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POLICY PERSPECTIVES ON THE SILK ROAD REGION

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Silk Road Pathways

The China–Central Asia–West Asia Economic Corridor

Yu Hongjun

Since the outbreak of 2008 world financial crisis, issues such as lackluster economic growth around the world and lack of progress in regional cooperation have not been resolved. Conservatism, isolationism, racism, populism, and unilateralism are on the march; political and social movements based on opposition to economic globalization are in vogue; and policymakers as much as ordinary people are expressing concern about the future of the world. Based on his observations and thoughts with regards to modern international relations, as well as his commitment towards a common destiny for mankind, Chinese President Xi Jinping proposed the launch of the Silk Road Economic Belt and Twenty-first Century Maritime Silk Road, which together form the

globally influential Belt and Road Initiative (BRI).

Since this proposal was made in autumn 2013, the international community's broad participation in the Belt and Road Initiative has demonstrated that BRI is more than just a new measure for China to develop domestic and international markets, or even a signpost for how to grow in concert with the world. BRI is also a new model for promoting international cooperation beyond political, social, and geopolitical differences, aiming to achieve deeper congruence of development pathways.

BRI and the South Caucasus

So far, within the broader framework of the Belt and Road Initiative, the China–Central Asia–West Asia Economic Corridor

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has involved both the greatest number of countries and the most complex projects. The South Caucasus has since ancient times been an important node on the Silk Road, connecting various regions. China has immense potential for cooperation with Azerbaijan, Georgia, and Armenia, and we have much to offer in partnership. Every party should improve dialogue and cooperation, and together endeavor to finish work on this corridor.

The China–Central Asia–West Asia Economic Corridor aligns with the developmental interests of all parties and has a broad future prospect. The corridor spans much of the Silk Road region. It starts from China, directly connecting with Kazakhstan, Kyrgyzstan, and Tajikistan, then continues through Uzbekistan and Turkmenistan to connect with the rest of West Asia, which naturally includes the South Caucasus.

There are major differences in the history, religion, level of development, political system, and especially international relations postures among Azerbaijan, Georgia, and Armenia. However, there are also many ties

and mutual influences among the three countries that cannot be overlooked. As a result of the region's location between the Black and Caspian Seas, the South Caucasus has broad links with Central Asia, Western Asia, and even the Mediterranean, and complicated relations with Russia, which makes it very geopolitically important and sensitive.

The South Caucasus currently has a total of around 14 million people; thus, the scale of the regional market there is not very large. All three countries have, since regaining independence, experienced various degrees of civil strife and warfare, leading to a significant issue of lagging economic development. They all need to renovate aging infrastructure, modernize public services, and improve welfare systems. This provides a rare historical opportunity for China to combine existing cooperation with the three states into the wider framework of creating the China–Central Asia–West Asia Economic Corridor. Fully utilizing the opportunity on offer is not only in the present interest of the South

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Caucasus countries, but will also, in the long term, promote peace and stability in the region. An examination of the ties linking each of the three countries to China in general and BRI in particular is thus warranted and will be presented below.

Azerbaijan

Within the South Caucasus, Azerbaijan is the most populous, and generally the strongest country: it has significant economic vitality and is an important member of the Organization of Islamic Cooperation. As President Heydar Aliyev of Azerbaijan had conceptually proposed a restoration of the historic Great Silk Road as early as September 1998, China's concrete proposal of the Belt and Road Initiative in 2013 has been warmly welcomed by Azerbaijan. Its status as a founding member of the Asian Infrastructure Investment Bank, which actively promotes BRI, is clear evidence for this.

In December 2015, when President Ilham Aliyev traveled to China on a state visit, the leaders of the two countries signed a Memorandum of Understanding on Joint Promotion of the Silk Road

Economic Belt. Since then, he has made numerous constructive comments on increasing Sino-Azerbaijani cooperation within the framework of the Belt and Road Initiative.

