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The New Edition of the New Silk Road – the South Caucasus Case

Abstract

The South Caucasus consists of three states – Georgia, Armenia, and Azerbaijan. The region is a natural corridor from the East to the West, from Asia to Europe, and from the North to the South, from Russia to the Middle East. This location is the main potential of the region, which lies in the possibility to create routes for the transmission of products, and the most important – energy resources.

The aim of the article is to analyze China's strategy towards the South Caucasus, including the New Silk Road project. Because of the location of the region, the South Caucasus has been the subject of competition, but also of cooperation of many geopolitical 'players' – such as the United States, Russia, the European Union, and also China.

The main tool of Chinese foreign policy towards not only the South Caucasus, but also in global dimension, has become the New Silk Road. This concept established towards the South Caucasus states, uses the 'cluster approach', which means that China seeks to develop relations with all the countries in the region in a parallel way, not to establish any different ways of cooperation with each of the South Caucasus state, like other global powers do.

Keywords: the South Caucasus, China, the New Silk Road, One Belt One Road, political involvement, cluster approach, Georgia, Armenia, Azerbaijan.

Introduction

The aim of the article is to analyze China's strategy towards one of the most complex and unstable regions — the South Caucasus. This strategy includes the New Silk Road project (the One Belt One Road Initiative). The South Caucasus consists of three independent states — Armenia, Azerbaijan, and Georgia¹ (Picture 1).

Picture 1. The Map of the South Caucasus.



Source: <https://othjournal.com/2018/02/07/geopolitical-future-of-the-south-caucasus/>

The South Caucasus is situated at the border of Eastern Europe and Western Asia, its location links two important continents and because of that it is a strategic region for the

¹ N. Sabanadze, *International Involvement in the South Caucasus*, „ECMI Working Papers” 15, 2002, pp. 3-4.

European Union, Turkey, Russia, Iran, but not only. It has historically been the land connection; and the sea border — as located between the Black Sea and the Caspian Sea.²

The location of the region at the crossroads of civilizations resulted in the development of culture, trade, but also rivalry, and wars — mostly between big political powers. Nowadays, the region has become an important area because of transport of energy resources from the Caspian Sea. These factors generate the political and strategic importance of this region for the European Union, Russia, the United States, but also for the new actor — China.

In the article the Author described the importance of the South Caucasus region, and compared the China's whole approach towards the South Caucasus, as well as the New Silk Road project actions. This short analysis is the opening for the studies of the new edition of China-South Caucasus relations. To analyze above mentioned issues the Author used a research desk method; she used various international publications, like monographs, scientific articles, and statistical data.

The South Caucasus as the Link between the East and the West — A Strategic Location for Global Powers

Since the end of the Cold War, the South Caucasus became an area of intense rivalry between three geopolitical “players” — Russia, the European Union, and the United States. All the states had, and still have different political and economic goals.

One of the main political actors, the Eastern one, Russia, seeks to regain the political and economic influence, as it

² N. Sabanadze, *International Involvement in the South Caucasus*, „ECMI Working Papers” 15, 2002, pp. 3-4.

was in the times of the Soviet Union. Russia's noticeable actions in Ukraine show how this state wants to be considered as an empire and strong global power³ — but not only economically, but mostly politically. Russian propaganda influences all the former Soviet republics, like the South Caucasus states. To remain a big political actor in the Post-Soviet region Russia uses the Eurasian Economic Union (EAEU), which was established on May 29, 2014 by the leaders of Russia, Kazakhstan, and Belarus. The main goal of cooperation is above all the free movement of goods, capital, services and workforce. In the sector of economy, the priority is to agree on energy policy vectors, agriculture, and transport. Currently, members of the Eurasian Economic Union are Armenia (from January 2, 2015)⁴ and Kyrgyzstan.⁵

On the contrary, the European Union seeks to integrate this region into more active economic cooperation, especially in energy sector breaking the dependence on Russian gas. The most important initiative aimed at the Eastern states is the Eastern Partnership (EaP) inaugurated in 2009 — where four main platforms like economic and political sphere, contacts between people, and the energy security were established.⁶ After 9 years of cooperation under the EaP some changes are

³ B. Poghosyan, *Geopolitical Future of the South Caucasus*, „Over the Horizon”, <https://othjournal.com/2018/02/07/geopolitical-future-of-the-south-caucasus> (accessed September 2018).

⁴ Armenian government approves document on accession to Eurasian economic bloc, „TASS”, <http://tass.ru/en/world/752369> (accessed September 2018).

⁵ Евразийская экономическая комиссия, Кыргызстан присоединился к Евразийскому экономическому союзу, <http://www.eurasiancommission.org/ru/nae/news/Pages/12-08-2015-1.aspx>.

