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AZERBAIJAN'S CONTRIBUTION TO THE CHINESE BELT & ROAD INITIATIVE (BRI)

GCRF COMPASS Policy Brief

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GCRF COMPASS: Comprehensive Capacity-Building in the Eastern Neighbourhood and Central Asia: research integration, impact governance & sustainable communities.



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GCRF COMPASS project (ES/P010849/1, 2017-21) is an ambitious UK government capacity-building funding initiative, aiming to extend UK research globally and to address the challenges of growth and sustainability in developing countries. Notably, the COMPASS project led by the University of Kent, in partnership with the University of Cambridge, seeks to establish the **'hubs of excellence'** at the top-level Higher Education Institutions in Azerbaijan, Belarus, Tajikistan and Uzbekistan, to enable them to become the centres for knowledge-sharing and transfer for **research integration, impact governance, and sustainable communities.**

ADA University

ADA University is a leading university in Azerbaijan, focusing on degree programs and research in the fields of Social Sciences, Law, Education, IT and Engineering. Established in 2006, the university is the only English-language university in the country and has partnership agreements with more than 60 universities around the world. Since 2014, the university has Excellence Center in EU Studies, established jointly with EU Delegation in Azerbaijan. Students from 55 countries receive education at ADA University.

ABSTRACT

The Belt and Road Initiative (BRI) was initiated by the Chinese government in 2013 to promote regional trade and increase Chinese political and economic presence in the region. The main instrument for realising the ambition of this initiative is the Chinese provision of financial support to the countries located on the Ancient Silk Road to implement infrastructure projects. It includes the construction of roads, railroads, seaports, logistic centres, and communication facilities. Azerbaijan is a BRI partner-country in the South Caucasus strategically located between Asia and Europe. It can play the role of a strategic partner and hub connecting China with the Middle East and Europe. The paper finds out that China accepts Azerbaijan as a reliable partner. Azerbaijan perceives BRI as a promising initiative. The Azerbaijani government has a political will and the capacity to contribute to the BRI. By offering some key recommendations, the paper concludes that China and Azerbaijan should closely work to strengthen the BRI's influence in Central Asia and South Caucasus and prioritise the Trans-Caspian International Transport Route (TITR) passing through Azerbaijan.

***Keywords:** Belt & Road Initiative, China, Azerbaijan, integration, trade, and investment*

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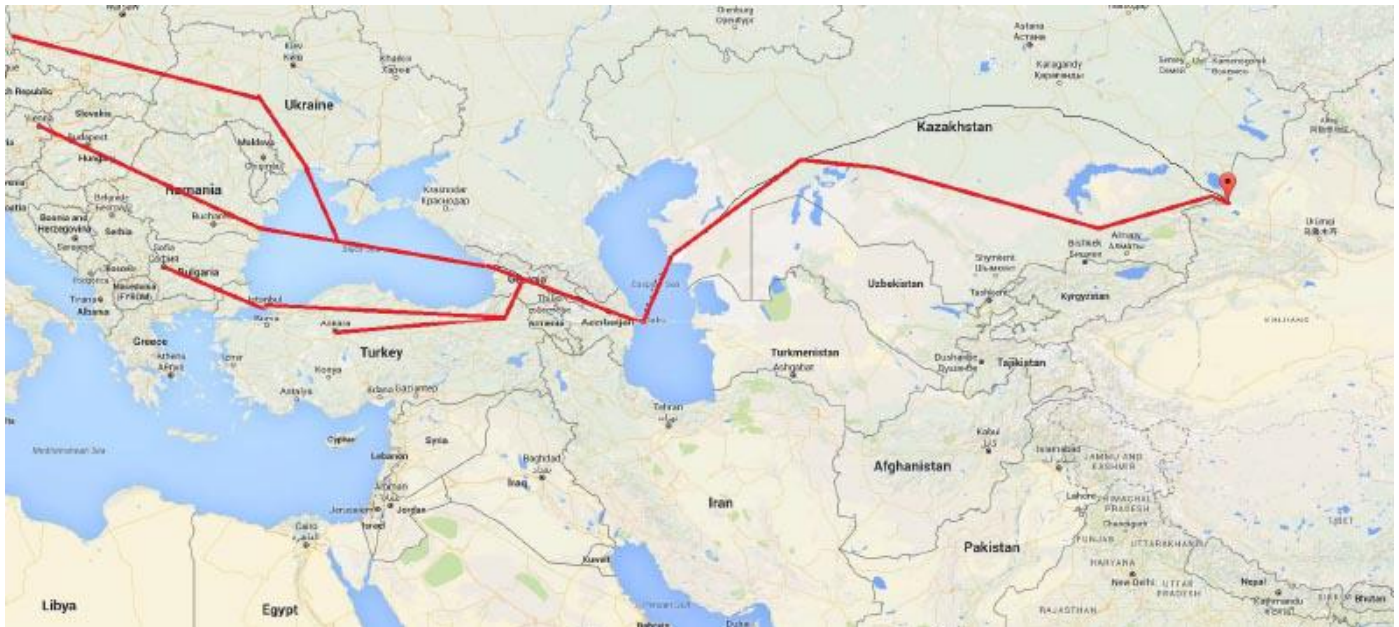
BACKGROUND

