

# Promoting the Relationship between China and Azerbaijan to a New Level of Strategic Cooperation

*Mae Walsh-Zamanbayova*

## *Topics of Discussion*

*China-Azerbaijan relations, connectivity, trade, economic development, sustainable development, transport corridors.*

This document summarizes an off-the-record roundtable discussion featuring Ma Chi, Economic and Commercial Counsellor at the embassy of the People's Republic of China in Azerbaijan. Other participants included senior representatives from leading Azerbaijani companies (public and private), relevant government ministries, and leading Baku-based university-affiliated scholars and think tank analysts. The discussion took place on 27 April 2023 at ADA University under the auspices of the Institute for Development and Diplomacy (IDD), and was hosted by IDD's Director for Policy Research, Analysis, and Publications Damjan Krnjević Mišković.

## *Prospects for the Development of Azerbaijan-China Relations*

2023 marks the thirty-first anniversary of the establishment of diplomatic relations between Azerbaijan and China. In the current geopolitical environment, the Middle Corridor has become an imperative land transport, trade, and connectivity route from East to West and vice versa. Due to Azerbaijan's geographical positioning on this route (it is the region's indispensable country in this regard, as noted by the moderator), the argument was made that the relationship between Azerbaijan and China is crucial and that there are now more opportunities than ever for mutually beneficial bilateral cooperation between Azerbaijan and China.

*Mae Walsh-Zamanbayova is a research fellow at the Institute of Development and Diplomacy (IDD). The views and opinions expressed herein are solely those of the author.*

Similarly, China is said to be an attractive partner for Azerbaijan. For one, between 2020 and 2022, China's incremental GDP was around \$3.5 trillion, accounting for more than one quarter of the global economy. Moreover, China continues to be a driving force behind new innovative developments and technologies (e.g., IT, high-end equipment, green energy). In 2022, China's R&D expenditure exceeded \$433 billion, which was 60 percent of the corresponding American number, 3.9 times higher than Japan, and more than the EU27 countries combined. The point was made that Azerbaijan can utilize a partnership with such an influential global actor to expedite the country's economic and sustainable development.

Evidence was put forward that the two countries continue to understand the strategic importance of further bilateral cooperation. In September 2022, China's President Xi Jinping met with Azerbaijan's President Ilham Aliyev on the sidelines of the SCO Summit in Samarkand, Uzbekistan. During this meeting, the two leaders agreed to strengthen bilateral relations based on strategic mutual trust, support, and mutually beneficial cooperation. Specifically, the leaders discussed the expansion of trade, the optimization of the trade structure, the potential to increase the volume of the China Railway Express, and the development of the Belt and Road Initiative (BRI).

The roundtable discussion expanded on these areas of potential cooperation and outlined some specific ways in which Azerbaijan and China could work together to capitalize on these and related opportunities.

## *Trade Cooperation*

China is Azerbaijan's fourth largest trading partner, and this trend continues to rise, with a 15 percent growth in trade recorded in 2022. China's exports to Azerbaijan have changed in the past 10 years from light textiles, such as shoes and hats, to high technology products, such as machinery, equipment, electronics, and cars. Similarly, it was predicted that the export of new Chinese energy generation equipment, energy vehicles, and sustainable agricultural equipment into Azerbaijan will increase in the next few years, furthering Azerbaijan's goal of green energy and sustainable development.

Moreover, the utilization of transport corridors and sea routes was discussed. In April 2023, Qingdao Port signed cooperation documents with Baku Port, proving another opportunity for trade cooperation. Additionally, the potential of the Middle Corridor was considered invaluable to increase the volume of Chinese goods transported to Azerbaijan and other states taking part in BRI while reducing the current transport time from East to West and vice versa. By working together to develop the Middle Corridor, both sides can cooperate to improve the operational stability of the route, the timeliness of customs clearance, the shortening of transit

time, and the establishment of a fixed operation schedule.

Likewise, China supports the export of Azerbaijani products into China. Jingdong (one of China's largest online shopping platforms) has a 'national pavilion' of Azerbaijani products on display, which is designed to attract more Chinese consumers to buy them. As Chinese consumer knowledge and understanding of Azerbaijani products increases, so too will the demand for exports. In the first quarter of 2023, Azerbaijani exports to China increased 1.6 times. Furthermore, it was suggested that Azerbaijani enterprises should more actively participate in large professional exhibitions in China and engage in seminars and meetings with potential Chinese customers and buyers. It was noted that there is no substitute to enhanced business-to-business and people-to-people connections.

