

Azerbaijan in the Silk Road Economic Belt: A Chinese Perspective

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The Silk Road Economic Belt is one manifestation of China's opening-up policy, and implies the evolution of this policy from seaward to both seaward and landward. The core ideas of the Belt are primarily based on the experiences of China's economic success. Azerbaijan is an ideal partner for construction of the Belt for three reasons: the Azerbaijan-located Caspian rim area is becoming a new joint zone of East Asian, European and Russian economic interest; Azerbaijan is the forerunner in the rejuvenation of the ancient Silk Road in terms of re-development multiple large-scale transnational transport systems; and Azerbaijan bears similarities with China which contribute to mutually beneficial cooperation. The Belt brings valuable opportunities to Azerbaijan, particularly in terms of the transit fees and industrial cooperation opportunities. What Azerbaijan and China can do is first to clarify China's thinking on the Belt, and second, to identify areas for specific cooperation.



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Introduction

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Ancient China was one of the major agricultural civilizations whose external contacts depended mainly on land passages, with the Silk Road as the key among those passages. The route departed from inland China, passed through Central Asia and headed towards the Mediterranean littoral areas. Azerbaijan historically played a pivotal role in terms of this route, contributing both physically and culturally to the route as well as benefiting from it. ‘Silk’ represented all the goods traded on this route. The route was time consuming and perilous, meaning that only significant profit could offset the hardship. Silk, as a luxury good that was not only popular among aristocracy along the way, but also easy to carry, was a commodity perfectly matching this requirement. China’s new Silk Road, officially named the Silk Road Economic Belt (SREB) reflects the new efforts of China to revitalize the ancient Silk Road, and signifies that China’s opening-up is evolving from seaward to both seaward and landward.

In 1978 China began establishing an opening-up policy, mainly in the eastern direction. This eastward opening-up is based on two factors. First, the preferred candidates for cooperation are Hong Kong, Taiwan, Japan and some Southeast Asian countries who boast comparatively developed economies, share cultural similarities with Chinese mainland, and have large Chinese diaspora populations. Second, when it comes to land neighbors, they tended to be as economically undeveloped as China itself, not to mention their terrible ecological environments. Regions open to foreign investment gradually expanded from the four economic special zones¹ in the eastern coastal region to inland cities and even the areas on the western frontier. The opening-up of the western border signifies Chinese movement towards an omnidirectional trade approach, even though most cities were still looking at maritime routes. In 2012 then-vice premier Li Keqiang said in a lecture, “westward opening is a fundamental step leading to omnibearing opening.”² On 7 September 2013 Chinese president Xi Jinping put forward the initiative of Silk Road Economic Belt

¹ They are located in cities of Shenzhen (深圳), Zhuhai (珠海), Xiamen (厦门), Shantou (汕头). Shenzhen is adjacent to Hong Kong, Zhuhai is close to Macau, Xiamen is the neighbor of Jinmen Island occupied by Taiwan Authority, and Shantou is well known for its diaspora. The location of economic special zones reveals the intention of directional cooperation.

² Ministry of foreign affairs (2012), *Vice Premier Li Keqiang Attends the Opening Ceremony of the 2012 China (Ningxia) International Investment and Trade Fair and the 3rd China-Arab States Economic and Trade Forum and Delivers a Speech*. Available at: http://www.fmprc.gov.cn/mfa_eng/wjw_663304/zjzg_663340/xybfs_663590/xwlb_663592/t971512.shtml (Accessed: 12 May 2016).

(SREB) in Nazarbayev University of Kazakhstan, signifying an omnidirectional opening. In March 2015, China declared *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (Vision and Actions)*, from which it can be seen that the SREB draws on the key lessons derived from Chinese economic history: that infrastructure connection is the priority and the preliminary stage of an economic boom; that openness leads to prosperity and closed-ness brings about backwardness; that politics serves the economy, particularly abiding by market rules rather than geopolitical rationale when carrying out the initiative.³ As the SREB moves from the drawing board to reality, Azerbaijan is no longer just a remote friend but an emerging and directly relevant partner of China.