BRI is a global development strategy adopted by the Chinese government in 2013. The strategy intends cooperation with more than 70 countries in Asia, Africa, Europe, and the Americas. The main instrument for cooperation is the Chinese investments in infrastructure development in countries located along the ancient Silk Road that includes the constructions of roads, seaports, railways, and communication facilities in partner countries. Furthermore, the Chinese government supports projects promoting trade, integration and investments with partner countries. It is characterised by its solid institutional framework. The Asian Infrastructure Investment Bank, Silk Road Fund, and the University Alliance of the Silk Road have been established to implement the project. The BRI is composed of multiple trade corridors that are China–Mongolia–Russia, China–Central Asia–Western Asia, the Indo-China Peninsula, China–Pakistan and Bangladesh–China–India–Myanmar (Lu, Rohr, Hafner and Knack, 2018: 3). The Chinese government issued its 'Vision and Actions of the Belt and Road' that reveals the goals of China's grand project (Zeng, 2016: 517). However, most researchers consider that BRI expresses the global ambitions of China (Du, 2016: 43).

Located at the crossroads of the East and West, Azerbaijan that offers an advantageous location and logistic opportunities to accommodate Chinese exports coming through Central Asia and the Caspian

Sea has welcomed the BRI from its earliest days. The strategic location of Azerbaijan and the Caspian Sea which can connect the East and the West has been recognized since the times of the ancient Silk Road. Azerbaijan is the main country located on the Trans-Caspian International Transport Route (TITR) (See figure 1) which is critical to the middle East-West corridor of the Economic Belt (1News, 2019). The BRI overlaps with the strategic interests of Azerbaijan, therefore it is perceived as a welcoming initiative. When the President of Azerbaijan Ilham Aliyev attended 2nd “One Belt One Road” Forum in Beijing on April 26, 2019, he reiterated Azerbaijan’s important role in terms of providing transit opportunities for many countries (President.az 2019a).

Figure 1: Trans-Caspian International Transport Route



Source: Trans-Caspian International Route (Photo Credit: TITR Association)

Azerbaijan’s participation in the BRI started with the “Memorandum of Understanding on Joint Encouragement of the Establishment of Silk Way Economic Belt” signed between two countries when the President Aliyev visited China in 2015 (Azertac, 2019). Ilham Aliyev repeatedly pointed out that Azerbaijan fully supports China's initiative. When President Aliyev attended the 2nd BRI Forum, about 10 agreements were signed including the Strategic Partnership Agreement between ADY Container, a subsidiary of Azerbaijan Railways Company, and Xi'an Continental Bridge International Logistics Co., Ltd and a Strategic Memorandum of Cooperation between China Telecom and AzerTelecom, which is the main internet provider in connecting Azerbaijan to the global network, on the establishment of the Asia-Europe telecommunications corridor and transmission of China's internet traffic through Azerbaijan (China Daily; Caspian News, 2019).