Moreover, the importance of tourism was highlighted to encourage consumer knowledge and understanding. Azerbaijan is increasing in popularity with Chinese tourists, and now that travel restrictions due to the COVID-19 pandemic are lifting, this is the perfect time to capitalize on this. Representative of the Azerbaijani side indicated that the issuance of individual Chinese tourist visas to citizens of Azerbaijan should be resumed as soon as possible. This will, they noted, be beneficial in establishing China as a popular tourist destination for Azerbaijanis, thereby increasing cultural trade and person-to-person contact and connection—perhaps an issue to be raised at the highest level in the time ahead, in light of the fact that Chinese tourists can more easily receive individual tourist visas for Azerbaijan. Similarly, it was suggested that Baku should open one or more Chinese language schools, allowing for easier communication for both tourists and companies who visit China. This could be invaluable for Azerbaijani companies in establishing relationships and connections with Chinese companies, potentially increasing cooperation and trade.

The potential implementation of a free trade agreement (FTA) was additionally discussed. While trade between Azerbaijan and China is improving, it remains below the level of Georgia and other countries in what was called the Silk Road region, as one of the participants noted. Rectifying this, it was suggested, could involve studying the benefits of initiating FTA negotiations. Since neighboring Georgia entered into an FTA with China in 2018, Georgian exports to China have increased from \$200 million to \$740 million. China is likewise willing to engage in dialogue with Azerbaijan to establish an FTA based on equality and mutual benefit. It was acknowledged that some might have concerns that an FTA could lead to the Chinese manufacturing industry having a negative impact on Azerbaijan's homegrown manufacturing industry due to the potential prevalence of Chinese products. However, an opinion was put forth that this concern can be accommodated. Before negotiating any FTA, a team of experts from both sides ought to conduct a joint feasibility study that addresses the economic situation, industrial structure, and the legal trade and investment system in both countries. The point was made that moving forward in this manner would safeguard the interests of both sides and ensures that an FTA is the right choice for both countries involved.

## *Investment and Industrial Cooperation*

Trade is not the only thing that has increased since Georgia and China signed an FTA: Chinese investment in Georgia has also increased by 25 percent. There is already a plethora of Chinese investments in Azerbaijani infrastructure, which could similarly increase with deepened cooperation. Currently, the construction of Azerbaijani solar, wind, and thermal power plants is underway with the help of Chinese enterprises, which will support Azerbaijan's energy transition. More could certainly be done. In agriculture, Chinese companies are working on pilot projects in Azerbaijan for water-saving drip irrigation and cotton cultivation. Moreover, a new project will be launched in the Nakhchivan Autonomous Republic to provide 216 schools with software and hardware facilities for e-learning, improving the overall level of education in the region. These investments and forms of cooperation should enable Azerbaijan to reach its goals more easily for green energy transition, sustainable agriculture, and improved education. Moreover, Chinese enterprises have recently invested in the construction of the largest ceramic plate production project in the South Caucasus, providing Azerbaijan with a new potential export earner.

In the interest of increasing investment and cooperation between China and Azerbaijan, various options were discussed. It was stated that industrial parks expand incentives for foreign countries to invest and that leading Chinese companies are actively studying to invest and build factories in the Alat Free Economic Zone. To further facilitate this, it was suggested that investment and cooperation should focus on restoring roads, railways, and airports as well as constructing new transport corridors. This would encourage Chinese enterprises to set up factories in Azerbaijan's industrial parks by streamlining the process of transporting people and goods from China to Azerbaijan and other participating BRI countries.

Furthermore, if Azerbaijani enterprises can select marketable agricultural products for export into China, China would be willing to actively assist in securing Chinese buyers. Additionally, China is willing to help find investors to improve Azerbaijan's entire agricultural industry chain, including, but not limited to, animal breeding, water-saving irrigation, fine field management, mechanized planting, and agricultural machinery equipment. This would be mutually beneficial for both countries, as China has struggled to find countries that can upgrade their production capacity to meet the demand of Chinese orders, and investment would allow Azerbaijan to upgrade its current agricultural system, provide extra jobs to its citizens, and create earnings from agricultural exports.

Similarly, Azerbaijan has significant natural solar and wind energy resources, while China is a global leader in the energy industry, providing another opportunity for mutually beneficial cooperation via investment. Chinese enterprises intend to actively participate in Azerbaijan's green energy transition. Similarly, it was suggested that Chinese companies should invest in the restoration of Azerbaijan's

liberated territories. Specifically, the two countries could work together on large-scale environmentally-friendly construction projects, such as smart cities and villages and green energy zones.

### *Cooperation in the Belt and Road Initiative*

Later this year, China will host the third Belt and Road International Cooperation Summit and is hoping to take the opportunity to discuss the further development of this initiative with countries such as Azerbaijan. It was reiterated that Azerbaijan was one of the first supporters of BRI and has played an instrumental role in implementing projects in conjunction with this, such as the Baku-Tbilisi-Kars railroad. The importance of further cooperation on the expansion of BRI was discussed, with (it was said) both Azerbaijan and China placing this high on their agendas for bilateral cooperation to help develop the country as a hub between East and West and provide additional opportunities for trade, investment, and economic development.