In August 2016, during a meeting with the new Chinese ambassador to Baku, Azerbaijan's president reaffirmed the great importance his country places on relations with China, indicating his desire to actively promote comprehensive cooperation between the two countries under the Belt and Road Initiative framework. In January 2019, Aliyev agreed to an interview with Chinese media while at the World Economic Forum in Davos. He again emphasized that BRI is

Azerbaijan has always had high praise and extended a warm welcome for Chinese firms that invest in the country.

very important for Azerbaijan, that his country fully supports this Chinese initiative, and that it will do everything it can to become an active participant in BRI.

In April of the same year, he actively participated in the second Belt and Road Forum for International Cooperation held in Beijing, and held high level talks with Chinese President Xi Jinping. China and Azerbaijan signed more than ten important documents, on top of many signed previously.

Due to the high level of importance placed on the issue by the heads of state of both countries, Sino-Azerbaijani relations have now moved into practical cooperation on many different sectors, achieving rapid high-quality growth. Azerbaijan's diplomats in China have participated in many exhibitions across China and worked hard to help firms in both countries find opportunities for cooperation.

In November 2018, at the first International Import Expo held in Shanghai, 32 firms from Azerbaijan participated, bringing over 200 products. According to Azerbaijan's State Customs Committee,

Fully utilizing the opportunity on offer is not only in the present interest of the South Caucasus countries, but will also, in the long term, promote peace and stability in the region.

in the first half of 2019, Sino-Azerbaijani trade reached \$1.27 billion. China has become Azerbaijan's fourth largest trading partner, third largest export partner, and fourth largest import partner. While deepening commercial ties, both sides are also promoting cultural exchanges: for instance, Azerbaijan has further simplified its electronic visa procedures, and launched direct flights to Beijing. Chinese tourism to Azerbaijan is growing steadily.

As a keystone transportation link between Europe and Asia, Azerbaijan places great importance on its regional advantage, trying to create a transportation corridor that spans multiple regions, with both east-west and north-south links. The Baku-Tbilisi-Kars railroad that was inaugurated in October 2017 has great significance for the full implementation of the Belt and Road Initiative in the re-

gion. It can greatly expedite travel times for Chinese goods reaching Azerbaijan through Central Asia to make its way onto Europe, and reduced transportation costs will benefit all.

A new international port under construction 70 kilometers

from Baku will be a very modernized transportation hub that can annually handle 25 million tons of Caspian Sea trade. A 120-acre free trade zone is also under construction in the port, providing tax-free commerce, streamlined approval processes, and other measures to attract international investors. So far this port has signed memoranda of understanding with China's Jiangsu Lianyungang Port Corporation and China Cosco Container Lines Corporation. We believe that more

and more international firms, especially Chinese firms, will make investments in this new port.

Azerbaijan has always had high praise and extended a warm welcome for Chinese firms that invest in the country, recognizing their participation in many industries and facilitating the completion of projects in accordance with contracts. In September 2019, during a meeting with the visiting Chairman of the Standing Committee of the National People's Congress Li Zhanshu, Aliyev said that both sides have achieved good results in the advancement of cooperation in the energy, transportation, and cultural sectors. Both sides also confirmed that Azerbaijan's success in completing modern infrastructure capable of transporting Chinese goods to international markets is a successful example of cooperation in the field of transportation.

The World Economic Forum's 2019 Global Competitiveness Report ranked Azerbaijan 31st in transportation infrastructure, 11th in efficiency of train services, 12th in airport connectivity, 25th in efficiency of seaport services, and 27th in quality of road infrastructure. These impressive results show that Azerbaijan's business environment and international cooperation is constantly improving. We believe that, as Azerbaijan's invest-

ment, business, and legal environment continues to improve, Sino-Azerbaijani cooperation under the framework of the Belt and Road Initiative will grow even further.