When meeting with the Chairman of People's Republic of China Xi Jinping in Beijing on April 24, 2019, President Aliyev expressed his full support to the BRI and called political relations between China and Azerbaijan of “high-level” importance (President.az, 2019c). Azerbaijan president’s last visit to China ended with the willingness of both parties to reinforce the existing partnerships. The trade turnover

between Azerbaijan and China has been developing at an increasing pace and reached \$1.3 billion in 2019.

From a Chinese perspective, Azerbaijan can offer a lot of partnership opportunities for the implementation of this project considering Azerbaijan's great location connecting European and Asian trade roads, the available transportation infrastructure from the Caspian Sea to the West established with the support provided by Azerbaijan, its keen interest in the development of cooperation on transportation corridors, interconnectedness and trade from the East to the West (Lianlei, 2016: 27-39). Moreover, it is important to highlight that the shortest railway road between China and European countries passes through Azerbaijan. Azerbaijan is a reliable partner for China from a political point of view since it has contributed to ensuring European energy security playing a hyperactive role in the EU's regional transport and energy projects, including Baku-Tbilisi-Ceyhan oil pipeline, TRACECA, INOGATE, TAP, TANAP and others.

STRATEGIC INTERESTS OF AZERBAIJAN

The development of the oil and gas sector since the 1990s has played an important role in increasing Azerbaijan's financial potential, boosting economic growth, achieving political stability and enabling it to actively participate in infrastructure projects. As part of its diversification strategy, Azerbaijan is trying to become a transit hub to diversify its economy by investing its oil revenues in building modern transportation infrastructure. From an Azerbaijani perspective, the BRI is a positive project which may permit Azerbaijan to fill its funding gap (Valiyev, 2019: 3). It is Azerbaijan's strategic interest to become a connecting hub of logistics between Europe and Asia which will enable the country to benefit from transportation and transit fees. Azerbaijan regards China's BRI to diversify its oil depended economy. When the president Ilham Aliyev participated in the "Advancing the Belt and Road Initiative: China's Trillion-Dollar Vision" session in Davos on January 22, 2019, he mentioned that "we are investing in infrastructure inside the country to build roads, highways, airports, for gasification and power generation. We have also invested in transport infrastructure. This will enable us to transport cargoes from the East to the West, from the North to the South and from the South to the North" (President.az 2019b).

Therefore, Azerbaijan is one of the few countries of the historic Silk Road located in the heart of Eurasia, situated at the junction of East and West, which is actively involved in the establishment of international trade corridors and modern transportation infrastructure. Azerbaijan managed to create the shortest railway connection between China and Europe in no time. The Baku Cargo Terminal, Azerbaijan's six international airports, the Alat trade port, the Caspian fleet, free economic zone, modern cargo ships on the Caspian and the Baku-Tbilisi- Kars (BTK) (see figure 2) railway, established in 2017, are part of Azerbaijan's useful contributions to trade routes connecting the East with the West (Belt & Road News, 2019). It is not a coincidence that former-Deputy Assistant Secretary of the US State for European and Eurasian Affairs David A. Merkel called Azerbaijan "the beating heart of the BRI" while participating at a panel titled "China's Development and Opportunities for the World" as part of the VII Global Baku

Forum (Ona Online News Agency, 2019). Azerbaijan has both technical and financial capacity and political willingness to further promote China’s initiative. The country's favourable location, as well as a well-developed road and transport infrastructure, allows it to participate in international projects.

