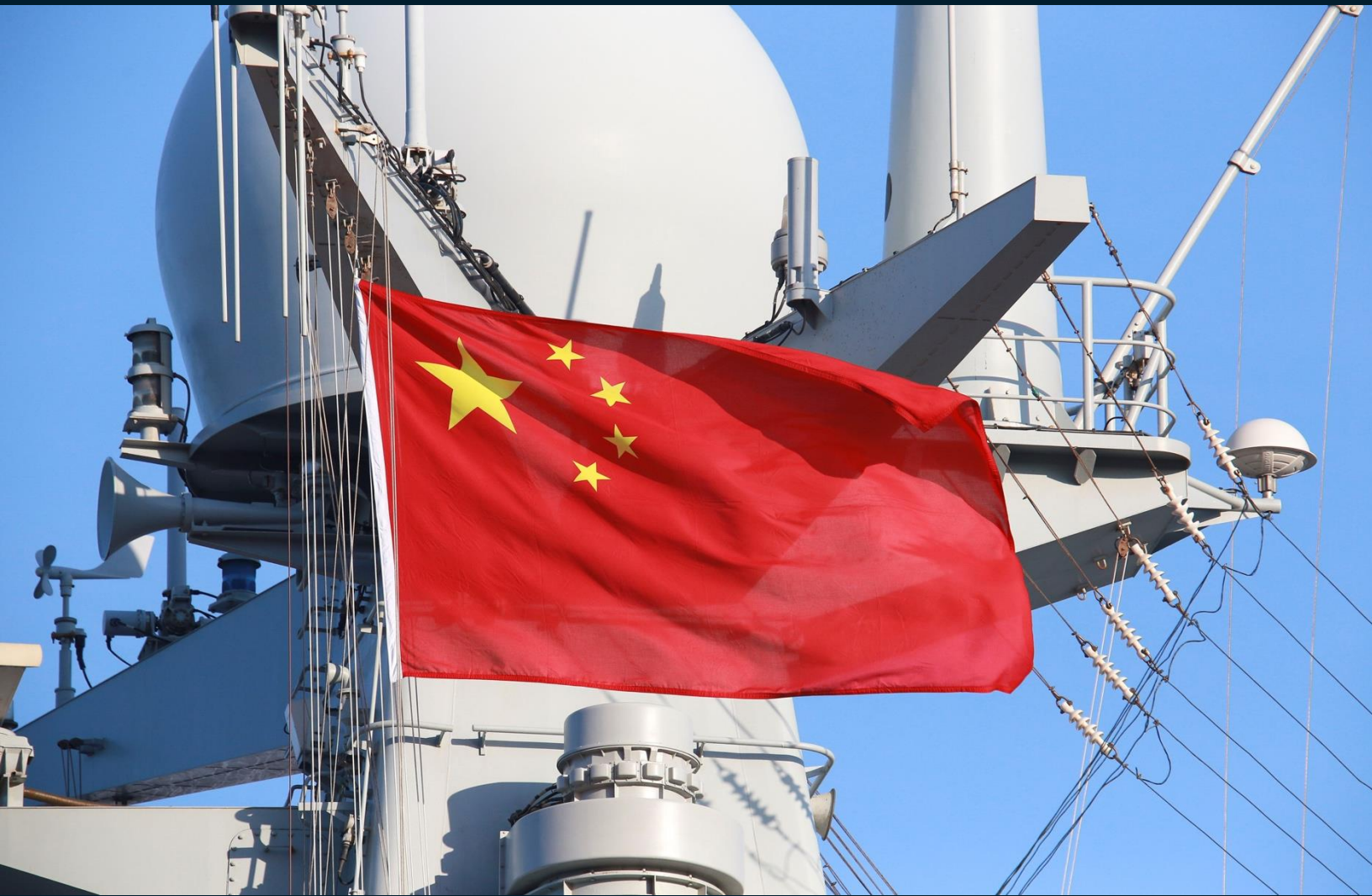


A Sea Change?: China's Role in the Black Sea

November 2020



About Frontier Europe

The Middle East Institute (MEI) Frontier Europe Initiative explores interactions between Middle East countries and their Frontier Europe neighbors – the parts of Eastern Europe, Central Asia and the Caucasus which form a frontier between Western Europe, Russia, and the Middle East. The program examines the growing energy, trade, security, and political relationships with the aim of developing greater understanding of the interplay between these strategically important regions.

