

China's Foreign-Policy Strategy in the South Caucasus—a Transit Window to Europe?

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Abstract

The article discusses the significance of the South Caucasus for China's foreign economic strategy in terms of transcontinental communications and analyzes the role of the China factor in this region in the post-Soviet period. The authors examine the development and peculiarities of the infrastructure and transportation projects, as well as bilateral cooperation in implementing trade, economic, investment, and humanitarian projects with three South Caucasian countries: Azerbaijan, Georgia, and Armenia. One of the key projects is the Trans-Caspian International Transport Route (TITR) which is to become part of the Great Silk Road currently under construction as part of the global Belt and Road Initiative. The geopolitical Ukraine crisis of 2022 and Russia's special military operation (SMO), which has interrupted many transport communications between Russia and the EU countries, has objectively increased the importance of southern bypass transport corridors for China. The priority of this region for China's foreign economic strategy is extremely relevant today and will remain so in the future.

Keywords. China, South Caucasus, Trans-Caspian International Transport Route, Caspian-Black Sea corridors, Azerbaijan, Georgia, Armenia, trade, investment.

The first trade ties between China and the Caucasus date back to the Middle Ages and are associated with the active operation of the Great Silk Road (GSR), which left a noticeable imprint in artifacts found in territories on both sides of the Main Caucasian Range. In the subsequent centuries, Chinese culture manifested itself here occasionally and, as a rule, indirectly.

The expert discourse on the relations between China and the South Caucasian states has been quite intensive lately. Over the past ten years, a large number of works by scholars from Russia, the South Caucasian and Western countries, as well as China have been published, providing a wide coverage of China's foreign policy pursuits and trade, economic, and transportation strategies in the South Caucasus, including their historical, contemporary geopolitical, and bilateral aspects.

The place of the South Caucasus in the system of Chinese priorities is interpreted differently by Russian authors (Yana Leksyutina (2022), Konstantin Tasits (2019), Alexander Mokretsky (2016), Sergey Zhiltsov et al. (2019), Yulia Borisova (2017), Ivetta Frolova (2016), Artem Pylin (2018)) and Armenian, Azerbaijani, and Georgian academics ((David Babayan (2011, 2013), Eljan Habibzade (2009), Agavni Harutyunyan (2022), Mher Sahakyan (2019)). Some of the scholars argue that the South Caucasus is absent from the list of significant tracks and plays a secondary role in the system of China's cross-border transportation routes (Leksyutina, 2022; Tasits, 2019). The authors attribute Beijing's "reserved stance" to the Caucasian countries' caution towards Chinese investments, the sluggish activity of Chinese financial and credit organizations in the region, and China's general orientation towards other overland transport corridors connecting it with Europe (Ibid).

Other researchers emphasize the potential opportunities of the South Caucasus for China, especially in the transportation, logistic, investment, and energy cooperation. While noting the economic dominance of other external powers in the region (the EU, Russia, and Turkey), the authors by no means rate China as an "outsider." On the contrary, they believe that China's strategic and transport ambitions have not yet been fully manifested here, and its high motivation for developing and promoting its projects in the region remains and is bound to grow over time (Babayan, 2011, 2013; Pylin, 2018; Mokretsky, 2016; Harutyunyan, 2022).

The policies of China's main competitors in the South Caucasus are an important segment of the Russian discourse.¹ Given the growing global and regional confrontation between China and the U.S., which is projected onto the South Caucasus and the Caspian-Black Sea region, it is worth noting some recent studies.

A collective report by a group of experts from the Higher School of Economics (Russia) on U.S. policies in the South Caucasus shows that U.S. policy in the region is mainly focused on military-political contacts

¹ This article does not discuss the policies of Turkey, the EU, Russia, and Iran in the South Caucasus in the context of their competition and/or cooperation with China in the region as this subject requires a separate study.

and their consistent diversification. The U.S. intentionally keeps economic and investment leverages on the backburner, with a view to promptly using them for reenforcing its positions when required (Entina et al., 2023). Alexey Butorov and Aiyyna Rumiantseva (2023, pp. 556-566) provide a detailed analysis of the U.S.'s transportation and logistic motivation and investment interests in the South Caucasus as a major transportation corridor between Europe and Asia and a transportation route for Caspian oil and gas.