⁶ T. Kapuśniak, *Wymiar Wschodni Europejskiej Polityki Sąsiedztwa Unii Europejskiej. Inkluzja bez członkostwa?*, Centrum Europejskie Natolin, Warsaw 2010, pp. 40 – 41.

visible — mostly connected with trade, energy policy, and visa regulations. Still, the European Union's problems with Brexit, migrant crisis, and terrorism threats put most of European authorities' attention to internal problems than to the Eastern side of cooperation.

The European Union is not the only Western power — the United States seeks to politically and military cooperate with the states of the South Caucasus. However, after the 2016 president elections, Donald Trump and his concept of "America First" put the South Caucasus region slightly behind all other.

Apart from the above mentioned powers, there is one more Eastern actor of also great importance — the People's Republic of China. In the past China's relations with the South Caucasus were mostly related to the existence of the old Silk Road — a trade route that has been connecting the East to the West for centuries. These relations were limited, and focused on economic and cultural spheres. This was the beginning of today's China's activity in the region. China as a geopolitical power wants to expand its economic contacts towards all the regions which are the corridors between the East and the West, like Central Asia and the South Caucasus, that is why China's authorities established a new tool, new global initiative - the New Silk Road.

The concept of the New Silk Road has become an important tool of Chinese foreign policy — which means that China can cooperate with about 50 countries in total. The states already included in the project, like Poland, Lithuania, Israel, Austria, Greece, Kazakhstan, Cambodia etc, attend to international meetings at various levels. The project provides the People's Republic of China a flexible way to create a bilateral dialogue with each of the interested countries. The most important

part of the project is the range of it, from Southeast Asia, through Central Asia, to the Middle East, East and North Africa, and European countries.⁷

Unlike the European integration, the concept of the New Silk Road is an open economical project without defined borders, it means that the bilateral cooperation can be established individually between China and other country/or countries.⁸ The aim of the New Silk Road is to develop the export of goods, labor, culture, and to promote tourism. It also provides an alternative for American, Russian, and Indian economic domination in Asia. This concept represents the Chinese response to the Russian-led integration project — the Eurasian Economic Union; but does not create a space for a large-scale competition with Russia for the influence in the South Caucasus region.⁹

The independent South Caucasus countries — Armenia, Azerbaijan, and Georgia — are different in many spheres, such as culture, religion, foreign policy, and language. Each of the state conduct a separate foreign policy, and differently shape relations with allies. Georgia as the most pro-Western state (after the Rose Revolution in 2003) rejects international cooperation with Russia — especially, after the conflict in 2008 when the lack of cooperation with Russia led to the destabilization of

⁷ B. Sarvari, A. Szeidovitz, *The Political Economy of the New Silk Road*, "Baltic Journal of European Studies Tallinn University of Technology", Vol. 6, No. 1 (20), pp. 7-13.

⁸ G. Luft, *It takes a Road: China's One Belt One Road Initiative: an American response to the New Silk Road*, „Institute for the Analysis of Global Security”, 2016, pp. 7-11.

⁹ V. Fedorenko, *The New Silk Road Initiatives in Central Asia*, Washington 2013, pp. 15-19.

the South Ossetia region.¹⁰ This conflict was not also in the interest of Georgia's neighbor — Azerbaijan. The state seeks to diversify the routes of selling the energy resources and to reach as many global customers as possible. The funds are used to modernize the country, so it can get politically, economically, and militarily stronger. Armenia, with its loyal ally Russia, seeks to gain more independent policy.¹¹

The relations between the South Caucasus states, and with geopolitical powers are extremely complicated. The situation forces the geopolitical parties to take into consideration various factors in their policies towards each South Caucasus state. Still, the strategic importance of the South Caucasus is confirmed by the number of interested actors whose political, military, and economic influences are visible in the region.

China's “cluster approach” towards the South Caucasus

China has slowly continued to appear as an important actor in the South Caucasus region. As Beijing authorities previously used individual approaches towards other Post-Soviet countries, like Central Asian states — in case of the South Caucasus China did not establish individual partnerships, but a “cluster approach”. It means that China seeks to develop relations with all the countries in the region at the same level, using the same tools without establishing any different ways of cooperation with each of the South Caucasus state, like other powers do. China also does not take into account

¹⁰ N. Jim, *Georgia-Russia Conflict in South Ossetia: Context and Implications for U.S. Interests*, CRS Report for Congress 2008, pp. 1-5.

¹¹ M. Kaldor, *Oil and Conflict: the Case of Nagorno Karabakh*, [in:] *Oil Wars*, (ed.) Mary Kaldor, Terry Lynn Karl, Yahia Said, London 2007, pp. 165-171.

conflicts and divisions between them, only notices the economic factors, not political ones.

