2017	Bangladesh	Energy	60.00	ADB	167.00

No	Project name	Approval date	Country	Sector	AIB Loan Amount (USD million)	Co-financing MDB	Co-financer(s) Loan Amount USD million)
25	Indonesia: Dam Operational Improvement and Safety Project Phase II	March 22, 2017	Indonesia	Multi-sector	125.00	IBRD (WB)	125.00
26	Indonesia: Regional Infrastructure Development Fund Project	March 22, 2017	Indonesia	Multi-sector	100.00	WB	103.00
27	Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP)	Dec. 21, 2016	Azerbaijan	Energy	600.00	WB EBRD EIB	2,900.00
28	Oman: Duqm Port Commercial Terminal and Operational Zone Development Project	Dec. 08, 2016	Oman	Transport	265.00		
29	Myanmar: Myingyan Power Plant Project	Sep. 27, 2016	Myanmar	Energy	20.00		
30	Pakistan: Tarbela 5 Hydropower Extension Project	Sep. 27, 2016	Pakistan	Energy	300.00	WB	390.00
31	Indonesia: National Slum Upgrading Project	June 24, 2016	Indonesia	Urban	216.50	WB	216.50
32	Pakistan: National Motorway M-4 Project	June 24, 2016	Pakistan	Transport	100.00	ADB	100.00
33	Bangladesh: Distribution System Upgrade and Expansion Project	June 24, 2016	Bangladesh	Energy	165.00		
34	Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project	June 24, 2016	Tajikistan	Transport	27.50	EBRD	62.50

Source: Asian Infrastructure Investment Bank, 2019
<https://www.aiib.org/en/projects/approved/index.html>.

Table C2. Details of AIIB Approved Projects under Special Fund

No	Project Name	Approval Date	AIB Loan Amount (USD million)	Country	Sector
1	Nepal: Tamakoshi V Hydroelectric Project	January 17, 2019	900,000	Nepal	Energy
2	Bangladesh: Mymensingh Kewatkhali Bridge Project	December 07, 2018	2,163,000	Bangladesh	Transport
3	Bangladesh: Sylhet to Tamabil Road Upgradation Project	November 05, 2018	813,000	Bangladesh	Transport
4	Nepal: Power Distribution System Upgrade and Expansion Project	May 22, 2018	1,000,000	Nepal	Energy
5	Pakistan: Lahore Water and Wastewater Management Project	May 22, 2018	505,000	Pakistan	Urban
6	Lao PDR: NR13 Improvement and Maintenance Project	April 27, 2018	995,000	Lao PDR	Transport
7	Nepal: Urban Infrastructure Investment Project	November 17, 2017	1,000,000	Nepal	Urban
8	Sri Lanka: Solid Waste Management Project	November 20, 2017	700,000	Sri Lanka	Urban

Source: Asian Infrastructure Investment Bank, 2019
<https://www.aiib.org/en/projects/special-fund/index.html>.

Table C3. Details of Proposed Projects for AIIB

No	Project Name	Country	Sector	AIB Loan Amount (USD million)	Co-financing MDB	Co-financer(s) Loan Amount (USD million)
1	Bangladesh: Power System Upgrade and Expansion Project	Bangladesh	Energy	120		
2	Bangladesh: Mymensingh Kewatkhali Bridge Project	Bangladesh	Transport	152.6		
3	Bangladesh: Sylhet to Tamabil Road Upgradation Project	Bangladesh	Transport	268		
4	Bangladesh: Municipal Water Supply and Sanitation Project	Bangladesh	Water	100	WB	100
5	Georgia: 280 MW Nenskra Hydropower Plant	Georgia	Energy	100	ADB EBRD EIB KDB	758
6	India: Mumbai Urban Transport Project 3	India	Transport	500		

No	Project Name	Country	Sector	AIB Loan Amount (USD million)	Co-financing MDB	Co-financer(s) Loan Amount (USD million)
7	India: Mumbai Metro Line 4 Project	India	Transport	500		
8	India: Amaravati Sustainable Infrastructure and Institutional Development Project	India	Urban	200	IBRD (WB)	300
9	India: West Bengal Major Irrigation and Flood Management Project	India	Water	145	WB	145
10	Lao PDR: National Road 13 Improvement and Maintenance Project	Lao PDR	Transport	40	WB	40
11	Nepal: Tamakoshi V Hydroelectric Project (TV-HEP)	Nepal	Energy	112		
12	Nepal: Power Distribution System Upgrade and Expansion Project	Nepal	Energy	100		
13	Nepal: Urban Infrastructure Investment Project	Nepal	Urban	76		
14	Pakistan: Karachi Bus Rapid Transit Project	Pakistan	Transport	100	ADB	390
15	Pakistan: Rawalpindi Ring Road Project	Pakistan	Transport	402		
16	Pakistan: Karachi Water and Sewerage Services Improvement Project	Pakistan	Water	160	WB	160
17	Pakistan: Lahore Water and Wastewater Management Project	Pakistan	Water	400		
18	Sri Lanka: Reduction of Landslide Vulnerability by Mitigation Measures (RLVMM) Project	Sri Lanka	Other	88		

No	Project Name	Country	Sector	AIB Loan Amount (USD million)	Co-financing MDB	Co-financer(s) Loan Amount (USD million)
19	Sri Lanka: Colombo Urban Regeneration Project	Sri Lanka	Urban	200		
20	Sri Lanka: Anuradhapura Wastewater Management Project	Sri Lanka	Water	50		
21	Sri Lanka: Climate Resilience Improvement Project - Phase II	Sri Lanka	Water	77.5	WB	77.5
22	Turkey: TKB Infrastructure On-lending Facility	Turkey	Other	100		
23	Uzbekistan: Railway Electrification Project (Bukhara-Urgench-Khiva)	Uzbekistan	Transport	168.2		

Source: Asian Infrastructure Investment Bank, 2019
<https://www.aiib.org/en/projects/proposed/index.html>.

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