In analyzing the segments of the Russian discourse concerning the Chinese and U.S. policies in the South Caucasus, one cannot but notice that both countries prefer to “keep a low profile” in economic, technological, transport, and investment terms, while retaining significant capabilities for making rapid headway in the transport, logistic, and hydrocarbon sectors. For China, which has actually lost its main strategic routes through Russia to Europe because of the SMO and has had to readjust its policy to the new realities, launching new (collective) transport projects in the South Caucasus and upgrading the old ones are a priority and will remain so in the future.

Chinese experts' vision of Beijing's foreign economic strategy in the South Caucasus is presented in the works of dedicated academic institutes of the Chinese Academy of Social Sciences (CASS): the Institute of Russian, Eastern European and Central Asian Studies, the Institute of World Economics and Politics, the Shanghai Institutes for International Studies (SIIS), as well as government-run thinktanks: the China Institutes of Contemporary International Relations (CICIR), the China Institute of International Studies (CIIS), the China Institute for International Strategic Studies (CISS), etc.

Chinese scholars are working on two avenues of research: a) the study of current key processes and events in the South Caucasus and their impact on the Caspian-Black Sea space in the spheres of security, economy, and transport, including the promotion of Belt and Road overland corridors to Europe and the Middle East, and b) the study of more general historical background of the South Caucasus and China's cultural and civilizational place. Specifically, Chinese experts draw attention to the fact that China has always had strong trade and cultural

ties with the countries in the South Caucasus through which the Silk Road passed, and that now these ties must be restored and developed (Zou, 2015; Sun and Ren, 2018).

Today, issues of regional security take center stage in Chinese research dealing with the South Caucasus. Some experts press for expanding the “military-technical engagement” in settling hot-spot problems in the South Caucasus and Central Asia, as the number of Chinese public and private sector employees now residing in the region is increasing. The authors describe such new locations as “technical support sites” rather than military bases (Liu and Fan, 2015).

Of key importance to Chinese researchers are optimal ways to integrate Chinese transportation, infrastructure, and logistic components into Sino-Armenian, Sino-Azerbaijani, and Sino-Georgian interaction programs in order to promote and implement the Belt and Road project in the Caspian-Black Sea area (Yan, 2015; Li, 2018; Zhang and Meng, 2019). Remarkably, no collective monograph, article or report contains any hint that the South Caucasus is of secondary importance; on the contrary, it is a priori regarded as significant for China. Opinions vary only as to the timing, methods, and direction of increasing China’s presence in the South Caucasus.

This article examines the significance of the South Caucasus for China’s foreign economic strategy, primarily in terms of transcontinental communications, including an analysis of the China factor in the development of the South Caucasus in the post-Soviet period, after Armenia, Azerbaijan, and Georgia gained independence. The starting point is 1993, when, as is well known, the intergovernmental program of the Transport Corridor Europe-Caucasus-Asia (TRACECA) was launched. It was intended to involve logistic points in the vast space south of Russia—from the Pacific coast of China to the Mediterranean. The article attempts to trace the development and identify special features of the infrastructure and transit projects, as well as bilateral cooperation in trade, economic, investment, and humanitarian spheres between China and the countries of the South Caucasus—Azerbaijan, Georgia, and Armenia. Also, the paper offers an analysis of whether the priority importance attributed

to this region is real or perceived for China's foreign economic strategy at present and in the near future.

TRANS-CASPIAN CORRIDOR. SPECIFICS OF CHINA'S PARTICIPATION

Conceptually, Beijing's implementation of its foreign policy strategy in the post-Soviet space is related to its global rise, which intensified after Xi Jinping presented, in 2013 in Astana (Kazakhstan) and Jakarta (Indonesia), the overland (Eurasian) and maritime versions of the Belt and Road Initiative (BRI). Central Asia became the key segment of the project. The China-Central Asia project developed quite rapidly and effectively as the Russia-China strategic partnership deepened and Russia developed friendly relations with the countries in this region, which partly created a politically and economically comfortable environment for China.