Chinese “cluster approach” consists of three major courses. First, is aimed at expanding China’s economic activity in the region. The South Caucasus has a great economic potential, mostly because of the geographical position between two important continents, and because of the energy resources from the Caspian Sea. The second course is focused on educational exchange. The third course is to decrease the impact of Islamic fundamentalism. The South Caucasus can become a “corridor” through which Islamic fundamentalism ideologies could spread from the Middle East to China to Xinjiang and influence China’s Uighur population.¹²

For the independent and developing republics of the South Caucasus China represents a new source of capital and foreign investment, and also the other economic option than Russia, the European Union, and the United States — for China the most important interests are economics and trade. China wants to “make hay while the sun shines” and considers the South Caucasus as a market for affordable goods, and also, because of the location of the region, as an opportunity to expand the Chinese trade network into Europe.¹³ Even if the South Caucasus is not such an important part, only a small part of the New Silk Road project, it can become a significant extension of the Eurasia route.

¹² D. Babayan, *New Silk Road in the Southern Caucasus: Chinese Geopolitics in a Strategic Region*, „Yale Journal”, October 6, 2014, http://yalejournal.org/article_post/new-silk-roads-in-the-southern-caucasus-chinese-geopolitics-in-a-strategic-region/.

¹³ S. Djankov, *The Rationale Behind China’s Belt and Road Initiative*, [in:] *China’s Belt and Road Initiative - Motives, Scope, and Challenges*, (ed.) Simeon Djankov, Sean Miner, Peterson Institute for International Economics 2016, pp. 6-7.

What is more, the People's Republic of China is an economic-centered power — it means that China, politically, is not associated with any Caucasian conflict, which creates favorable conditions for developing China's relations in the region. China's intentions is to present the project without creating a pro-China, anti-Russia, and anti-Western ideologies by associating with Caucasian territorial conflicts. Even if China does not consider the South Caucasus in the same geostrategic and political terms as Russia does, still wants to keep its economic influence in the region. Currently, it seems unlikely that Russia will consider China as a threat, still will not want to allow this potential geopolitical competition to gain the influence in the South Caucasus. Especially, because of the situation in Eurasia where the region is considered to be between "the Dragon" (China) and "the Bear" (Russia).

The People's Republic of China in the South Caucasus is "caught between two stools"— as an economic power China does not get involved in the political sphere, does not use the same strategic presence as Russia and the West, however the complicated situation between Russia and Georgia, the same with Armenia-Azerbaijan, needs the global power to consider peacemaking political decisions.

China's growing presence and importance in the region is a power that can no longer be ignored. It may not be at the same level of consideration in the scientific paradigm like the struggles of Russia, the West, Iran, and Turkey. Especially, as these "players" continue to develop their economic presence in the South Caucasian "chessboard", business tycoons and political leaders will need to consider China's economic presence as an important factor.

Chinese Investments in the South Caucasus

Chinese interests in the South Caucasus have been limited to supporting investment by private and state-owned Chinese companies. The “cluster approach” and not taking the South Caucasus as a big part of the One Belt One Road concept created a limited sphere of Chinese-Caucasus relations in the New Silk Road project. This situation is different from Central Asia, where large-scale Chinese investments are financed by national Chinese banks.¹⁴ Yet, at the 2017 World Economic Forum in Davos, the leaders of two South Caucasian states, Georgia and Azerbaijan, took part in *The Silk Road Effect* session. They promoted and underlined the importance of the China-led New Silk Road Economic Belt project in the South Caucasus region.¹⁵

Still, there are two main projects which are connected with the South Caucasus region, and in the future can be included in the One Belt One Road initiative and can improve Sino-Caucasian economic relations. The first one is the Trans-Caspian International Transport Route (TITR) — it starts in China, and runs through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, the Black Sea, and further to Europe. In 2017 Georgia started the construction of Anaklia Deep Sea Port which should increase the transit potential of this route; and signed Free Trade Agreement with China which will develop bilateral trade and transit.¹⁶

¹⁴ A. Yalijev, *China Targets Azerbaijan for Transportation Projects*, Caspian Policy Center, <http://www.caspianpolicy.org/news/china-targets-azerbaijan-for-transportation-projects> (accessed September 2018).

¹⁵ *World Economic Forum Annual Meeting 2017*, World Economic Forum, <https://www.weforum.org/events/world-economic-forum-annual-meeting-2017> (accessed September 2018).