Azerbaijan as an ideal partner for interconnection

Azerbaijan is becoming the new point of connection between the European economic circle and East Asian economic circle. After the dissolution of the Soviet Union, the former republics have witnessed a divergence of their external commercial relations. Armenia and Belarus remain in Russia's economic circle; the Baltic States have joined European Union, a path that Moldova, Ukraine, and Georgia are striving to follow. Azerbaijan and the Central Asian countries are located precisely within the convergence area of Europe, Russia and China. Azerbaijan is endeavoring to strike a balance between relations with EU and Russia, while Central Asian countries are seeking to do the same thing between Russia and China. Geo-economic structure is still evolving with Europe's economic stagnation, the recession of the Russian economy, and China's continuous growth. As a result, the East Asian circle will expand, while the EU and Russia circle will remain unchanged or even contract. In this context, the convergence point of the three circles will move westward, and the position of Azerbaijan, as well as the western shore of the Caspian Sea, will become a new joint area.

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Azerbaijan is the pivotal country in the China-Central Asia-West Asia economic corridor (CCW corridor). This corridor is one of the Belt and the Road's six economic corridors,⁴ involving

³ National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce (2015) *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. Available at: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html (Accessed: 12 May 2016)

⁴ The other five economic corridors are new Eurasian Land Bridge (新亚欧大陆桥), China-Pakistan Economic Corridor (中巴经济走廊), Bangladesh-China-India-Myanmar Economic Corridor (孟中印缅经济走廊), China-Mongolia-Russia economic corridor (中蒙俄经济走廊), and China-Indochina

five central Asian countries, Iran and the Persian Gulf region, Transcaucasia and Turkey, and the Saudi Arabian peninsula. Traditionally, transport between China and West Asia occurs mainly through maritime routes, and the CCW corridor is a land-based alternative to traditional maritime routes. The shortest route from China to west Asia is through Baku. To date, the railways leading to the ports of Aktau and Turkmenbashi have opened up, and cargo may be transported by ferry to the new Baku International Sea Trade Port (NBIST port), and then westwards onto Turkey and Europe. In August 2015, the Trans-Caspian International Transport Route (TITR) was launched; the Nomad Express carrying goods from China (Shihezi) traveled through the port of Aktau and arrived at Baku.⁵ In addition, the port of Turkmenbashi in Turkmenistan, which connects to a railway running from Kazakhstan, provides an alternative route and is therefore a competitor to the Aktau option. The competition between these two ports on the eastern shore of the Caspian Sea has undoubtedly strengthened the position of Baku as a transport hub. The North-South Transport Corridor (NSTC), currently under development, has Azerbaijan as a joint point connecting Russia and Iran and is designed to provide Indian Ocean countries with a land-based access to Europe and Central Asia. Once complete, the NSTC will further consolidate the geo-economic role of Baku.

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In the areas east of the Caspian Sea, China has initiated and promoted interconnection of routes. Azerbaijan plays a similar role to the west of the Caspian. In this context, China and Azerbaijan are natural partners. Azerbaijan's efforts towards interconnection involve oil and gas transportation and railway construction. Since independence, Azerbaijani-initiated transnational transport infrastructure projects have been primarily directed towards Europe. The Baku-Tbilisi-Ceyhan pipeline (BTC), an energy artery transporting Caspian oil to European markets, began operating in 2006. Meanwhile, the South Caucasus Pipeline (also known as the Baku-Tbilisi-Erzurum Pipeline) also became operational, bringing Caspian gas to European consumers. Due to the ongoing Nagorno-Karabakh conflict and Armenia's occupation of Azerbaijani territories, Azerbaijan has been required to bypass Armenia, although it a shorter route from Azerbaijan to

Peninsula economic corridor (中国-中南半岛经济走廊) according to "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road".