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Cover Photo: A Chinese flag flown above a Chinese destroyer participating in a naval parade in St. Petersburg (Photo by Sergey Mihailichenko/Anadolu Agency via Getty Images)

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Introduction

Through its Belt and Road Initiative, China seeks to play a larger role in the Black Sea region. China has been wooing littoral states in hopes of securing new markets for its goods and investing in infrastructure projects. But some worry that there is more to Chinese actions in the region than meets the eye. The worry is that China will increase its political and diplomatic clout in a region that is considered vital for Russian interests and create tension between Moscow and Washington.

Despite the uneasiness in the West about China's increasing presence in the Black Sea, there is not enough focus on the issue in the scholarly debates in Western capitals. The MEI's Frontier Europe Initiative aims to contribute to the debate on the role of China in the Black Sea. We hope the articles in this report will help to address several important unaddressed questions: What is the nature of China's presence in the Black Sea? Does it cultivate commercial and trade ties only or is Beijing also interested in military partnerships with littoral states? Where does China stand on the energy equilibrium in the region? Who are some of its close partners in the region? How has Russia reacted to China's presence in its near abroad? What is the state of Chinese-Russian relations?

We hope the articles in this report will help to address these questions and give rise to new ones for anyone who is interested in the Black Sea and the competition for influence among great powers.

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“On balance, it is hard to believe Beijing will welcome further confrontation by Russia against neighbors in the Black Sea region, be it Ukraine, Georgia, or any other country.”



Vladimir Putin and Xi Jinping at the 2017 Belt and Road Forum (Photo by Kenzaburo Fukuhara-Pool via Getty Images)

China, Crimea, Russia, and the Black Sea Region

Michael O'Hanlon

How has China reacted to the Russian takeover of Crimea in 2014? As will be recalled, shortly after the Sochi Olympics early that year, and a major political crisis in Kiev, Ukraine that saw the former president flee to Russia, President Vladimir Putin sent “little green men” to invade and seize Crimea. The invasion was followed by a largely staged “referendum” that overwhelmingly approved secession from Ukraine and accession to Russia among its residents, followed by Russia’s “decision” to annex Crimea into its territory.

This issue was delicate for Beijing and remains so. China will certainly hope that it does not again raise its ugly head, and that nothing similar (like further Russian designs on parts of Ukraine’s coast) heats up in the future. Because a similar event might indeed recur, however, it is worth understanding the various incentives shaping Beijing’s thinking.

At the time, half a decade ago, China responded to the crisis by abstaining from U.N. Security Council resolutions that condemned the Russian actions as naked aggression, calling instead for a somewhat vague internationally assisted political process that would in theory respect the rights of all. This approach helped China avoid getting drawn directly into a major standoff between Russia and the West, yet also pleased no one since China did not join Russia in opposing the resolution either.

Beijing’s difficult calculus over Crimea

The Crimea crisis truly put China between a rock and a hard place. On the one hand, Beijing would not have wanted to displease Moscow at a time when Western pressure on both China and Russia was already giving the two countries more and more reasons to look to each other for support. If they were not becoming allies, they were at least feeling common cause in pushing back against pressure from NATO nations and other U.S. allies like Japan over matters such as Crimea, the South China Sea, the East China Sea, and other issues of contention.

Moreover, an invasion and referendum that essentially reunified what had been a part of Russia — until Nikita Khrushchev gave it to Ukraine in 1954 in what was only an internal administrative change within the USSR at the time — would not necessarily bode ill for China’s interest in the Taiwan issue. China similarly sees Taiwan as an innate part of its own homeland that was unnaturally and temporarily separated by exogenous events decades ago.¹ More recently, some have detected possible parallels between what Putin did in Crimea and what Chinese President Xi Jinping appears to be undertaking now in regard to a hostile takeover of sorts in Hong Kong.² In that sense, perhaps Putin paved the way — and tested the waters — for what China is doing elsewhere now. Putin has certainly paid a price for Russia’s aggression. But the price, while ongoing and not insignificant, has not escalated to a Western military response or even a major economic war. Sanctions have hit fairly hard, but in a targeted and discrete

way. Perhaps Xi saw what happened and decided he could, if necessary, live with a similar outcome over Hong Kong.