The Sino-South Caucasus cooperation strategy developed in a different situation, amid tensions that emerged in the region as a result of the Georgia-Abkhazia conflict of 1992-1993 and the Georgia-Russia War of 2008, complicated Armenian-Azerbaijani relations, in which Russia was also involved. The Ukraine crisis, the beginning of Russia's special military operation, and the West's boycott and sanctions affected transportation and infrastructure (transit) projects where Russia was a party and created additional difficulties for China in logistics and regional security.

Jiang Lei, a military analyst at the Chinese Armed Police Command Academy, rightly notes that China must take into account Russia's three very different types of bilateral relations—with Georgia, Armenia, and Azerbaijan—ranging from hostile (with Tbilisi), to allied (with Yerevan), and to balanced-neutral (with Baku), as well as the presence of the main challenge—the U.S. strategy, which creates additional threats in the region. “There are many contradictions between the U.S.-controlled international system and CIS regional structures controlled by Russia, which makes the Transcaucasian countries ... seek free choice and maneuver, especially in the security field” (Jiang Lei, 2014).

The idea of a new Silk Road received a powerful impetus only in 2013, when, in implementing the BRI, the Chinese diplomacy

accomplished great work allowing Beijing to sign relevant cooperation agreements with almost 150 countries (including three in the South Caucasus). A number of organizations were initiated: the Asian Infrastructure Investment Bank (co-founders also included Georgia and Azerbaijan, with Armenia's membership formalized later), the Belt and Road Tourist Union of Cities, the Belt and Road Strategic Union of Higher Education Institutions, etc.

Some Russian specialists believe that this global project is motivated not only by Beijing's desire to solve its own economic problems, but also by its intention to "create a Sino-centric Asian region with reliance on the countries in the post-Soviet space" (Borisova, 2017, p. 208). Other analysts see the political meaning of the Chinese initiative in the fact that Beijing "puts forward its own concepts of development, alternative to the Western ones" (Lukin et al., 2016, p. 11).

In 2013, the Coordinating Committee for the development of the *Trans-Caspian International Transport Route* (TITR, 11,000 km) was established; four years later, the TITR Association was created. It incorporated railroad and seaport companies in Georgia, Azerbaijan, China, Turkey, Kazakhstan, Ukraine, Poland, and Romania (DayAz., 2022). The South Caucasus ports on the Caspian and Black Seas (Baku, Poti, Batumi), as well as the new Baku-Tbilisi-Kars (BTK) railroad line commissioned in 2017, which significantly facilitated the delivery of cargos from China to Turkey, acquired key importance to China's ties with Europe. The Turkish Business Association noted that "previously it took at least 35 days to deliver goods from Turkey to China by sea," while "by rail we transport them in just 12 days." It is noteworthy that in January 2021, one branch linked the BTK to Russia (Restproperty, 2021).

China has actively joined TITR. Beijing's got interested in the project because, unlike the previous trans-Eurasian TRACECA, it was far less politicized and more focused on pragmatic and technological goals (Pylin, 2018, pp. 26-129). At the same time, TITR fitted in well with the transport and logistic policy of the Belt and Road Initiative, which was gaining maximum momentum at that time. A conference on TITR's role in the implementation of the Belt and Road Initiative (2018) was held in Beijing with support from China's Ministry of Commerce

and the embassies of Azerbaijan, Georgia, Kazakhstan, and Turkey (Kaspiisky Vestnik, 2018).

TITR's prospects were the subject of an Azerbaijan-China agreement on the establishment of a working group to coordinate ties in the transportation sector. The following year, a Georgian-Chinese agreement on international overland cargo and passenger transportation was concluded. In 2019, the management of the new Port of Baku (transshipment capacity of 6.2 million tons) signed a memorandum with Austrian and Dutch companies to expand freight traffic via TITR from Europe to Central Asia and China (ASNA, 2019).