5 Aliyeva, A. (2015) *Test container train from China arrives in Alat, Azerbaijan*. Available at: <http://report.az/en/infrastructure/test-container-train-from-china-arrived-in-alat-azerbaijan/> (Accessed: 12 May 2016).

Turkey, introducing Georgia as an alternative route. Thus, Azerbaijan-Georgia-Turkey has become the somewhat standard westward transport line. In endeavoring to open routes toward Europe, Azerbaijan is also seeking to extend the westward routes to connect Central Asia and the Persian Gulf, which will transform Azerbaijan into a transit hub. Given the limited energy supply from Azerbaijan as a sole producer, and the EU's eagerness to diversify its energy imports, this 'win-win' plan is supported by the EU. In the OECD meeting in Istanbul in 1999, Azerbaijan, Turkey, Georgia, and Turkmenistan concluded agreements on the trans-Caspian gas pipeline, with the hope that this pipeline could become the eastward phrase of South Caucasus gas corridor. Although the agreements have not been realized due to a number of remaining controversies, such as the disputed legal status of the Caspian Basin, etc., the trans-Caspian energy transportation will eventually start operating. To date, Azerbaijan has signed a variety of trans-Caspian international transport agreements with Kazakhstan and Georgia, and even initiated the Trans Caspian transport consortium to operate TITR from China to Europe.⁶

As for railroads, Azerbaijan has been a stalwart supporter and promoter of the Transport Corridor Europe-Caucasus-Asia (TRACECA) project initiated by the EU, conceived as the backbone of the Great Silk Road. The westward railroads boast the flagship Baku-Tbilisi-Kars railway (BTK railway), also known as the iron Silk Road. Once the Marmaray tunnel in Turkey is opened, BTK railway could connect to the European railway system, which will undoubtedly help integrate the South Caucasus with the European economic space. The east terminal of BTK railway is the NBIST port. The port's first stage project could enable it to handle as much cargo as 10 million tons and 40,000 TEU per year. The third, final stage of the project could expand the capability to 25 million tons and 1 million TEU.⁷ Given the potential of the iron Silk Road to shorten the Sino-Europe transportation time to six days, the potential of the NBIST port as a pivot has attracted significant attention from China. The NSTC also comes on the heels of the Iran nuclear deal and the lifting of UN sanctions.⁸ The project ex-

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⁶ Eurasian business briefing (2015) *Trans Caspian transport consortium to operate TITR from China to Europe*. Available at: <http://www.eurasianbusinessbriefing.com/trans-caspian-transport-consortium-established/> (Accessed: 5 March 2016).

⁷ Mooney, T (2015) Caspian Sea Port of Baku builds for China-Europe overland links. Available at: http://www.joc.com/port-news/asian-ports/caspian-sea-port-baku-builds-opportunities-china-europe-overland-links_20151126.html (Accessed: 3 March 2016).

⁸ TODAY.AZ (2016) Azerbaijan, Iran to be linked by railway before late. Available at: <http://www.>

tends the transport system northward and southward from Baku, thus connecting Russia and Europe and Middle East and Indian Ocean. As the Iranian Minister of Communications and Information Technology Mahmoud Vaezi said, the commissioning of the railway line Qazvin-Rasht-Astara (Iran)-Astara (Azerbaijan) and the unification of transit lines between the two countries within the framework of the international transport corridor North-South will improve the efficiency of cargo traffic from India to Europe.⁹ Moreover, the NSTC is also an energy transport route. Russia hopes to export its surplus electricity to Azerbaijan and Iran, while Iran hopes to sell oil and gas to Europe through Azerbaijan. The NSTC can play a key role in this regard.¹⁰