On the other hand, China cannot be truly happy with what Russia did. Giving a group like the people of Crimea the power to choose their own future political associations, including the right of secession, would create a precedent that Beijing most assuredly would not like in regard to Tibet or Xinjiang. Indeed, depending on how the debate broke, it might not even help China's position over Taiwan. Legitimizing referenda for people who feel politically emboldened is not really the Chinese way.³ Moreover, Russia's use of force to achieve a political outcome, even if quick and bloodless in this case, would cause certain concerns in Beijing as well (imagine a possible parallel — an overnight move of hundreds of American GIs onto Taiwan's soil as a means of shoring up that island's ability to withstand Chinese pressure).

In 2014 and 2015, moreover, China's relations with the West were not yet so bad as to make it instinctually side with Russia in a zero-sum showdown over a blatant act of aggression committed by the latter. Even today, China has commercial interests in Ukraine — such as investment in ports and infrastructure and access to Ukrainian agricultural goods — that prevent it from roiling the geostrategic waters too much or taking Russia's side too blatantly.⁴

The broader backdrop

Before trying to reach an overall verdict on how China may view the issue going forward, it is worth taking stock of how the West, and the United States in particular, view China's rise in broad terms, since that shapes the overall geostrategic backdrop within which Crimea matters are viewed.

China's rise over the last four decades — or, in more precise historical terms, its return to earlier greatness — has been stunning. It went from an impoverished agrarian society to the world's top manufacturing power, second military power, second research and development power, and top trading nation for every country in Asia. America supported this rise for roughly 40 years, including under presidents Nixon, Ford, Carter, Bush the first, Clinton, Bush the second, and (for a few years at least) Obama. But that consensus has largely come undone in recent years — in ways that transcend, and will likely outlive, the Trump administration.

There is a yin and yang to the current situation. Few peoples have as favorable a view of themselves, their culture, and their innate importance as do the Chinese.⁵ Few have as much to be proud of, in fact. Yet few feel they have been as mistreated and suppressed by others.⁶ Few have as much of a chip on their collective shoulder.

To date, China has also been *relatively* restrained, by the standards of the history of rising superpowers, in its use of military force. Notably, it has not fought a war since 1979 despite doubling its GDP and military spending every seven to 10 years since the 1980s.⁷ Forebodingly, however, tectonic shifts in geopolitics of this magnitude have often produced war in the past.⁸ There are numerous ways conflict could happen. For example, China's leaders and people might seek a chance to get back at Japan over historical grievances.⁹ There are still relatively minor, but potentially incendiary, territorial disputes between the two sides. Combine China's ambitions and newfound power with Japan's pride and sense

of increasing encirclement, and there is no telling where this situation could go in the years ahead. The U.S.-Japan alliance makes war a far less realistic option for Beijing than it might otherwise be. But it does not make it impossible altogether, of course. More likely still, the United States and China could fight over Taiwan, or over access to the South China Sea — or as the inadvertent consequence of war on the Korean Peninsula that initially pitted their respective allies, South Korea and North Korea, against each other.

China's rise is among the most remarkable economic accomplishments in the history of the world, and a great success for American foreign policy — since the open economic order that the United States created and protected after World War II made it possible. The United States sustained roughly a four-decade period of bipartisan consensus in favor of engaging China and inviting it into that rules-based order. The strategy dated back, of course, to Henry Kissinger and Richard Nixon's opening to Mao Zedong's China in the early 1970s — a move that had its strategic logic in Cold War realpolitik but continued well after the Berlin Wall fell. The hope was that China would liberalize and become a supporter of the rules-based global order — and that it would liberalize and reform *faster* than its growing economic and military power would make it a potential threat. Alas, that latter calculus has not been vindicated of late, and so the longstanding American consensus about engaging China has eroded on both sides of the aisle. The goodwill and mutual admiration that were cultivated between the American and Chinese peoples in recent decades have been seriously eroded as well; for example, in recent polls, publics in both countries have more negative than positive views of the other nation, and that was before COVID-19.¹⁰

