

## SOME ASPECTS OF CHINA'S POLICY IN THE CAUCASUS

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### *Introduction*

**F**or centuries, one of the perceptible points of contact between China and the Caucasus was the Great Silk Road. However this contact related primarily to trade and economic and cultural relations and the Caucasus has never pre-

viously been an element of China's geopolitical interests. Nor would it be entirely true to say that the Caucasus has become a priority vector of Chinese geopolitics today either. For example, neither the president nor the prime minister of Chi-

na has ever made an official visit to the region. Even Chinese ministers rarely visit the region. The Chinese delegations that have come to some of the Caucasian countries on official visits are usually headed by deputy ministers. Nevertheless, in the near future relations between China and the Caucasian countries could undergo a new boost, since, due to its geographical location, the Caucasus is destined to court China's involvement in its geopolitics.

The PRC has elaborated its own specific geopolitical style, which can be quite clearly seen both in the Caucasus and in the nearby regions. This style is based on what can be described as a cluster approach, the gist of which lies in the fact that, by developing cooperation with one of the countries of the region, Beijing inescapably establishes relations with the countries contiguous to it, which often act as its rivals and competitors. China's comparatively low level of historical experience in terms of geopolitical contact with the Caucasian countries is very conducive to this approach, since it makes it possible to sidestep the

political, historical, psychological, and other types of antagonism that exist between the countries and nationalities of the region with relative ease.

China's activity in the Caucasus at present is primarily oriented toward strengthening economic relations with the region and improving the socioeconomic situation in the regional countries, thus decreasing the influence of such ideologies as Islamic fundamentalism and pan-Turkism that China finds undesirable. Moreover, both Russia and regional countries such as Iran find Beijing's stronger position in the region to their advantage.

For Moscow, a stronger China in the Southern Caucasus and its closer relations with the Northern Caucasus are beneficial both in terms of their joint geopolitical resistance to Turkey and the West and in the context of improving the socioeconomic situation in the North Caucasian republics, which is having a positive influence on the fight against extremism. While for Tehran, Beijing is a natural ally in the geopolitical standoff with Turkey and the West.

## The Southern Caucasus

The Southern Caucasus, with its unresolved conflicts and serious contradictions, is one of the most problematic regions on the planet. China is trying to distance itself as much as possible from political problems, primarily from settlement of the conflicts existing in the region. China's activity in this sphere is mainly limited to official statements indicating the need for peaceful settlement of the regional conflicts.

### Azerbaijan

President of Azerbaijan Heydar Aliev laid the foundation of relations between Azerbaijan and China. The year 2005, when President of Azerbaijan Ilham Aliev paid an official visit to China, can also be described as an important stage in the development of relations between these two countries.<sup>1</sup> Within the framework of this visit, an Azerbaijani-Chinese business forum was organized attended by the representatives of 40 Azeri and 400 Chinese companies. Approximately 20 contracts were signed between the business structures of both countries at the forum, in particular on establishing a base in

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<sup>1</sup> See: *State Visit of President of the Azerbaijan Republic Ilham Aliev to the People's Republic of China*, Embassy of the Republic of Azerbaijan in the People's Republic of China, available at [<http://www.azerbembassy.org.cn/eng/Prezident.htm>], 17 March, 2005.

Azerbaijan for developing Chinese knowhow in the manufacture of fiberglass cables, computer technology, mobile drilling rigs for the oil and gas industry, materials for storing and packing agricultural products, and so on.

China is particularly interested in the energy sphere. Beijing is being gradually drawn into the competitive struggle over the Caspian's oil and gas resources. China has already carved out a niche for itself in Azerbaijan's oil sector. China's energy giant, Sinopec, has a stake in two projects: K&K and Gobustan, with investment of more than \$250 million. In recent years, the K&K project has maintained an annual output of about 300,000 tons of crude oil and it is Azerbaijan's largest onshore oil field.<sup>2</sup> In December 2010, representatives of the State Oil Company of Azerbaijan Republic (SOCAR) visited China and Singapore where a contract was signed for delivering oil to China.<sup>3</sup>

The Chinese side is actively helping Azerbaijan to reconstruct and repair thermoelectric and hydropower plants. The China National Electric Equipment Corporation, or CNEEC, is the top performer in this area. In 2007, this corporation won a tender to rebuild the Azerbaijan Thermoelectric Power Station and modernize its seven power-generating units. This thermoelectric power station accounts for 45% of all the electric power generated in the country.<sup>4</sup> After the work is finished, the capacity of the power-generating units will amount to 2,600 MW. In 2010, CNEEC also acquired the right to repair the Mingchevir cascade of a hydropower plant comprised of the Mingchevir and Varvara hydropower plants.<sup>5</sup> After reconstruction, their energy-generating capacity will increase from 360 to 429 MW. These hydropower plants also play an important role in Azerbaijan's energy balance.

Azerbaijan and China are also actively cooperating in other areas, particularly in the cultural and educational sphere. In this context, it should be noted that an agreement was reached between the countries on opening a Confucius Institute in Azerbaijan in 2011.

But the PRC still accounts for only a small percent of Azerbaijan's foreign trade balance. For example, in 2009 the trade turnover between the two countries amounted to almost \$614.7 million, which constituted only 3% of the total volume of Azerbaijan's foreign trade.<sup>6</sup> In terms of this index, China lagged behind such countries as the U.S., Russia, France, Turkey, and Germany. China even trailed Taiwan, the volume of trade turnover with which exceeded \$690 million in 2009. However, if we look at the dynamics, a slightly different picture emerges. Compared with 2000, trade turnover between the countries has increased 22-fold.<sup>7</sup>

## Armenia

Relations between China and Armenia are also developing quite dynamically. Diplomatic relations between the two countries were established in 1992.<sup>8</sup> Both sides highly value bilateral coopera-

<sup>2</sup> See: "China Oil Giants Join Hands for Caspian Sea Oil Field," *People's Daily*, available at [<http://english.people.com.cn/90001/90776/90882/6900258.html>], 23 February, 2010.