Georgia

Georgia has a population of around 4 million, with an area of some 70,000 square kilometers, is an Eastern Orthodox country in possession of a unique historical tradition, development pathway, governance system, and political and economic relationships internationally. However, this country has suffered through extended periods of warfare and civil strife since regaining its independence, with the regions of South Ossetia and Abkhazia remaining in a de facto state of separation. The state of conflict between Russia and Georgia has still not been resolved, while challenges in the realm of infrastructure and economic development also remain salient. Experts have pointed out that, perhaps as a result of its situation, Tbilisi had not initially paid special attention to the strategic potential of the Belt and Road Initiative, while Beijing had likewise failed to notice the unique role Georgia could play in the China–Central Asia–West Asia Economic Corridor.

On the other hand, the country's leaders have consistently expressed

a desire to revive the ancient Silk Road in order to develop international ties and promote economic development since Georgia renewed its independence. Former President Eduard Shevardnadze had proposed a “new Silk Road” multiple times. He believed that this idea was not just a fancy catchphrase but that it could instead become a multilateral coordinated effort based on mutual respect and equality—and that its actualization would contribute to Georgia's security and prosperity.

One of Shevardnadze's successors, Mikheil Saakashvili, also said that Georgia should continue to attach great importance to the revival of the Silk Road. Because various Georgian leaders have shown great enthusiasm in developing ties with China, Sino-Georgian ties in various sectors had already begun to grow before the initiation of the Belt and Road Initiative. Both sides' cooperation in infrastructure projects have stepped up in the current century. For instance, China's Sichuan Electric Power Import & Export Corporation built the Khadori hydro power plant, which was inaugurated in 2004.

Since China proposed the Belt and Road Initiative in autumn 2013, new opportunities for cooperation between China and Georgia have arisen. In August 2014, when a del-

egation of Chinese media covering the Silk Road region visited Tbilisi, Georgia's then President Giorgi Margvelashvili and Prime Minister Irakli Garibashvili gave interviews to Chinese journalists. They both expressed support for BRI and the hope that it would lead to increased ties with China. In October of that year, Garibashvili spoke at an international investment forum in Baku on the importance of reviving the Silk Road, and said that Georgia would be willing to make contributions to this endeavor.

In December 2015, China's first Silk Road-branded cross-border train from Lianyungang arrived in Tbilisi, where Garibashvili personally participated in the welcoming ceremony, commenting that the revival of this ancient transportation route also signaled the return of Georgia's historic mission. He predicted that Georgia would soon become the regional hub connecting Europe, East Asia, India, China, and the Middle East. Prior to this, in February 2015, the arrival to Tbilisi of a cargo train from Xinjiang, Georgia's then deputy prime minister had led officials from relevant departments in hosting a welcoming ceremony. Georgia's enthusiasm for the Belt and Road Initiative and great expectations from bilateral cooperation is evident.

The year 2015 represents an important milestone in Sino-Georgian cooperation under the framework of the Belt and Road Initiative. Things kicked off in March 2015, when the two sides signed a Memorandum of Understanding on Joint Promotion of the Silk Road Economic Belt, as well as a joint declaration on beginning work on feasibility studies for a trade deal, shortly followed by a memorandum of understanding launching negotiations for free trade agreement. In September 2015, when Garibashvili attended the World Economic Forum's Annual Meeting of the New Champions in Dalian (the so-called "Summer Davos"), he and Chinese Premier Li Keqiang held talks. While discussing various sectors of Chinese society, he said that Georgia is the country that is most welcoming of Chinese investment, firms, people, and culture in the region, and expressed his view that Georgia will become an outstanding partner for China. In October 2015, he further stated at the Tbilisi Silk Road International Forum that Georgia connects the East with the West, North with the South, adding that it hopes to become the regional center node. In 2015, China and

Georgia also signed a bilateral local currency swap agreement, enabling the companies of both countries to conduct business using local currency in order to ease trade and investment.