In recent years, general concerns about Chinese power in the abstract have been intensified by a number of specific actions by Beijing. China's behavior in places like the South China Sea has become much more menacing, as it effectively claimed ownership of that sea through its nine-dash line and increasingly harassed U.S. Navy ships, Filipino fishermen, and others trying to use the international waters.¹¹ It did not relent even after the Permanent Court of Arbitration in The Hague ruled categorically against its claims and its recent behavior in that body of water.¹² President Xi's preparations for staying in power much longer than recent predecessors, his other efforts to exercise greater state control over the country's citizens, and his strongman behavior toward groups like the Uighur minority in the country's northwest as well as residents of Hong Kong have cast serious doubt on China's potentially reformist ways.¹³

The American response to these developments goes back roughly a decade now. It began with President Barack Obama's attempt at a "pivot" or "rebalance" to the Asia-Pacific region starting around 2011. The rebalance focused largely on economics and diplomacy, though it included military dimensions too, highlighted by a decision to increase the fraction of the U.S. Navy devoted to the broader Pacific region from the modern 50 percent norm to 60 percent.¹⁴ That was followed by much greater focus on China at the Defense Department during Obama's last two years in the White House. The effort picked up further steam during President Donald Trump's term in office. Over the last half dozen years, the American armed forces have prioritized great-power competition and the restoration of conventional military deterrence above all other missions. As noted earlier, largely because of China's rise, the "4+1" threat framework was reinterpreted by some as a "2+3" paradigm, with Russia and China at the top of the priority list.¹⁵

The coronavirus crisis provides a timely and telling microcosm of the broader challenge. As usual, Trump was less than decorous — but still not wrong — to describe the novel coronavirus as a “Chinese virus.” That said, China then addressed the problem effectively, using strong-armed measures like severe internal and external travel restrictions, as well as forced quarantines, in a way that may make its own model of governance look more effective than the slower responses in Iran, many countries in Europe, the United States, and elsewhere.¹⁶ China also provided modest amounts of help with medical care and equipment to countries like Italy, once its own crisis had begun to relent. Just how this will play out in the broader court of public opinion globally, it is too soon to say. But the most likely outcome is that the argument will continue for years.¹⁷

Former Deputy Secretary of State Jim Steinberg and I wrote a 2014 book called *Strategic Reassurance and Resolve* attempting to address the question of how the United States should handle China’s rise. We maintained that resoluteness *and* constant attempts at reassurance would be needed to keep the relationship on track. Having dealt with U.S.-China relations throughout his government career, and having studied China’s history extensively, Steinberg saw the challenge coming before many others did: America’s sense of global purpose and responsibility, combined with China’s re-emergence as a great power and confident view of itself as the planet’s “Middle Kingdom,” could put the two countries at direct strategic loggerheads.¹⁸

Several years later, Steinberg and I revisited our assessment. There was a certain amount of progress. Some recommendations that we, and others, had made to the U.S. side were implemented. The Pentagon’s concept of “Air-Sea Battle” was recast, to avoid analogizing China of today with the Soviet Union of Cold War times (since the United States and NATO had developed “Air-Land Battle” doctrine for the latter). The United States also showed restraint in deployment of national missile defense systems. Some suggestions we made to the Chinese side, like continuing to show restraint on nuclear modernization, participating more fully in peacekeeping and other collaborative multilateral military operations, and using hotlines as well as codes of conduct to govern close approaches of military assets, were also partly heeded. Both sides are showing general restraint in testing of nuclear and anti-satellite systems as well.¹⁹

However, if the glass might be partly full, at this point it is also at least half empty — and many strategic specialists, Republican and Democrat and nonpartisan, are even more critical of China’s behavior than were Steinberg and I. There has been an intensification of assertive Chinese behavior in the South China Sea over the past seven years. No real lessening of tensions has occurred between China and Taiwan. There have also been occasional risky encounters between U.S. and China naval ships provoked by China as it has sought to increase its claims to the South China Sea. There has been inadequate dialogue between Beijing and Washington over Korea contingencies (even in semi-official channels). And there have been no new major confidence-building measures like the “open skies” concept Steinberg and I proposed for aerial surveillance, as well as no breakthroughs on the cyber front.²⁰ China has expanded its territorial and military ambitions and activities in the South China Sea. It has tightened the network of Chinese entities that seek to gain intelligence and intellectual property for the country, and its military forces, by hook or by crook. Huawei’s 5G network technologies risk providing China with access to intelligence and hacking opportunities in many countries around the world as well — especially in light of China’s “military-civilian fusion” law that requires private companies to share information with its People’s Liberation Army.²¹