Figure 2: the Baku-Tbilisi-Kars (BTK)



Source: Baku-Tbilisi-Kars railway officially launched (Photo credit: VESTNIK KAVKAZA)

On the other hand, Azerbaijan both owns a strategic place for the implementation of TITR project and it has made useful contributions to the project. These contributions include the construction of the Alat port and investments in the regional railway BTK. The project that has established direct railways between Azerbaijan, Georgia and Turkey aims at achieving foreign direct investment by connecting Europe and Asia. Ismayilov and Javakhishvili (2018: 10) highlight that

“Azerbaijan and Georgia’s involvement in the Chinese BRI project was encouraged by the already functioning Silk Road Transport Corridor project. Also, the already operational Baku-Tbilisi-Kars railway constitutes a new significant phase of this project’s development, since this road already links not only Azerbaijan, Georgia and Turkey, but also the totality of all the countries along the East-West line. This railway, as an important component of the Iron Silk Road, is a logical fit with the BRI”.

By benefiting from the existing infrastructure from the Caspian to the West, TITR project enables Chinese goods to travel from Western China through Kazakhstan, the Caspian Sea, and Azerbaijan to Turkey (1News, 2019). TITR is a sound choice for China too, as China will enjoy available infrastructure, a financial partner like Azerbaijan as well as a reliable country from a political point of view. From a commercial perspective, as the project will help China reduce cost and time related to transportation of its goods as TITR is the shortest road to the west. Economic integration in the South Caucasus will strengthen the soft power of China that will promote Chinese-led integration from the East to the West. ITR project is an ideal option for China because of it the shortest railway route from China to Europe. BTK, the Alat port, Baku Cargo terminal and other existing infrastructure facilities can benefit China and

Azerbaijan in the short and long run. The recent developments between Azerbaijan and China show that both countries are keen on further cooperation.

CONCLUSIONS AND POLICY RECOMMENDATIONS

The BRI benefits both China and Azerbaijan in the short and long run. Both countries are very keen on further cooperation. The recent agreements signed between the state-owned companies of two countries and increased trade turnover that reached \$1.3 billion in 2019 have explicitly demonstrated positive developments between two countries since Azerbaijan participated in the BRI initiative. From a Chinese perspective, Azerbaijan is a geographic hub, strategic partner and the owner of the existing transportation infrastructure (Alat port, BTK) from the Caspian Sea to the West. For the government of Azerbaijan, cooperation with China within TITR project will not only enable it to become a logistical hub between East and West but also involve technical support and additional foreign direct investments from Chinese private and public companies. Successful cooperation can help Azerbaijan enjoy transportation and transit fees, provide diversification of its economy and attract foreign capital.

Concerning recommendations, China has to reinforce its efforts to prioritize TITR project within the framework of the BRI. First, TITR is a reliable route from a political point of view. Second, it is the shortest railway road from China to Europe. Furthermore, the project does not require much financial investment due to the already existing infrastructure Azerbaijan has created from the Caspian Basin to the West. China should work more closely with the Azerbaijani government on this project. Prioritising this BRI route will consolidate Chinese influence on the Caspian and benefit from the support of Azerbaijan in terms of the development of transport corridors from the East to the West. Georgia and Turkey, being Azerbaijan's strategic partners have also expressed their support for China's participation in the TITR. In this regard, the biggest challenge (but a tremendous opportunity) for the Azerbaijani government is to convince China to choose TITR project within the BRI framework. Furthermore, Azerbaijan has to determine mechanisms to involve the BRI funding as well as Chinese private investments that will equally benefit both parties.

Finally, China and Azerbaijan have to increase intergovernmental working groups to prepare a working platform within the BRI framework. This platform should specify the needs and contributions of parties and build on them. China's strategic choice of TITR is of benefit to all parties. Azerbaijan, Georgia and Turkey have been partners for the realization of many energy and transportation projects for the last 20 years. If the TITR route is chosen, China can perceive this cooperation as a secure reciprocal investment in to the future.

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