<sup>3</sup> See: "SOCAR Delegation Visits China and Singapore," Official Website of State Oil Company of Azerbaijan Republic, available at [<http://socar.az/2913-news-view-en.html>], 13 December, 2010.

<sup>4</sup> See: "Azerbaidzhanskaia TES v ianvare-aprele utroila obiom vyrabotki elektroenergii," *Interfax-Azerbaijan*, available at [[http://www.interfax.az/index.php?option=com\\_content&task=view&id=64646&Itemid=9](http://www.interfax.az/index.php?option=com_content&task=view&id=64646&Itemid=9)], 12 May, 2010.

<sup>5</sup> See: "Chinese Company Repairs Mingchevir Cascade," *Contact.az*, available at [[http://www.azcontact.com/topics\\_en.asp?id=4800&pb=5&vr=en&yr=2010&mn=12&day=6&pg=2&cl=1&cmpg=1&cmcl=1&sbpg=1&sbcl=1&srch=0&ms=NaN&cld=0&mdn=1](http://www.azcontact.com/topics_en.asp?id=4800&pb=5&vr=en&yr=2010&mn=12&day=6&pg=2&cl=1&cmpg=1&cmcl=1&sbpg=1&sbcl=1&srch=0&ms=NaN&cld=0&mdn=1)], 6 December, 2010.

<sup>6</sup> See: *Azerbaijan in Figures. External Trade Turnover Indicators of Azerbaijan 2009*, The State Statistical Committee of the Republic of Azerbaijan, available at [<http://www.azstat.org/publications/azfigures/2010/en/018.shtml>].

<sup>7</sup> See: *External Economic Activities*, The State Statistical Committee of the Republic of Azerbaijan, available at [<http://www.azstat.org/MESearch/details>].

<sup>8</sup> For more detail, see, for example: "Kitaisko-armianskie otnosheniia," *Posolstvo Kitaiskoi Narodnoi Respubliki v Respublike Armeniia*, available at [<http://am.chineseembassy.org/rus/zygx/t392051.htm>].

tion. For example, Chinese leader Hu Jintao described Armenia as a “trustworthy friend” and called for a further expansion of bilateral political, economic, and cultural ties.<sup>9</sup> According to Armenian President Serzh Sargsian, development of relations with China is one of the republic’s foreign policy priorities.<sup>10</sup>

Manufacturing industry and its various branches represent one of the main areas of cooperation. Shanxi-Nairit, a joint venture for the manufacture of chloroprene rubber, is a major project in this sphere. The Shanxi-Nairit joint venture was established on the basis of a contract between the Nairit plant in Yerevan and China’s Shanxi Synthetic Rubber Group Co. Ltd. signed in 2003. The share of the Armenian side in the enterprise amounts to 40%. The plant’s annual capacity reaches 30,000 tons, \$220 million has been invested in its construction, and the enterprise’s annual income is estimated at \$100 million.<sup>11</sup>

The Chinese side is also participating in a number of different energy projects in Armenia, for example, in the reconstruction and repair of thermoelectric power plants. One such plant is in the Armenian capital and another is located in the city of Hrazdan, where the Chinese side is carrying out 80% of the repair and reconstruction work on the fifth power-generating unit of the Hrazdan thermoelectric power plant. A corresponding agreement was signed between China’s HPCC-3 Company and Armenia’s ArmRosGazprom in 2008. After reconstruction, the turbine that operates on natural gas will generate up to 440 MW of electricity, which is more than the Metsamor atomic power plant produces.<sup>12</sup>

China has also expressed an interest in participating in a very important geopolitical transportation project—the building of a railway that will link Armenia with the Iranian ports on the Persian Gulf. Issues relating to this project were discussed at a meeting between the presidents of Armenia and China in May 2010. The railway is to stretch 470 km, 410 km of which are within Armenia, and the cost of this transportation artery is estimated at \$1.5-1.8 billion.<sup>13</sup> Keeping in mind Iran’s developed transportation network, this railway will give Armenia access to the Central Asian markets, as well as to Pakistan, India, China, and the ASEAN countries. Likewise, China will also gain additional access to the Caucasus with all the ensuing political-economic consequences.

Armenian-Chinese relations are also developing in other spheres of the economy. In 2010, 41 enterprises with Chinese capital were registered in Armenia, the main activity of which entails wholesale trading in foodstuffs, beverages, and cigarettes, the restaurant business, the manufacture of household electrical appliances and clothing, retail trading in medication, medical supplies, cosmetics, and accessories, and wholesale trading in textiles and footwear.<sup>14</sup>

Relations between the two countries are also developing dynamically in the humanitarian sphere. In this context, it is worth noting that it was in Armenia that the first Confucius Institute in the Caucasus was opened. The University of Shanxi is the founder of this institute on the Chinese side.

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<sup>9</sup> See: “Chinese Leader Wants Closer Ties with ‘Friendly’ Armenia,” *Radio Free Europe/Radio Liberty*, available at [[http://www.rferl.org/content/Chinese\\_Leader\\_Wants\\_Closer\\_Ties\\_With\\_Friendly\\_Armenia/2031447.html](http://www.rferl.org/content/Chinese_Leader_Wants_Closer_Ties_With_Friendly_Armenia/2031447.html)], 3 May, 2010.