Admittedly, Georgia's market has a limited size, thus Sino-Georgian trade volume is not large. However, China is Georgia's third largest trading partner and fourth largest wine importer, as well as a major investor in Georgia. So far, we do not have the full data for Chinese investment in Georgia, but we know that from 2007 to 2018, the investment total in Georgia of just one Chinese company, Xinjiang Hualing Corporation, exceeded \$600 million.

Xinjiang Hualing Corporation entered Georgia more than a decade ago and today remains the largest foreign firm in Georgia. Its investments in Georgia include timber, mining, real estate development, industrial parks, and international economic zones—to name but a few. In 2012, Hualing successfully purchased Georgia's Basisbank, taking an important step forward in developing financial ties in Georgia by Chinese private enterprises. Because of good cooperation and business

Georgia could become the Black Sea base of the Belt and Road Initiative.

performance, projects where Hualing has had responsibilities have been rated by Georgia as the best.

In January 2018, the Sino-Georgian free trade agreement formally went into effect. This trade deal is the first that China signed with another country in the context of the Belt and Road Initiative. Reactions have been positive across the Silk Road region, not just in the South Caucasus. According to this treaty, Georgia will not apply any tariffs to 96.5 percent of Chinese imports, while China will reciprocate by not applying any tariffs to 93.9 percent of Georgian imports. Partly as a result of this good news, when Hualing Corporation's newly-completed industrial park begun its process of attracting businesses globally, over 70 businesses expressed interest in the first round of inquiry. Georgia had also signed a comprehensive free trade agreement with the European Union. Therefore, many experts believe that Georgia could indeed become a transit hub between China and the European Union, as long as China and Georgia both work hard towards actualizing this goal.

Sino-Georgian cooperation is not just limited to trade, but also extends to infrastructure. In 2016, China Railway Bureau Group 23 successfully completed the T8 tunnel along Georgia's modern

railways network. China Tianchen Engineering Corporation also recently completed a 230-megawatt capacity combined cycle power plant—the largest electricity generation plant in Georgia's history.

Due to these and other milestones, some predict that as mutual trust between China and Georgia continues to rise, the trading partnership continues to tighten, and cooperation in every field keeps growing in scope and depth, Georgia could become the Black Sea base of the Belt and Road Initiative.

Armenia

The smallest of the South Caucasus countries, Armenia has a population of 3 million and is a completely landlocked country. Due to a very complicated history between the two, Armenia and Turkey hold deep grudges against each other, while Armenia and Azerbaijan are involved in a thus-far unresolved territorial dispute. Today, Armenia has yet to establish normal diplomatic relations with Turkey and Azerbaijan, causing this country, which is starved of natural resources, to remain relatively poor in terms of economic self-reliance. In 2013, when China proposed the Belt and Road Initiative, Armenia's GDP was only \$11.1 billion, with a GDP per capita ranked 113th

globally and fixed capital formation growing negatively at -7.75 percent. However, one area of opportunity lies in its large diaspora in Europe and the Americas, which is mostly relatively wealthy. The role of this diaspora and associated remittances in helping Armenia develop international economic ties and trade is quite clear.

China has had many interactions with Armenia throughout history. Since 1991, when Armenia regained independence, Beijing and Yerevan have maintained a positive posture for developing ties in the political, economic, cultural, and other sectors, as well as gaining a high level of bilateral and multilateral cooperation in international affairs. According to Armenia, from 2010 to 2013, trade between China and Armenia has been around \$400 million annually, growing to \$588 million in 2014, backsliding to below \$500 million in 2015 and 2016. In March 2015, the two countries signed a three-year local currency swap agreement of 1 billion renminbi (or 77 billion dram) in order to further encourage bilateral trade, commerce, and direct investment.