Back to Crimea — with reflections on the path ahead

A useful way to understand Beijing's bottom-line stance on the Crimea question is to quote a very revealing article by an academic affiliated with the Carnegie Endowment at Tsinghua University (where Brookings has also had a presence for a time).²² The article was written back in 2015 (a year after most of the initial Crimea-related excitement) by Zhang Lihua, a resident scholar at the Carnegie-Tsinghua Center for Global Policy, as well as a professor at the Department of International Relations at Tsinghua University.

Zhang's thinking is an attempt to be fair-minded in some ways, and given the affiliation with Carnegie, is probably not as dogmatic as some ideas within inner circles of the ruling party and regime. Yet it is also somewhat tendentious, in what it says and does not say. In any case, it is illuminating.

Zhang apparently takes the view that a good defense begins with a good offense — against Washington and the West. She writes:

“Western countries’ dismissal of the Crimean referendum last March does not appear consistent with their positions on similar votes held by former Soviet territories. For instance, the United States and Western Europe supported and quickly recognized Ukraine’s and Georgia’s independence referendums in 1991, when they separated from the Soviet Union as it was experiencing upheaval. The West also actively backed Estonia, Latvia, and Lithuania when these former Soviet territories established independence in the early 1990s. In doing so, the United States and its European allies likely accelerated the Soviet Union’s disintegration. A more recent example occurred in 2008, when the West gave significant assistance to Kosovo as it was declaring independence from Serbia.

“These historical examples seem to suggest that the United States and Europe hold a double standard when choosing whether to support or oppose this kind of referendum in former Soviet territories, backing secession movements that reflect their own interests and opposing those that do not.”

There is no mention, here or elsewhere in the article, of the fundamental facts that the Baltic states were incorporated into the Soviet Union against their will by Joseph Stalin, or that Kosovo came under attack by Slobodan Milosevic’s militias prior to its war for autonomy or independence in 1999. The double-standard talk is rather unpersuasive for these reasons.

But Zhang is perhaps on fairer and firmer ground when she later writes:

“To China, the U.S. and European states’ opposition to the Crimean referendum has appeared to be based more on these countries’ own efforts to secure greater influence in Eastern Europe than on Ukraine’s best interests. Because of this, China did not vote in favor of the U.S.-proposed U.N. draft resolutions. ... China’s diplomacy is based on the Five Principles of Peaceful Coexistence: mutual respect for territorial integrity and sovereignty; mutual nonaggression; noninterference in each other’s internal affairs; equality and mutual benefit; and peaceful coexistence. Of these, noninterference in particular is an important and long-observed feature of Chinese foreign policy.

“From China’s perspective, interfering in the internal matters of other countries is counterproductive because doing so often exacerbates existing disorder, in effect adding fuel to the fire. This is especially true when powerful states seek to further their own interests by meddling in the domestic affairs of less influential states. Since the Cold War ended, U.S. readiness to intervene overseas and even to go to war has exacerbated complex tensions and conflicts not just in Eastern Europe but also in the Middle East.”

On that last point, given how difficult and often unhappy the U.S. experience has been in the broader Middle East this century, it is hard to disagree too strongly with the author. Yet Zhang goes too far when she continues as follows:

“The Crimean referendum was an internal Ukrainian issue. Using China’s principle of noninterference as a guide, other countries should not strongly interfere with this decision. The West’s condemnation of the referendum could be interpreted as a form of meddling.”

To suggest even for a moment that the Crimea issue of 2014 was fundamentally and primarily an internal Ukrainian issue is laughable on its face — since the referendum only happened after the Russian invasion, and the vote was carried out by Russia. Even if the results of the referendum might have been the same in a fair vote (since ethnic Russian speakers are some 60 percent of the Crimean population), it is impossible to know — and impossible to justify — any such referendum that was organized and supervised by the aggressor shortly after its own use of force.