Chinese enterprises are involved in linking road routes in the South Caucasus countries to TITR. The Chinese company China Railway Tunnel Group Co., Ltd. became the contractor for the construction of a 9-kilometer tunnel through the Main Caucasian Range, which will replace the Georgian Military Road. Scheduled to go operational in 2024, it will provide continuous connection between the South and North Caucasus, shortening the route from Tbilisi to the Russian border. This route will let China transport its goods from the Georgian section of TITR to the south of Russia (Vzglyad, 2021). In fact, it creates a link between the Russian road network and TITR and in a certain way eases the competitive contradiction between this route and transport corridors crossing Russia. Beijing is keen to avoid harming Russia's interests related to the creation of the North-South strategic transport corridor by Russia, Azerbaijan, Iran, and other interested players, on the one hand, and to act flexibly, taking into account its own transit priorities and capabilities, on the other.

CASPIAN–BLACK SEA CORRIDORS. CHINESE DIMENSIONS

The Caspian–Black Sea International Transport Corridor (ITC-CSBS), which the foreign ministers of Azerbaijan, Georgia, Romania, and Turkmenistan announced in a joint statement in March 2019, also organically fits into the Chinese strategic project. “One should proceed from the fact that the new route is just a name for the transportation logistics that already exists,” said Alexander Karavayev, an expert from the Institute of Economics of the Russian Academy of Sciences. He

rightly points out that every initiative in the sphere of international transport communications has two sides: political (geopolitical) and economic. At the same time, “whatever corridor is discussed, political necessity comes first” (CAAN, 2019).

The specific feature of China’s Caspian–Black Sea projects is the *diversification* of the corridors, which helps Beijing reduce geopolitical risks. The relevance of such a strategy is confirmed by the current realities. It should be borne in mind that there are two economic corridors within the New Silk Road that link China with Europe: one passes through Russia and the other one bypasses it going through West Asia and the South Caucasus. Until early 2023 the Russian overland route was the main and most efficient one, while the bypass route was auxiliary due to difficulties in logistics (by railroad–sea ferry–railroad that involves double cargo transshipment and increased costs).

Chinese researchers Deng Hao and Li Qiguo (2018) emphasize the need for Beijing to carry out “diplomatic diversification” with the South Caucasian states: “The diplomacy of various countries has become more diversified in the face of dramatic changes in the regional situation. Georgia has embarked on ‘deep Westernization,’ Armenia was cautious about rapprochement with Russia, while Azerbaijan has not joined the CSTO treaty and the Eurasian Economic Union. In the future, the South Caucasus will further move towards political diversification.” The scholars conclude that the fundamental challenge for China is to foresee the political risks and security issues that affect transportation, logistic, hydrocarbon, and economic policies within the framework of the Belt and Road projects.

The geopolitical (Ukraine) crisis and the Russian SMO, which has partially interrupted transportation links between Russia and the EU countries, have increased the importance of southern bypass routes for China. In the spring of 2022, China launched a route bypassing Russia along the Caspian–Black Sea International Transport Corridor (through Kazakhstan to the South Caucasus, Romania and beyond), with a significant increase in cargo carriage volumes (Krainyaya, 2014). In the summer of 2022, the EU leadership started revising

its transportation strategy to discard Russia's territory and use alternative logistic routes linking Europe with China (Yukhnevich, 2022). Undoubtedly, China will take advantage of TITR's growing potential. Reports show that in 2021, the volume of traffic along this route amounted to a meager 0.53 million tons, while its annual capacity is many times greater: from 10 (CAAN, 2019) to 27 million tons (Salaev, 2022). Hopefully, an early resolution of the Ukraine crisis will let the routes through Russia regain their leading positions in cargo transportation from China to Europe.

Beijing has updated the memorandum on the construction of the Kashgar (China)–Osh (Kyrgyzstan)–Andijan (Uzbekistan) railway line, which was signed in 1997 by China with a number of Central Asian republics (Kommersant, 1997). For a quarter of a century the plan remained actually frozen, but the Ukraine crisis set the project in motion. Its implementation will make it possible, within TITR's framework, to link the railroads of China, Central Asia, and the South Caucasus for further access to the EU countries.

This route has become strategically important for China, as well as for the countries of the South Caucasus, which expect a significant increase in commodity flows and transit revenues. Meanwhile, the Russian Foreign Ministry has noted that the new route will be 4,000 kilometers shorter than the railroad route passing through Russian territory and therefore “it will be much more competitive than the Trans-Siberian Railway, and this causes serious concern” (MFA RF, 2000).