<sup>10</sup> See: “Prezident Serzh Sargsian priniat uchastie v tseremonii otkrytiia Vsemirnoi vystavki ‘Shanghai Ekspo-2010,’” Official website of the President of the Republic of Armenia, available at [<http://www.president.am/events/visits/rus/?visits=1&id=155>], 29 April, 2010.

<sup>11</sup> See: “Prezident Armenii otkryl v Kitae zavod po proizvodstvu kauchuka,” *RIA Novosti*, available at [<http://www.rian.ru/economy/20100504/230325032.html>], 4 May, 2010.

<sup>12</sup> See: “Armenia Economy: Energy Sector—the New Growth Driver,” *ViewsVire*, available at [[http://www.eiu.com/index.asp?layout=VWArticleVW3&article\\_id=1704034955&region\\_id=&country\\_id=870000287&channel\\_id=190004019&category\\_id=500004050&refm=vwCat&page\\_title=Article&rf=0](http://www.eiu.com/index.asp?layout=VWArticleVW3&article_id=1704034955&region_id=&country_id=870000287&channel_id=190004019&category_id=500004050&refm=vwCat&page_title=Article&rf=0)], 11 November, 2008.

<sup>13</sup> See: “Chinese, Armenian Leaders Discuss China’s Participation in Armenia-Iranian Railway Construction,” *RIA Novosti*, available at [<http://en.rian.ru/world/20100502/158845910.html>], 2 May, 2010.

<sup>14</sup> See: “Armenia i Kitai rassmatrivauiut vozmozhnost sozdaniia SP po pererabotke bazalta,” *ARKA*, available at [<http://www.arka.am/rus/economy/2010/09/21/21507.html>], 21 September, 2010.

How well Chinese-Armenian relations are developing can be clearly seen by taking a look at the indices of foreign economic turnover between the two countries and its dynamics. In 2000, the total amount of bilateral trade reached \$5.98 million and at that time China occupied 22nd place in Armenia's export balance.<sup>15</sup> In 2009, that is, in 8 years, the trade volume between the two countries reached almost \$302.5 million, exceeding the 2000 index by more than 50.5-fold. In the export balance, China moved from 22nd to 11th place (it accounted for 2.5% of export), while in the import balance, it occupied 2nd place (8.6% of the total import volume), lagging only behind Russia.<sup>16</sup> Such growth dynamics were not seen in any of Armenia's other foreign trade partners.

### Georgia

Diplomatic relations between China and Georgia were established on 9 June, 1992 with the signing of a corresponding protocol.<sup>17</sup> Chinese-Georgian relations are also developing at the regional level.<sup>18</sup> In 2007, a memorandum on mutual cooperation was signed between the cities of Rustavi and Kharbin. A similar document was also signed in November 2009 between the Georgian town of Poti and China's Qingdao. In 2007, a declaration on intent to cooperate was signed between the Georgian region of Kakheti and the Xinjiang-Uighur Autonomous Region. In November 2008, an agreement on cooperation was signed between these two regions.

The transportation industry holds promise. Some sources indicate that the PRC is showing an interest in the Baku-Tbilisi-Kars railway project,<sup>19</sup> although no specific steps have yet been taken.

In 2010, the China Sino-Hydro Corporation and China Railway 23rd Bureau Group won an international tender organized by the Georgian side for reconstructing the Rikoti Tunnel, a strategically vital transportation junction connecting East and West Georgia, as well as for building a railway that bypasses Tbilisi, which is also an important project for Georgia's transportation development and transportation security.<sup>20</sup> The cost of this railway alone amounts to \$353.5 million and envisages building a 30-kilometer stretch, as well as bridges, tunnels, and other structures.

Building the Khadori Hydropower Plant with a capacity of 24 MW on the Pankisi River was a major joint project. This hydropower plant was built by China's Sichuan Electric Power Import and Export Company.<sup>21</sup> Building began in 2001 and was finished in November 2004. The Khadori

<sup>15</sup> See: *Eksport i import Respubliki Armenii po stranam, Statisticheskii ezhegodnik Armenii 2001*, Natsionalnaia statisticheskaiia sluzhba Respubliki Armenii, Erevan, 2001, Table 337.

<sup>16</sup> See: *Statisticheskii ezhegodnik Armenii 2010*, Natsionalnaia statisticheskaiia sluzhba Respubliki Armenii, Erevan, 2010, pp. 483-485.

<sup>17</sup> For more detail, see: *Relations between Georgia and the People's Republic of China*, Ministry of Foreign Affairs of Georgia, available at [[http://www.mfa.gov.ge/index.php?sec\\_id=381&lang\\_id=ENG](http://www.mfa.gov.ge/index.php?sec_id=381&lang_id=ENG)].

<sup>18</sup> Ibidem.

<sup>19</sup> See: "Baku-Tbilisi-Kars Railway Project Draws China's Interest," *Georgian Business Week*, available at [<http://www.gb.w.ge/news.aspx?sid=b0d41470-6f73-4ba0-b565-fd618eb8b776>], 8 December, 2008.

<sup>20</sup> For more detail, see: Chen Runyun, "Mutual Benefit & Common Development: Economic and Commercial Cooperation between China and Georgia," in: *Chinese Business in Georgia*, Georgian Business Consulting Group Ltd., pp. 8-10, available at [<http://ge.mofcom.gov.cn/accessory/201010/1288000194529.pdf>]; "Rikotskii tonnel zakryt na remont," *Novosti-Gruzii*, available at [<http://newsgeorgia.ru/economy/20100608/213252253.html>], 8 June, 2010; "Tbilisi Railway Bypass Project, Georgia," *Railway Technology*, available at [<http://www.railway-technology.com/projects/tbilisirailwaybypass>], 23 November, 2010.