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China and Azerbaijan share similar development strategies. First, they both place a high value on interconnectedness, and have outward facing foreign and trade policies. Azerbaijan is balancing its relations with the West and the East. China, as mentioned above, is shifting from a focus on maritime opening to comprehensive land-sea openness. These parallel evolving strategies create historic opportunities for bilateral cooperation. Second, economic development is a strategic priority for both countries. China is focusing on economic restructuring and consolidation, aimed at turning China into a medium-developed country by around 2050, the goal set by former Chinese leader Deng Xiaoping in 1987. Azerbaijan's national strategy concept, 'Azerbaijan 2020: Outlook for The Future', indicates its intention to develop a competitive, non-oil, export-oriented, and high-income economy.¹¹ The economic diversification of Azerbaijan can be integrated with China's economic restructuring and upgrading. Third, they are both pursuing independent and peace-oriented foreign policies. Both countries cherish sovereign rights, adhere to international law and UN decisions, and maintain a strategic distance from exclusive military and/or economic blocs. Fourth, both China and Azerbaijan place great importance on political stability. Stable political order is considered as the precondition for economic development. Therefore, the two countries are both committed

today.az/news/business/146696.html (Accessed: 3 May 2016).

9 Katanov, R. (2015). *Minister Mahmoud Vaezi: International North-South Transport Corridor meets national interests of our countries*. Available at: http://azertag.az/en/xeber/Minister_Mahmoud_Vaezi_International_North_South_Transport_Corridor_meets_national_interests_of_our_countries-891888 (Accessed: 11 May 2016).

10 Karimova, A. (2016) *Azerbaijan, Iran, Russia work on establishing energy corridor*. Available at: <http://www.today.az/news/politics/147773.html> (Accessed: 12 May 2016).

11 President of Azerbaijan (2012) *Azerbaijan 2020: look into the future concept of development*. Available at: http://www.president.az/files/future_en.pdf (Accessed: 3 December 2015).

to the role of political stability, and are opposed to interference with internal affairs by foreign countries. Each state is focused on their unique national characteristics in seeking a suitable development model. Finally, both China and Azerbaijan have yet to realize the unification of their territories. Azerbaijan remains troubled by the Nagorno-Karabakh conflict, while China is still striving to maintain a peaceful cross-strait situation and to unify the mainland of China and Taiwan of China. These similar challenges actually contribute to mutual understanding.

Opportunities and challenges of the Belt

The first task of the Belt is interconnection. Europe and Asia now has a dumbbell shape, with Europe and East Asia as the two developed terminals and inland Central Asia and South Caucasus as the economic linkage zone between the previous two. The relatively undeveloped situation of inland areas is mainly due to lack of transnational transportation. In the era of maritime transportation, landlocked economies are confronted with the high costs of accessing a seaport. The dominance of maritime transport is declining, since the increasing added value of products is rendering the transportation efficiency more and more important. In this context, the cheap but slow maritime transport is losing its appeal, while the more expensive but faster land-based transport is increasingly attractive. The world is full of liquidity, but lacks infrastructure. The Belt will be led by the interconnection of infrastructures. Therefore it is necessary to fill in the infrastructure gap within Eurasia. Accordingly, China initiated the Silk Road Fund, for which Asian Infrastructure Investment Bank (AIIB) can be the candidate financial platform. As a result of its rapid economic growth during recent decades, China has developed an excellent and systematic manufacture industry, and its long history of massive infrastructure creation demonstrates the capability of Chinese enterprises. The Chinese government has identified the Belt as priority of foreign affairs, and will inject sustainable resources to advance it. Given these favorable conditions, the Belt can become a long-term project, from which Azerbaijan stands to benefit.