Obviously, the interests of Russia and China and the countries of the South Caucasus disagree somewhat. However, this does not mean that Beijing will be trying to shift economic conflicts into another domain, for example, by actively pushing Russia out of the South Caucasus geopolitically.

The advantages of overland transport corridors (with delivery time of 10 to 15 days) in the long term will remain in the zone of Beijing's strategic interests: currently over 90% of China's trade with Europe is done by sea, with delivery time exceeding 40 days in some cases (Krainyaya, 2014).

BILATERAL CHINA–SOUTH CAUCASUS TRACKS.

WHAT ARE THE PRIORITIES?

China's transportation policy in the South Caucasus was organically complemented by trade and investment measures, which made China's foreign economic strategy on the Caucasus-Black Sea track quite balanced and logical. Political factors were no hindrance to Beijing: Chinese diplomacy was ready to sign various memoranda and protocols of intent with Baku, Tbilisi, and Yerevan, referring to the principles of traditional non-interference and economic pragmatism, avoiding political pressure. It was important for Beijing to create a positive background for interstate relations, which, if necessary, would contribute to building and solidifying their practical basis. While developing relations with one of the countries in the region, China invariably established contacts with their competing neighbors (Babayan, 2011, pp. 66-93). Such diplomacy ensured China's attractiveness as a serious unbiased partner, while shattering the illusion that it could be seen as a geopolitical ally at the same time.

In its South Caucasus strategy, China takes into account the growing impact of export and transit services on the region's economies. According to Russian estimates, the share of transit potential and export services in Georgia's GDP is between 6 to 7%; in Azerbaijan's, 1.1 to 3%; and in Armenia's, 1.5 to 2% (Pylin, 2018, p. 124).

In implementing its transportation strategy China uses trade and economic resources of each of the three countries in the bilateral format. For example, it purchased natural resources (copper, copper ore, copper and copper-molybdenum concentrate), which made up 90% of Armenia's export and 80% of Georgia's export, and Azerbaijan's oil and oil products (which accounts for 70% of its export). In turn, China supplies products of mechanical engineering, electrical engineering, electronics, ferrous metallurgy, chemical, light and other industries (Tasits, 2019, pp. 83-85).

China accounts for 9.3% of all investments made in the South Caucasus, ranking fourth after the EU (29.6%), Russia (14.3%), and Turkey (13.9%) (Leksytina, 2022, p. 60). In annual terms, Chinese investments amount to approximately \$800 million. Although the

volume of Chinese investment in the South Caucasus is smaller compared to that made in other regions of the world, Beijing's investment policy here has a very big functional significance. While not bringing maximum commercial benefits at present, China's (minimum) presence in this promising region can potentially be increased very rapidly (Leksyutina, 2022, pp. 15, 61, 69; Markedonov, 2019). In fact, Chinese investment is a kind of political guarantee of further presence (Vestnik Kavkaza, 2020).

Some Western experts have also noted this peculiarity of Beijing's investment policy in the South Caucasus. China, they believe, does not consider commercial priorities “an end in itself, but uses them as a means to achieve political or geopolitical aims in the region” (Rollan, 2018, p. 25). In other words, deliberately ceding primacy in this sphere to neighboring and geographically closer powers (Turkey, Russia, and the EU), it preserves its competitive positions which it can strengthen rather quickly by various means, including massive investment in infrastructure, energy and other facilities (Zhiltsov et al., 2019, pp. 24-25).

China's trade and economic activity in the region is developing against the background of a prudent and consistent humanitarian policy. With Beijing's support, four Confucius cultural and educational institutions have been opened in local universities—in Yerevan (2009), Baku (2011, 2016), and Tbilisi (2018). Also, Chinese language and culture centers have been established (in Yerevan (2015) and in Baku (2019)), and China studies centers have been organized in Yerevan (2014, 2016). The Chinese language learning has expanded in public and private educational institutions. China has eagerly opened opportunities for young people from the South Caucasus to study at its universities. In prestigious Chinese universities students from Azerbaijan study biotechnology, logistics, programming, ecology, and civil engineering, higher education pedagogy, international relations, law, and economics and management to get all degrees from bachelor's and master's to doctoral (Tasits, 2019, pp. 80-96). In fact, China is actively involved in building up its partners' human resources that would be capable of servicing the growing range of China-South

Caucasus interactions. Cultural exchanges have been expanded, and international conferences are organized within the framework of scientific cooperation.