<sup>21</sup> See: "Dams Built by Chinese Companies and Financiers," *International Rivers*, available at [<http://www.internationalrivers.org/files/ChineseOverseasDams0409.xls>], 13 April, 2009; "China Dams Overseas," Energy Probe Research Institution, available at [<http://eprf.probeinternational.org/node/8501>], 6 September, 2010; "The Khadori Hydropower Plant was Built and Commissioned with the Participation of Chinese Capital in 2004," *Georgia Investment Guide*, available at [[http://www.investmentguide.ge/print\\_version.php?sec\\_id=45&lang\\_id=ENG](http://www.investmentguide.ge/print_version.php?sec_id=45&lang_id=ENG)]; "China' Hydropower Plant in Kakheti," *Chinese Business in Georgia 2010*, special magazine, pp. 14-15.

Hydropower Plant is the largest hydropower plant to be built in Georgia since it declared its independence.

China and Georgia are also developing cooperation in the scientific-educational and cultural spheres. At the end of November 2010, the Confucius Institute opened in Georgia.<sup>22</sup> The Georgian-Chinese Silk Road Cultural Center, founded in 1992, is also playing an important role in developing bilateral cultural relations.<sup>23</sup> Intellectuals from different spheres who are interested in Chinese culture gather at the center. The center's main purpose is to develop and intensify cultural and economic relations between the two countries.

However, the development dynamics of Georgian-Chinese relations are not stable and the relations between these countries often undergo declines. This trend can be seen particularly clearly in the dynamics of the foreign trade turnover between the two countries.<sup>24</sup> In 2000, the trade volume between the PRC (including Hong Kong) and Georgia amounted to \$4.1 million, and in 2009 to almost \$213.2 million, thus increasing 51.8-fold. None of Georgia's other foreign trade partners demonstrated such growth dynamics. Taiwan took second place; its trade turnover volume for the same period increased 23.1-fold. Meanwhile, in 2007, the trade turnover between the two countries amounted to \$219.4 million, and in 2008 to more than \$330 million. So the dynamics have been negative recently. Moreover, in the absolute respect, the volume of trade turnover with China is much lower than trade turnover with other countries. For example, in 2009, foreign trade turnover with the EU was 7.2-fold higher than China's index; more than 4.7-fold higher with Turkey; 1.4-fold higher with Russia; and 1.2-fold higher with the U.S. In 2009, the share of the PRC in Georgia's foreign trade turnover amounted to only 3.8%.

Nevertheless, the situation could change in the near future. Georgian Prime Minister Nika Gilauri's visit to China at the end of October-beginning of November 2010 was particularly important in this context.<sup>25</sup> At meetings with the Chinese leadership, the Georgian side made several rather economically promising proposals. For example, Tbilisi proposed expanding and modernizing the sea port of Poti, implementing several large hydropower projects, opening a branch of the China Development Bank in Georgia, and establishing direct air communication between the two countries with transformation of the Tbilisi international airport into a transit hub in the air communication system between China and Europe. During his visit, the Georgian Prime Minister said that China's interest in Georgia is much greater than was presumed<sup>26</sup> and emphasized that his country expected potential investments amounting to \$500 million from China and India in the next few years.<sup>27</sup> Georgian President Saakashvili gives a figure of \$600 million.<sup>28</sup>

<sup>22</sup> See: "Georgia Opens its Confucius Institute," *Xinhua*, available at [[http://news.xinhuanet.com/english2010/culture/2010-11/27/c\\_13624282.htm](http://news.xinhuanet.com/english2010/culture/2010-11/27/c_13624282.htm)], 26 November, 2010.

<sup>23</sup> For more detail, see: "Georgian-Chinese Cultural Center 'Silk Road'," *Chinese Business in Georgia 2010*, special magazine, pp. 96-97.

<sup>24</sup> For more detail, see: *Statistical Yearbook of Georgia 2006*, Department of Statistics under Ministry of Economic Development of Georgia, Tbilisi, 2007, pp. 273-281; *External Trade*, National Statistics Office of Georgia, available at [[http://www.geostat.ge/index.php?action=page&p\\_id=137&lang=eng](http://www.geostat.ge/index.php?action=page&p_id=137&lang=eng)].

<sup>25</sup> For more detail, see, for example: "Prime Minister's Visit to China and India," Official Website of the Government of Georgia, available at [[http://www.government.gov.ge/index.php?lang\\_id=ENG&sec\\_id=187&info\\_id=31506](http://www.government.gov.ge/index.php?lang_id=ENG&sec_id=187&info_id=31506)], 23 December, 2010; N. Patsuria, "Georgian Prime Minister Touts Chinese and Indian Investor to Invest in Georgia," *The Weekly Georgian Journal*, available at [[http://georgianjournal.ge/index.php?option=com\\_content&view=article&id=963:georgian-prime-minister-touts-chinese-and-indian-investor-to-invest-in-georgia&catid=4:economy&Itemid=6](http://georgianjournal.ge/index.php?option=com_content&view=article&id=963:georgian-prime-minister-touts-chinese-and-indian-investor-to-invest-in-georgia&catid=4:economy&Itemid=6)], 3 November, 2010; N. Edilashvili, "Georgia Seeks Partnerships in China and India," *Georgia Today*, available at [[http://www.georgiatoday.ge/article\\_details.php?id=8437](http://www.georgiatoday.ge/article_details.php?id=8437)], 12 November, 2010; "Georgian PM Hopes to Boost Co-op with China," *Xinhua*, available at [[http://news.xinhuanet.com/english2010/indepth/2010-10/28/c\\_13579218.htm](http://news.xinhuanet.com/english2010/indepth/2010-10/28/c_13579218.htm)], 27 October, 2010; "Georgian PM Visits China, India," *Georgia Update*, Weekly edition, A Publication of the Government of Georgia, 28 October, 2010, p. 2.