¹⁶ B. Poghosyan, *China’s OBOR initiative: Opportunities for the*

The second project, the Persian Gulf – Black Sea transport corridor, connects Iran with Europe, and runs through Armenia and Georgia. Main goal is to modernize the transport infrastructure of Armenia to create and opportunity to improve transportation to Iran and Georgia and increase the Iran–China, and Iran–Europe trade making.¹⁷

Recent Chinese economic cooperation in the South Caucasus have been focused on Azerbaijan. Sin-Azeri relations were established in 1992, and in 2004-2005 the cooperation has bloomed.¹⁸ Since 2015 China and Azerbaijan began to intensify their relations, particularly in the energy sphere. However, the significant cooperation under the New Silk Road project started in winter 2015, when the president of Azerbaijan, Aliyev visited China. During his diplomacy visit, the president signed a series of agreements including a memorandum of understanding over the Silk Road Economic Belt.¹⁹

A similar story lies behind Chinese relations with Georgia. This country is strategically placed between Azerbaijan and the Black sea, this created an opportunity for Georgia to get involved into the New Silk Road initiative. The People's Republic of China established diplomatic relations with Georgia in 1992, and over the years, the cooperation deepened. Recently, Georgia is considered as potentially important partner in the New Silk Road project. According to Georgian 2014

South Caucasus, <https://emerging-europe.com/voices/chinas-obor-initiative-opportunities-for-the-south-caucasus/> (accessed September 2018).

¹⁷ Ibidem.

¹⁸ Embassy of the Republic of Azerbaijan to the People's Republic of China, <http://beijing.mfa.gov.az/news/4/3072> (accessed September 2018).

¹⁹ *President of Azerbaijan Ilham Aliyev to Visit China*, Ministry of Foreign Affairs of the People's Republic of China, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/wsrc_665395/t1321413.shtml (accessed September 2018).

data, trade between China and Georgia reached \$823 million, and China's FDI in Georgia amounted to \$195 million. On March 9, 2015, Georgian and Chinese authorities began preparatory work to negotiate a free trade zone, and signed a Memorandum of Cooperation on the New Silk Road. In June 2015, Georgia decided to join the Asian Infrastructure Investment Bank, which was the closer step to strengthening the Chinese-Georgia relations.²⁰

Yet, Georgia's pro-Western course is still visible and the signing of a Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union, made the state more attractive. However, Chinese-Georgian economic and infrastructure cooperation is still continued, like the Baku-Tbilisi-Kars (BTK) railway – a project is going to complete the rail transport corridor linking Turkey via Georgia to Azerbaijan, after signing an agreement in 2007 (and thus on to Central Asia and China).²¹

As in the Georgian case, the Chinese-Armenian relations are lately more intense than before. China still invests mainly in industry, and in energy. According to 2014 data, trade between China and Armenia reached \$588 million. Currently, there is an increased interest of both parties in the further development of bilateral relations.²²

However, the authorities of the South Caucasus states are looking forward to be a bigger part of the New Silk Road

²⁰ T. Revaz, *Georgia: the Key to China's Belt and Road*, „The Diplomat,” April 28, 2016, <http://thediplomat.com/2016/04/georgia-the-key-to-chinas-belt-and-road/>

²¹ Dong, “China's Strategy in the South Caucasus”.

²² *Armenian-Chinese High-level Negotiations Take Place in Beijing*, President of the Republic of Armenia, <http://www.president.am/en/press-release/item/2015/03/25/President-Serzh-Sargsyan-state-visit-to-China-day-1/> (accessed September 2018).

project, it is difficult to analyze how it will be in the future and how it will evolve. It seems that China and its One Belt One Road has much more to offer than other parties. Furthermore, this increasing importance of the region in trade and cooperation with China can stabilize the political tensions between the South Caucasian countries.

Summary

The South Caucasus consists of three independent states — Georgia, Armenia, and Azerbaijan. The region is a natural corridor from the East to the West, from Asia to Europe, and from the North to the South, from Russia to the Middle East. This location is the main potential of the region, which lies in the possibility to create routes for the transmission of goods, labor, culture, and the most important — energy resources. Because of the location the South Caucasus has been the subject of competition, but also of cooperation of many geopolitical actors — such as the United States, Russia, the European Union, and also the new Eastern economic power — China.

The main tool of Chinese foreign policy towards not only the South Caucasus, but also other Post-Soviet countries, is the New Silk Road. China uses the “cluster approach”, towards the South Caucasus region, which means that China seeks to develop relations with all the countries in the region in a parallel way, not to establish any different ways of cooperation with each of the South Caucasus state, like other parties do.

China’s foreign policy strategy towards other countries is mostly separated from politics, in case of the South Caucasus it is important to question is there even a possibility to separate Chinese economy from Caucasian politics? With

the New Silk Road initiative China creates a basis to develop economic cooperation globally, but also regionally. This co-operation may influence the political field — especially, in the complex South Caucasus where the economic and political spheres are inseparable.

China's "cluster approach" is a strategy that seeks to establish regional economic influence without getting involved in regional territorial conflicts, such as in case of Abkhazia, South Ossetia, and Nagorno Karabakh. However, the long-distance cooperation of China and the South Caucasus states may push the Chinese authorities towards more political than economic decisions — especially, because it is one of the most unstable regions of the world.

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