The first dividend from interconnection is a streamlined trans-Eurasia transport system. The main focus in on East Asia and the Western Europe, while Central Asia and South Caucasus act as a bridge between the two. The streamlined trans-Eurasia transport will first benefit the transit countries, for which transit fees could offer a sig-

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nificant source of fiscal income. This has been demonstrated by Kazakhstan's experience, where the transit fee reached 1 billion USD in 2014. Azerbaijan has not yet reached its full potential as a transit state; however with the development of trans-Caspian transport system and NSTC, Azerbaijan will benefit from its position as a hub on the western shore of the Caspian Sea. According to estimates, only the trans-Caspian route could transport approximately 300,000-400,000 containers by 2020, bringing hundreds of millions of manats in profit for Azerbaijan.¹² This transport connection will also boost economic cooperation. Azerbaijan has yet to establish a strong manufacturing sector; in 2014, Azerbaijan's manufacturing sector accounted for 8% of the total GDP, while China has made great progress since 1980s. In 2014, China produces 20% of the world's manufacturing output. The Chinese economy now is undergoing restructuring, manifested as optimization of industrial capacity structure and industry upgrades, which provides new opportunities for industrial cooperation. Optimizing industrial capacity structure is necessary since, on the one hand, there are multiple different industries, including traditional sectors like iron and steel, chemical industry, shipping-building, automobiles, household appliance, as well as emerging industries such as wind power equipment, solar panels, etc., the capacity of which exceeds what the internal market can consume.

On the other hand, some service sectors, like urban public transportation, high-speed railway and highways, personalized product design, financial consultancy, information access services, etc., are still unable to meet the market demand. Reallocation means cutting over-capacity sectors and expanding the under-developed sectors. A big part of the aforementioned overcapacity developed following 2008, partly as a side effect of the 630 billion USD stimulation plan. Therefore, the so called surplus producing capacity always applies advanced technique, and thus it is high-quality though surplus producing capacity. Industrial upgrades are also crucial given the decreasing labor force in China. Since 2012, both the proportion of the 15-60 years old labor force in the total population and the absolute number have been in decline. During the three years, from 2012 to 2014, nearly 10 million labor force, equal to the whole population of Azerbaijan, was lost in China. A shrinking labor force leads to the increase of labor prices, and as a result, the competitiveness of labor-intensive industries decreases. To offset the loss of labor force, auto-

12 Karimova, A (2016) *Azerbaijan, Georgia, Kazakhstan to establish railway consortium*. Available at: <http://www.today.az/news/business/148012.html> (Accessed: 12 May 2016).

mated industries are praised and valued in China, which plays a major part in industry upgrades. Cutting capacity and industry upgrades are always accompanied by industry relocation or enterprise migration, which overall conforms to the Flying Goose Model.¹³ As mentioned above, the enterprises migrating abroad are gaining significance, creating increasing opportunities for international economic cooperation. Given the nearly complete industrial system China has established, a candidate partner like Azerbaijan could easily select what it needs most, whereby a mutually beneficial agreement could be reached.

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Competition is emerging among different routes. The Belt and Road involve three geographic centers, i.e. East Asia, Europe, and the Middle East North Africa region. Transport routes from East Asia to Europe mainly pass through Xinjiang in China, Kazakhstan, and Russia. At present, there are eight Sino-Europe rail trains in regular operation, among which two rail trains start from the north east city Manzhouli in China, travel through Russia and then to Europe. The other six routes start from the Alataw Pass of Xinjiang and run through Kazakhstan and Russia. The route through Azerbaijan, through which three test rail trains have traveled to date, is not yet running regularly. Thus Kazakhstan and Russia are the key transit countries so far.

There are two primary candidate routes for connecting East and West Asia. One is the maritime route from the West Pacific, which runs through Malacca strait, then to Indian Ocean and the Persian Gulf. Two ancient land-based routes comprise the other option. One is through Kazakhstan/Turkmenistan-Azerbaijan-Iran, and the second is the Kazakhstan-Turkmenistan-Iran route. Thus Azerbaijan and Turkmenistan are actually in competition. The first test China-Kazakhstan-Turkmenistan-Iran train was launched in late January 2016,¹⁴ but the Azerbaijan-Iran railway has not been completed, which is certainly a disadvantage at this stage. But when it comes to trans-Caspian transport, Azerbaijan can benefit from the competition between Turkmenistan and Kazakhstan. The BTK railway is the most promising route from South Caucasus to Europe, but both Turkmenbashi and Aktau could connect Baku. Kazakhstan hopes to strengthen its pivotal position and sees the potential of a trans-Caspian route, thus is

¹³ Akamatsu K. (1962) 'A historical pattern of economic growth in developing countries'. *Journal of Developing Economies*, 1(1), pp. 3–25.