<sup>26</sup> See: N. Edilashvili, op. cit.

<sup>27</sup> See: *Georgia Update*, Weekly edition, 4 November, 2010, p. 1.

<sup>28</sup> See: N. Edilashvili, op. cit.



The PRC is keeping a low profile with respect to the semi-recognized and unrecognized actors of the Southern Caucasus, avoiding the establishment of any direct contacts at the state level. If such contacts are made, they are strictly humanitarian, thus minimizing any possible undesirable geopolitical consequences for China.

## The Northern Caucasus

The Northern Caucasus is one of the strategically important and at the same time most unstable regions of the Russian Federation. Loss of the Northern Caucasus is fraught for Moscow with unpredictable geopolitical consequences. In particular, Russia's fate as a great nation will be at stake. Destabilization of the Northern Caucasus is not in China's interests either. Nor is Beijing interested in a change in the Northern Caucasus' geopolitical status, since this could lead to an increase in the influence of socio-ideological trends in Central Asia and in the vulnerable Xinjiang-Uighur Autonomous Region (XUAR) that are undesirable for China. Therefore, China's involvement in North Caucasian affairs is not only important for Russia from the socioeconomic perspective, but also from the geopolitical standpoint.

China is already one of the main trade and economic partners of the North Caucasian and contiguous regions of Russia.<sup>29</sup> It accounts for 21.5% of all the machine-building production delivered to the region. The Celestial Kingdom is also one of the four leading exporters of chemical products and occupies a leading position in the foreign trade of the North Caucasian Federal District. It accounts for 17.1% of the metallurgical production imported by the region and occupies first place in terms of this index. China also occupies an appreciable place in the import structure of textiles and textile commodities. It accounts for approximately 20% and occupies second place in terms of this index after Turkey.

In 2009, China occupied sixth place among the foreign trade partners of the Krasnodar Territory, accounting for 4.53% of the foreign trade volume, which in monetary terms amounted to \$290 million.<sup>30</sup> China's share in the territory's export was insignificant, but the PRC was the territory's second largest import partner, accounting for 10.4% of the entire import volume, which amounted to \$287 million.

Construction is one of the areas of cooperation between the PRC and Kuban. The winter Olympics planned for 2014 in Sochi are creating favorable conditions for developing cooperation in construction. Investors from the Celestial Kingdom have expressed their willingness to finance the construction of at least ten hotel facilities with a total of around 13,000 rooms. The cost of this project in Sochi could reach \$2 billion.<sup>31</sup> Another large-scale construction project is the agreement signed in April 2010 between Russia's Doninvest Company and the China Gezhouba Group Corporation for building sea terminals in Sochi.<sup>32</sup>

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<sup>29</sup> For more detail, see, for example: *Vneshniaia torgovlia IUTU za 9 mesiatsev 2010 goda*, Southern Customs Administration, available at [<http://yutu.customs.ru/ru/statistics/>].

<sup>30</sup> See: *Doklad o rezultatakh i osnovnykh napravleniakh deiatel'nosti Departamenta vneshneekonomicheskoi deiatel'nosti Krasnodarskogo kraia (2010-2013)*, Department of Foreign Economic Activity of the Krasnodar Territory, available at [[http://www.gokuban.ru/department/dron/index.php?sphrase\\_id=2081](http://www.gokuban.ru/department/dron/index.php?sphrase_id=2081)], Krasnodar, 2010.

<sup>31</sup> See: N. Kopeichenko, N. Mikhalev, "Olimpiada Made in China," *PBK Daily*, available at [<http://www.rbcdaily.ru/2010/04/06/market/469225>], 6 April, 2010.

<sup>32</sup> See: *April 2010—CGGC Corporation*, Official website of the Doninvest Company, available at [[http://doninvest-sochi.ru/index.php?option=com\\_frontpage&Itemid=1](http://doninvest-sochi.ru/index.php?option=com_frontpage&Itemid=1)], 14 April, 2010.

China is also cooperating with the Krasnodar Territory in machine-building. In this context, it is worth noting the agreement signed in mid-October 2009 between the Krasnodar Territory and China's Yantai Shuchi, according to which the company will assemble 500 Shuchi buses with 35-60 seats at the Vorovsky Tikhoretsk Machine-Building Plant.<sup>33</sup>

Cooperation between the Krasnodar Territory and China is also touching on other areas, in particular, the gambling business. In February 2010, operators from China's Makao gambling zone announced their intention to build their own casinos, an all-season sports complex for winter sports, and an entertainment infrastructure, including hotels and shopping centers, in the Azov City gambling zone. According to preliminary estimates, Chinese investors could invest more than 5 billion rubles in this construction.<sup>34</sup>

According to the results of 2009, China occupied 7th place in terms of foreign trade volume with the Stavropol Territory.<sup>35</sup> It accounted for 5.2% of the territory's total foreign trade turnover, which amounted to \$74.3 million. The PRC occupied 16th place in the export structure, accounting for \$14.1 million, while it occupied second place in the territory's import (accounting for \$60.2 million). Compared with 2002, in 2009, the foreign trade volume rose 3.3-fold, whereby import rose almost 27-fold.