According to experts of the Center for International Security and Strategy of the Tsinghua University (Beijing), *Sino-Azerbaijani bilateral cooperation* is considered a priority in the South Caucasus. This is borne out by the new international port (with an estimated annual capacity of 25 million tons) being built with Chinese investments 70 km away from Baku, the growing volume of trade that has reached \$2.3 billion, the successful operation of 120 Chinese companies, an accrued investment volume of \$1.7 billion, and a number of other mutually beneficial projects (Yu, 2020; Yau, 2019).

However, according to the 2022 data, China comes only fourth in terms of investment in Azerbaijan's economy. Overall, the share of the leading states in total investment made in Azerbaijan in 2022 is as follows: the EU—36.3%, Turkey—17%, Russia—10.9%, and China—7.5% (Leksyutina, 2022, p. 60).

Sino-Georgian bilateral cooperation got an impetus in March 2015, when Beijing and Tbilisi signed a memorandum of cooperation under the Belt and Road Initiative, including a feasibility study and negotiations on the creation of a free trade zone. Its launch in January 2018 set to zero 90 percent of export-import tariff rates. However, despite the high level of the agreements and preferential trade regimes, the volume of investment, according to the Chinese Xinjiang Hualing Group (a key investor in the Georgian economy), by 2022, had reached just \$600 million, while the volume of trade had amounted to \$1.5 billion.

Currently, Xinjiang Hualing is actively developing financial cooperation, having acquired a controlling stake in the Georgian bank Basisbank, and is creating an industrial park to attract investment from other Chinese companies. China's 70 businesses have expressed interest in the development and modernization of railways, highways, and communications and electric power facilities, as well as the establishment of a Black Sea Center to the construction of maritime infrastructure and corridors within the BRI framework (Yu, 2020; Yau, 2019).

Major investors in Georgia's economy are the EU (22.4%), Turkey (14.1), Russia (11.7%), and China (10.4%) (Leksyutina, 2022, p. 60).

Sino-Armenian cooperation in terms of Chinese investments and the number of joint projects falls behind the former two. Yerevan has expressed its readiness to participate in the Belt and Road project, acting as a recipient of Chinese loans for building infrastructure. According to the Chinese data for the post-Covid period, the level of trade does not exceed \$1.1 billion.

The development of information-technological services is a special feature of China-Armenia economic relations. China's giants Huawei and ZTE provide Armenia with communication products and other technical services on a regular basis. Chinese companies have joined the work on a feasibility study for Armenia's North-South section of the Armenia-Iran railroad (Golden, 2021). In contrast to Azerbaijan and Georgia, the lineup of leading investors in Armenia is different: Russia leads the way (30.5%), followed by the EU (18%), China (13.6%), and Turkey (3.3%) (Leksyutina, 2022, p. 60).

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The implementation of China's foreign economic and transportation strategy has gone through three phases: 1) the period before the launch of the BRI in 2013, when China's extensively penetrated the region in the transport and trade spheres; 2) the period from 2013 until the start of the SMO, transit through Russia to Europe was still available for Beijing, and therefore it was less interested in the South Caucasian transport corridors; and 3) after the start of the SMO, which caused radical reformatting of Sino-European logistics and enhanced the importance of corridors running through the South Caucasus and other adjacent areas.

The third phase is just beginning and has a vast potential for the development of new transportation and logistic trends. It is obvious that if the military and political confrontation between Russia and the collective West continues or intensifies, China's foreign economic presence in this region will increase every year. Objectively, China will view the South Caucasus as a new strategic transit territory for

accessing markets in Europe and the Middle East, which will boost Chinese investment in infrastructure and other promising projects (hydrocarbon production, etc.). China's tactic of "keeping a low profile" will inevitably be replaced by a policy of active advance in transportation, infrastructure, trade, and investment spheres.

It will become clear before long to what extent China will be able to compete with Turkey, the EU and Russia, and with which countries it will develop cooperation. In any case, China's foreign economic strategy will be multivariant and diversified.

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