¹⁴ TREND (2016) *First test train China-Kazakhstan-Turkmenistan-Iran launched*. Available at: <http://en.trend.az/business/economy/2492990.html> (Accessed: 12 May 2016).

proactively opening the Aktau-Baku route. Further, with the first ‘Nomad Express’ going through Aktau, Kazakhstan has shown an early advantage over Turkmenistan. Aside from the Kazakhstan-Turkmenistan-Iran railway, Turkmenistan is also awaiting the completion of Uzbekistan-Kyrgyzstan railroad, which expected to connect to China but is temporarily stalled in the Kyrgyzstan phase.

The China-Pakistan Economic Corridor (CPEC) is a strategic project integrating the Belt with the Road. CPEC stretches from Kashgar in China to Pakistan’s Gwadar harbor. When the CPEC’s transport system is completed, both central Asian countries and west China could gain direct access to Indian Ocean. Some cargo that would have gone via the land-based route to West Asia might instead turn south to go via the CPEC, thus diversifying the trans-Eurasia traffic, and affecting the profit flowing to Azerbaijan. However, the potential impact should not be overstated. One reason lies in that Central Asian countries’ trans-border cargo is not very large and hence not so important to Baku harbor; the other is that Sino-West Asia trade is mainly comprised of low-value-added products which are currently primarily dependent on maritime transport. Azerbaijan could be one of key pivotal countries in the Belt; whether this pivotal position could be consolidated depends on the following three factors: the completion of BTK railway; the openness of North-South transport corridor through Azerbaijan; and the increased demand of relevant countries for land-based transportation. The first two

factors are exclusively beneficial to Azerbaijan, but the last one is universally beneficial, and its potential has not yet been fully maximized.

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Geographically, China – the driving force of the Belt – is starting with its near neighbors, meaning that Central Asian countries and Pakistan stand to benefit first, adding to their existing range of bilateral cooperation. Thus their interconnection cooperation with China could develop rapidly. When it comes to the South Caucasus countries,

Georgia, before the other two, has started free trade negotiations with China, which the Tbilisi and Beijing have vowed to complete by the end of 2016.¹⁵

15 Xinhua (2016) *China, Georgia vows to reach comprehensive FTA within 2016*. Available at: http://news.xinhuanet.com/english/2016-02/22/c_135120792.htm (Accessed: 12 May 2016).

Recommendations

Despite the challenges, the Silk Road Economic Belt offers strategic opportunities to both China and Azerbaijan. But opportunity outweighs the challenges. In order to maximize the opportunities and overcome the challenges, Azerbaijan first needs to understand China's vision for the Belt. Secondly, China and Azerbaijan should identify the preferential areas for cooperation.

The Belt is not unilateral aid to countries alongside it. The Belt attaches large importance to transportation infrastructure, which requires massive investment. But the construction should be the result of cooperation rather than China undertaking everything. China is a market economy, thus the actors on economic issues are businessmen rather than government officials. Aside from standards pertaining to the environment, social development, national laws, etc., the most significant factor for investors is profit. This rationale applies in the investment strategies of the Silk Road Bank, the New Development Bank, AIIB, etc. In fact, Azerbaijan is among the few countries involved in realization of the Belt projects that have the capacity, experience and willingness to invest in upgrading its transport infrastructure and thus can be considered very suitable partner for China in this regard.

China pursues diversified routes to reach different target markets. The diversified transportation system – i.e. combining both sea and land routes and opening multiple approaches to connections – could help overcome any emerging geopolitical challenges. This approach could also contribute to China's differentiated economic interests. At present, the China-Russia-Europe route mainly sees trade of manufacturing goods; the China-Central Asia-Persian Gulf route will be the energy and resource transport artery; and the Central Asia - Baku line would be a route transporting manufacturing goods, energy, and resource products.