Tourism is a promising area of cooperation. In this respect, it should be noted in particular that in March 2010, the administration of Piatigorsk, the Energiia Company, a business customer, and China's Norinco International Cooperation Ltd. signed an agreement, according to which the Chinese side will build a tourist health complex, Sana, in Piatigorsk costing 7.5 billion rubles.<sup>36</sup> The complex is supposed to go into operation in 2012, and its payback time will be 8.5 years.

Relations between China and Ingushetia are at the initial stage of development, although the PRC is already one of Ingushetia's main foreign trade partners.<sup>37</sup> One of the most important Chinese projects in Ingushetia is building a plant in the republic for producing spare parts for the Chinese cars manufactured in Russia. This agreement was signed at the World Expo-2010 Fair held from May to October in Shanghai. As head of the republic noted, Russia does not have any enterprises like this one yet, and specialists believe there will be a demand for the plant's production.<sup>38</sup>

In December 2010, the Chinese side invited representatives of the South Russian Investment-Financial Corporation and the Ingushetian Vils Light Alloys Plant to visit the PRC.<sup>39</sup> The sides held talks and determined the prospects for joint activity. The main purpose of this cooperation is to organize technological processes in the Russian regions with the assistance of Chinese specialists. The main trends in the development of the industrial facilities were designated, which include creating contemporary production of electrical tools in Ingushetia and delivering production lines for

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<sup>33</sup> See, for example: "Kitaiskie avtobusy Shuchi budut sobirat v Krasnodarskom krae," *Avto.ru*, available at [[http://avto.ru/news/news\\_18289.html](http://avto.ru/news/news_18289.html)], 23 October, 2009.

<sup>34</sup> See: "Investory iz Kitaia namereny postroit v 'Azov-Siti' sportkompleks i gostinitsy," *Interfax*, available at [<http://www.interfax.ru/print.asp?sec=1466&id=122682>], 8 February, 2010.

<sup>35</sup> See: *Informatsiia o vneshneekonomicheskom sotrudnichestve Stavropolskogo kraia s Kitaiskoi Narodnoi Respublikoi*, Ministry of Economic Development of the Stavropol Territory, available at [[http://www.stavinvest.ru/?\\_\\_=1293](http://www.stavinvest.ru/?__=1293)].

<sup>36</sup> See, for example: S. Rudkovskiy, "Kitaiskaia korporatsiia postroit v Piatigorske kurortnyy kompleks," *RIA Novosti*, available at [<http://www.rian.ru/tourism/20100309/213152606.html>], 9 March, 2010.

<sup>37</sup> See: A. Larina, "Kazne na popravku. Novaia nalogoivaia politika v Ingushetii zastavila chinovnikov na mestakh iskat sposoby popolneniia biudzheta," *Rossiiskaia gazeta*, Special Edition *Ingushetia*, No. 5197(118), 2 June, 2010.

<sup>38</sup> See: *V Ingushetii budut proizvodit zapchasti dlia kitaiskikh avtomobilei*, Permanent Representative Office of the Republic of Ingushetia under the Russian Federation President, available at [<http://www.postpredstvo.ru/2010/12/6180.html>], 9 December, 2010.

<sup>39</sup> For more detail, see: "Zakliucheno soglasenie o sotrudnichestve s kitaiskoi kompaniei "Manzhouli Heyuan" v oblasti razvitiia promyshlennykh ob'ektov na territorii Rossiiskoi Federatsii," Official website of South Russia Investment-Financial Corporation Open Joint-Stock Company, available at [<http://www.urifcorp.ru/china.html>], 21 December, 2010.



gypsum plasterboard and corrugated packaging, as well as lines for manufacturing a variety of household appliances.

Despite the fact that Chechnia is one of the most unstable republics in the Northern Caucasus, China is relatively active there. This activity is also of particular political importance for Beijing. Suffice it to say that the Russian special services have reported on several occasions that Chinese citizens from XUAR are participating in the hostilities in Chechnia on the side of the militants.<sup>40</sup> It stands to reason that Beijing is not at all interested in internationalizing extremism and if separatists from China have been participating in the hostilities in Chechnia, it is entirely possible that Chechen formations have been participating in the separatist activity in XUAR. So Chechnia's socioeconomic revival is important for Beijing.

The oil and gas sphere is one of the vectors of China's cooperation activity in Chechnia. In 2005, it became known that Chechnia was working with China on implementing projects in the oil and gas industry.<sup>41</sup>

Chechnia and China are also cooperating in the humanitarian sphere. In this context, it is worth noting China's assistance in treating Chechen children suffering from cerebral palsy.<sup>42</sup> Hundreds of Chechen children diagnosed with cerebral palsy underwent treatment using traditional Chinese methods with specialists from the Shanxi Rehabilitation Center who have been working in the republic since the beginning of June 2009. A group of Chechen doctors came to the Shanxi Rehabilitation Center in 2008 to learn about the treatment methods for cerebral palsy.

Industry, particularly machine-building, is one of the main vectors of cooperation between China and Karachaevo-Cherkessia. In this context, it is worth mentioning an extremely successful investment project under which the Chinese Lifan Company and the Derveis Automobile Company from Karachaevo-Cherkessia have begun manufacturing cars.<sup>43</sup> In November 2010, this plant expanded the range of products it manufactures. Putting new production capacities into operation will make it possible to raise the car assembly plant's overall productivity to 100,000 cars a year.<sup>44</sup> This is also an important social project for Karachaevo-Cherkessia. Operation of the plant is providing the republic with up to 5,000 new jobs. And this is keeping in mind that before the plant went into operation, Karachaevo-Cherkessia had an official unemployment level of 7,500 people.<sup>45</sup> In addition to this, the amount of tax payments to the budgets of various levels could reach 5 billion rubles a year, which will have a positive effect on the socioeconomic situation in the republic.<sup>46</sup>

However, relations between the PRC and Karachaevo-Cherkessia are not only limited to machine-building. China occupies second place in the republic's foreign trade balance and accounts for 20.3% of the total volume of Karachaevo-Cherkessia's foreign trade,<sup>47</sup> which amounts to \$15.1 mil-

<sup>40</sup> See, for example: A. Sobianin, "Uigurskii separatizm," *Ekspert*, No. 31, 28 August, 2000.