According to China's Ministry of Commerce, as of the end of 2015, the total volume of China's direct investment in Armenia is \$7.51 million. Few Chinese firms are present in Armenia: those that are there

mostly partake in equipment sales and project contracting. Other than Huawei and ZTE—two Chinese firms which provide telecommunications products and services to Armenia—most other projects are currently in the planning stage. Fortune Oil from Hong Kong SAR had successfully obtained mining rights in Armenia, but due to the persistently low international price of iron ore, was forced to temporarily close its Armenia office in 2018.

Although the trading volume between the two countries has remained stagnant for a number of years and the volume of investment remain negligible, China has maintained for many years the position of Armenia's second-largest trading partner. Armenia continues to consider China an important trading partner. Therefore, Armenia participates in the Belt and Road Initiative with great enthusiasm.

In March 2015, while on a state visit to China, Armenian President Armen Sarkissian signed a declaration on further developing bilateral relations. Building on this, both sides later signed a Memorandum of Understanding on Joint Promotion of the Silk Road Economic Belt. In this document, Armenia expressed its clear stance of wanting to participate in the

Belt and Road Initiative. In 2016, Armenia became a dialogue partner in the Shanghai Cooperation Organization. In March 2017, the Asian Infrastructure Investment Bank approved Armenia's membership. China and Armenia further extended bilateral dialogue, and have deepened ties in various sectors.

Sarkissian has personally expressed a clear, positive stance on Armenia's participation in the "Belt and Road Initiative." In April 2019, while attending the second Belt and Road Forum for International Cooperation held in China, he said that Armenia's participation in the Belt and Road Initiative not only consists in cooperation with Chinese firms on developing infrastructure but can also be expanded to the data world, where the sides can create a digital BRI to help make Armenia a digital port to the world.

In recent years, Armenia's embassy in Beijing has worked hard to build on positive signs in Sino-Armenian cooperation, encouraging Chinese firms and people to find business opportunities in Armenia. So far, Chinese firms are actively participating in the bid-

ding process for the third section of Armenia's "North-South" Highway and a transformer station, and are also conducting feasibility studies on a planned Armenia-Iran Railways project. China and Armenia are also expanding cooperation opportunities in copper mining, cement, glass manufacturing, and other sectors.

We hope that China and Armenia can continue to achieve new milestones in cooperation under the framework of the Belt and Road Initiative, and that both sides can continue to explore new opportunities for cooperation as part of the China–Central Asia–West Asia Economic Corridor, and thus create more tangible results.

Spirit of Perseverance

Building the China–Central Asia–West Asia Economic Corridor is a very complex endeavor, requiring continuous work from all parties. As outlined above, the three South Caucasus countries all need to renovate aging infrastructure, modernize public services, and improve welfare systems. This provides a rare historical opportunity for China to combine

Sarkissian has personally expressed a clear, positive stance on Armenia's participation in the "Belt and Road Initiative."

existing cooperation with the three nations into the wider framework of creating the aforementioned corridor.

At the same time, we must also recognize that, due to the many challenges to economic development, complicated intra-regional relations, and inadequate connections with the wider world, there is much work to do for China and the South Caucasus countries in creating the China–Central Asia–West Asia Economic Corridor. In the first quarter of 2020, due to COVID-19, bilateral trade between China and Armenia fell to \$198 million, a clear drop from the same time last year. China’s trading relationships with both Azerbaijan and Georgia were similarly affected. Cooperation in other sectors, especially in infrastructure, were hit even harder.

Given this situation, the China–Central Asia–West Asia Economic Corridor may not be able to form a comprehensive regional network for some time. China and the South Caucasus countries should not rush to complete the construction of the Belt and Road Initiative. Instead, all parties are expected to work more steadily and maintain a detail-oriented mindset. Ensuring that cooperation leads to win-win situations, as well as maintaining a spirit of perseverance, represents the best path for moving forward cooperation between China and the South Caucasus countries under Belt and Road Initiative, together making progress on creating the China–Central Asia–West Asia Economic Corridor. **BD**

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