China does not expect Central Asian and other countries to its west to digest its redundant producing capacity. Central Asian countries together are home to 70 million people and have the GDP of 345 billion USD, smaller than China's medium-size Hebei province. The combined GDP of Middle Eastern and North African economies is 1500 billion USD – roughly equal to that of China's Guangdong province. Even the western China, which has 400 million residents and a GDP of 2247 billion USD – i.e. larger than the aforementioned two areas combined, could not fully absorb China's excess capacity. China will not pursue unrealistic expectations of developing countries along the "Belt and

Road” in this regard. Yet, a certain portion of producing capacity could be taken over by countries-in-need through enterprise migration, which will have a win-win result.

1. Strengthen Sino-Azerbaijani cooperation on infrastructure

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Azerbaijan aims to become a regional economic hub, cultivating an export-oriented economy, consolidating the foundations of the innovative regime, and fulfilling the goal of establishing diversified and competitive economy.¹⁶ The potential of the trans-Caspian transport system is the leverage in realizing these goals, and is also the platform for Sino-Azeri cooperation - for which NBIST port could be the focal point. The first phase project of the port has been constructed and fully financed by the Azerbaijani state budget. The second and third phases could bring in the cooperation of international investors. China has a wealth of experience in infrastructure construction relating to harbors, and also boasts abundant capital, which is needed by Azerbaijani counterparts. China-Azerbaijan cooperation on this should be developed in the future. As well as for the Baku sea port, Azerbaijan is also undertaking several major projects, such as the BTK railway, Southern Gas Corridor, domestic power network renovation, construction of irrigation system, etc. The two countries could also seek new areas for cooperation.

2. Three key priority areas for industrial cooperation

The first is agricultural materials. Azerbaijan’s aim to develop agriculture sector increases demand for mineral fertilizers, pesticides, fine breeds, and agriculture machines, implying a significant opportunity here for Sino-Azeri cooperation. Moreover, agricultural experience sharing, production, and trade cooperation should also be prioritized by decision makers. The second area includes metallurgy, the chemical industry, and renewable energy (such as wind and solar power) equipment production. Chinese enterprises have developed mature technologies and significant experience in regard to building and operating the above industries. Their desire to expand to overseas markets coincides with Azerbaijan’s vision of the industry as the pillar of economy.

3. Improve intangible infrastructure and initiate policy coordination

The sluggish global economy has, to an extent, given rise

¹⁶ President of Azerbaijan (2012) *Azerbaijan 2020*.

to reduced turnover of international transport. During January-September 2015, the transport turnover of TRACECA through Azerbaijan fell by 9.3% compared with the same period last year.¹⁷ Nonetheless, the tough global economic environment is also an opportunity to improve the intangible infrastructure that is so crucial to private investors. Policy coordination is a key component of improving the policy environment. China and Azerbaijan could collectively develop industry standards. Transport infrastructures should share the same design and building standards in order to improve interconnection. Technical norms should be identical in order to help investors to adapt to target environments. They can further strengthen coordination on visa, labor licensing, custom clearances, etc. in order to streamline transport links involving transnational cargo reloading, multimodal transport, information sharing, etc. Strategic policy coordination on energy is also critical. The target for cutting greenhouse gas emissions makes it necessary for China to increase its consumption of clean energy sources such as gas, but Azerbaijan's clean energy exports are mainly directed to the European market, and the prospected trans-Caspian energy route is also much more likely to be a Europe-oriented one - thus giving leading to Sino-Europe competition over Central Asian energy. In light of this prospect, initiating energy policy coordination between China and Azerbaijan is mutually beneficial.

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¹⁷ Report (2015) *Cargo transportation via TRACECA corridor reduced*. Available at: <http://report.az/en/infrastructure/cargo-transportation-via-traceca-transport-corridor-decreased/> (Accessed: 12 May 2016).