<sup>41</sup> See: "Chechnia i Kitai rabotaiut nad realizatsiei proektov v neftegazovoi oblasti," *RosInvest.com*, available at [<http://www.rosinvest.com/news/122270/>], 25 August, 2005.

<sup>42</sup> For more detail, see: "Bolee 260 detei c diagnozom DTsP proshli lechenie kitaiskoi metodikoi," Official website of the head and government of the Chechen Republic, available at [<http://chechnya.gov.ru/page.php?r=126&id=5906>], 25 August, 2009.

<sup>43</sup> See: A. Semenov, "V Karachaevo-Cherkessii postroiat eshche odin avtozavod," *Kavkazskii uzel*, available at [<http://adygeia.kavkaz-uzel.ru/articles/122214>], 28 August, 2007.

<sup>44</sup> See, for example: "Avtomobilnyi zavod 'Derveis' zapustil novuiu liniyu NAIMA," Official website of the president and government of the Karachaevo-Cherkessia Republic, available at [<http://www.kchr.info/index.php?do=search#/news/4890-avtomobilnyjj-zavod-dervejjs-zapustil-novuju.html>], 8 November, 2010.

<sup>45</sup> See: "V Karachaevo-Cherkessii avtozavod predostavil 3,000 novykh rabochikh mest," *Kavkazskii uzel*, available at [<http://adygeia.kavkaz-uzel.ru/articles/139115>], 12 July, 2008.

<sup>46</sup> See: "15 ianvaria avtomobilnaia kompaniia DERWAYS otkryvaet novye tsekha po promyshlennoi sborke avtomobilei," Official website of the president and government of the Karachaevo-Cherkessian Republic, available at [<http://www.kchr.info/news/4090-15-janvarja-avtomobilnaja-kompanija-derways.html>], 12 January, 2010.

<sup>47</sup> For more detail, see: "Vneshneekonomicheskaja deiatelnost Karachaevo-Cherkesskoi Respubliki za 2009 god," Ministry of Economic Development of the Karachaevo-Cherkessia Republic, available at [<http://minek-kchr.ru/load>]

lion. Moreover, China accounts for 36.1% of the cost volume of import and occupies first place in this respect.

The PRC is also active in Kabardino-Balkaria. In November 2006, an official delegation from the Kabardino-Balkarian Republic headed by the president participated in a Russian national exhibition in Beijing organized within the framework of the Year of Russia in China.<sup>48</sup> Kabardino-Balkaria offered the Chinese side an investment project for restoring the production capacity of the Tynyauz Mining and Concentration Plant for producing and refining primary wolfram-molybdenum products. At that time, a preliminary agreement was reached on possible cooperation. The republic also offered to cooperate with China in manufacturing tobacco from Chinese raw material. And the prospect was discussed of building a Chinese health center at one of the sanatoria in Nalchik. Admittedly, these projects have not been further developed.

In May 2010, several of China's trade organizations showed an interest in the production of the Nalchik Stankozavod Company, the only enterprise in Russia specializing in the manufacture of unitized complete plant for furniture edge banding and veneering and a manufacturer of automatic edge banding and veneering lines and machine tools for making furniture.<sup>49</sup> As a result, several contracts were entered and an order portfolio was drawn up for the future.

China is one of the republic's main foreign trade partners. In 2009, it accounted for 14.3% of Kabardino-Balkaria's import and occupied second place in terms of this index among the republic's foreign trade partners.<sup>50</sup>

Cooperation between China and North Ossetia-Alania is developing quite dynamically. Alania is also actively cooperating with the provinces of the Celestial Kingdom. In 2006, it established twin town relations with the province of Xiechuan.<sup>51</sup> The agreement reached in March 2007 on opening a North Ossetian Center of Economic Trade Cooperation with the PRC in Vladikavkaz was an important event in bilateral relations. The agreement between Alania and the Chinese province of Xiechuan on creating a specialized zone in the republic for the light industry can also justifiably be considered an important economic undertaking.<sup>52</sup> Despite the fact that emphasis is placed on the light industry, other industries will also be set up in this zone, in particular the manufacture of household appliances.

North Ossetia and China are also cooperating in the humanitarian sphere. For example, the Chinese side invites groups of children who suffered from the terrorist act in Beslan to participate in rehabilitation programs every year.<sup>53</sup> Moscow greatly appreciates this Chinese initiative. Russian President Dmitry Medvedev noted in particular that Russia will never forget the concern residents of China, particularly of the Xiechuan Province, have been showing for the children of Beslan.<sup>54</sup>

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<sup>48</sup> For more on the visit, see: "Kitaity proiavili interes k Kabardino-Balkarii," Official website of the president of the Kabardino-Balkarian Republic, available at [<http://2008.president-kbr.ru/events/connections/?id=93&aktiv=3>], 16 November, 2006.

<sup>49</sup> See: "Stankozavodom zainteresovalis v Kitae i SNG," Investment Passport of the Kabardino-Balkaria Republic, available at [[http://www.kbr-invest.ru/index.php?p=news&news\\_id=452](http://www.kbr-invest.ru/index.php?p=news&news_id=452)], 18 May, 2010.

<sup>50</sup> See: "Mezhdunarodnye svyazi," Portal of the government of the Kabardino-Balkaria Republic, available at [<http://pravitelstvokbr.ru/k-br%5Ckbr-main.nsf/html/MEJDUNARODNESVYAZI>].

<sup>51</sup> For more detail, see: "Severnaia Osetiia i Kitai: sotrudnichestvo prodolzhaetsia," Administration of the Head of the Republic of Northern Ossetia-Alania and government of the Republic of Northern Ossetia-Alania, available at [<http://www.rso-a.ru/vlast/gov/head/detail.php?ID=4874>], 10 June, 2009.

<sup>52</sup> See: Z. Gurdzibeeva, "Sviazuiushchaia nit. V Severnoi Osetii planiruetsia sozdat spetsializirovannuiu zonu dlia legkoi promyshlennosti," *Rossiiskaia gazeta*, No. 4937, 24 June, 2009.

<sup>53</sup> See, for example: "Severnaia Osetiia i Kitai: sotrudnichestvo prodolzhaetsia."

<sup>54</sup> See: "Severnaia Osetia gotova priinat detei iz Kitaa," Administration of the Head of the Republic of North Ossetia-Alania and government of the Republic of North Ossetia-Alania, available at [<http://www.rso-a.ru/vlast/head/activity/detail.php?ID=2987>], 23 May, 2008.

Foreign economic relations between the Republic of Dagestan and the PRC are being actively implemented at the level of economic entities and between the representatives of small and medium business.<sup>55</sup> In November 2006, a declaration of intent was signed in Beijing on cooperation between the government of Dagestan and China's Huawei Technologies Co., Ltd. Within the framework of a memorandum on cooperation between the Russian Builders Association and the Chinese Builders Association for developing the building-material industry and increasing construction facilities in the Russian Federation, agreements were reached on implementing several important projects in Dagestan, in particular building a hotel and recreation complex, a manufacturing plant with a capacity of 24 million sq. m. for manufacturing polished glass, a brick factory with a capacity of 75 million red bricks, and so on.

The agreement signed in 2009 with China's Norinco International Cooperation Ltd. on building a cement factory with an annual capacity of 3.6 million tons can justifiably be called one of the most important Dagestani-Chinese projects.<sup>56</sup> The factory is to be put into operation within the next three years.

An agreement has also been reached between China and Dagestan on setting up an assembly plant for Chinese mini vans at the Makhachkala Aviaagregat Plant.<sup>57</sup> In May 2010, Dagestan and China signed an agreement with the Kharbin Guaxin Dongfang Investment Company on cooperation in implementing an investment project to build a plant for manufacturing sheet glass using the float technique.<sup>58</sup>

Several Chinese companies have expressed a desire to take part in implementing a project to build the International Caspian Logistics Complex.<sup>59</sup> This is quite a large-scale project aimed at building an international logistics hub center. It also presumes intensive development of port infrastructure accompanied by diversification of freight flows and the development of the North-South transportation corridor. Caspian Logistics will be oriented both toward serving the region and toward transit flows within the framework of the North-South transportation corridor that links Russia to the Southern Caucasus.

On the whole, foreign trade relations between China and Dagestan are developing quite intensively.<sup>60</sup> For example, whereas in 2000 the total volume of goods turnover amounted to \$336,400, in 2009, it amounted to \$11.4 million, thus increasing 34-fold.

### *In Lieu of a Conclusion*

As can be seen from the above, the People's Republic of China is cooperating quite actively with the Caucasian region. There is every reason to believe that the current geopolitical and geo-economic

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<sup>55</sup> For more on the chronology of Dagestani-Chinese relations, see: "Sotrudnichestvo s Kitaem," Agency of Investments and Foreign Economic Relations of the Republic of Dagestan, available at [<http://investrd.ru/2009-09-16-08-12-51/202-2009-09-15-13-33-19.html>], 16 August, 2010.

<sup>56</sup> See, for example: "China's Norinco to Build \$610m Cement Plant in Dagestan," *Marchmont Capital Partners*, available at [[http://www.marchmontnews.com/story.php?story\\_id=10277](http://www.marchmontnews.com/story.php?story_id=10277)], 5 November, 2009.

<sup>57</sup> See: "V Dagestane kitaitsty otkroiut tsemzavod i proizvodstvo po sboru avtomobilei," *Delovoi mir Dagestana*, available at [<http://www.dmdag.ru/news.php?id=334&PHPSESSID=740d2207562e0d03db2e9e11b6a6a469>], 12 March, 2010.

<sup>58</sup> See: "Pekin-Kuban DAGEKSPO," *Delovoi mir Dagestana*, available at [<http://www.dmdag.ru/journal2.php?jid=1&jnum=14&jcat=C0000043&jaid=81>], 14 May, 2010.

<sup>59</sup> See: "Realizatsiia investitsionnogo proekta 'Stroitelstvo mezhdunarodnogo logisticheskogo kompleksa 'Kaspil Lozhistik','" Agency of Investments and Foreign Economic Relations of the Republic of Dagestan, available at [<http://investrd.ru/news/35-news/268-1-1-r.html>], 21 April, 2010.

<sup>60</sup> See: "Vneshniaia trgovlia Respubliki Dagestan," Territorial Structure of the Federal State Statistics Service of the Republic of Dagestan, available at [<http://dagstat.gks.ru/digital/region7/DocLib/Внешнеэкономическая%20деятельность.htm>].

processes in the Caucasus and, consequently, the increase in its importance in the Eurasian powers' relations will help to raise the Celestial Kingdom's activity in this regional vector.

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