Yet all is not lost, for Zhang then yo-yos to a different point that would likely seem much more judicious to most American onlookers:

“At the same time, Moscow’s support of the referendum and annexation of Crimea has intensified Russia’s conflict with Ukraine and has triggered a crisis amid the armed conflict of the past year and long-term unrest. Russian actions in Crimea seem reminiscent of the Soviet Union’s support for Mongolia’s independence bid in 1945, which helped the territory separate from China.

“Based on these considerations, China does not support Russia’s approach either. Because Beijing has sided with neither Russia nor the West, China abstained from voting on the March 2014 U.N. resolutions rather than casting a ballot in favor of either party.”

On balance, it is hard to believe Beijing will welcome further confrontation by Russia against neighbors in the Black Sea region, be it Ukraine, Georgia, or any other country. China prefers commercial opportunity, does not like more talk of secession and referendum there or anywhere, does not wish to see its strategic partner Russia further ostracized on the world stage, and does not really need another argument with Washington right now. That said, as underscored by Professor Zhang’s comments — from a happier moment in U.S.-China relations — China will also not feel any need to make the United States or its allies and partners happy over the Crimea question. And it is highly doubtful China would go along with any campaign to increase pressure on Moscow to resolve the matter.

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“As Black Sea affairs become a facet of great power competition between the U.S. and Russia, Moscow and Beijing are growing more united in the region.”



A view from Sevastopol, a major port city in Crimea (Photo by Sergei Malgavko\TASS via Getty Images)

China and Russia in the Black Sea: Between Global Convergence and Regional Divergence

Ivan Safranchuk and Igor Denisov

It is common wisdom that global instability and American unilateralism pushed Russia and China together. The two countries have indeed developed a substantial partnership on major issues of world politics. Whether they are “strategic partners,” as Russia defines the relationship, or “stand back to back,” as per China’s preferred description, they certainly join forces in the global arena, making known their dissatisfaction with many aspects of the liberal world order. Vladimir Putin and Xi Jinping demonstrate a high level of personal chemistry and mutual trust that has led both leaders to encourage their national foreign policy and security apparatuses to maximize bilateral cooperation. Russia and China regularly form a bloc at the U.N. and endorse a shared worldview through organizations that do not include the U.S. and other Western nations as members, like the Shanghai Cooperation Organization (SCO) and BRICS.¹

This relationship has not traditionally translated into cooperation and solidarity in regional domains where either country has vital interests contested by other external players. The common sense has been that convergence over high-minded policy ideations is tempered by divergence over pragmatic issues on the ground. In the post-Soviet space, Russia and China have even competed.² These points of contention lead many observers to doubt the depth and sustainability of Moscow-Beijing strategic cooperation. From this perspective, Russia-China relations in Central Asia are the most scrutinized, while other regions receive less attention. The Black Sea region is a particularly interesting case. There, the aforementioned common sense held true for a long time but was refuted in the aftermath of the Ukrainian crisis when Russia and China translated high policy unity into meaningful regional solidarity and support.

Converging globally...

In the period after World War II, the fluctuations in Russia-China relations have been tremendous. From friendship and cooperation in the 1950s, the two countries shifted to alienation and confrontation in the 1960s. In the 1970s and 1980s, China de facto sided with the U.S. against the USSR. In the 1990s, China took advantage of Russia’s weakness, asserting its interests in the former Soviet republics and inside Russia itself. Unsurprisingly, in Russia’s political arena, those who were driven by patriotic sentiments to criticize Boris Yeltsin’s foreign policy for its excessively pro-Western orientation also underscored the “China threat.” Simultaneously, the official Russian policymakers quickly learned to balance between the West (primarily the U.S.) and China, deepening contacts with the latter when it was dissatisfied with the former.

In 1997, under Foreign Minister Yevgeny Primakov, Russian diplomacy increasingly resisted the U.S. quest for global leadership, and Russia and China released the Joint Declaration on a Multipolar World and the Establishment of a New International Order. In December 1999, Russian President Boris Yeltsin on visit to Beijing, publicly chastised U.S. President Bill Clinton for his unilateralism, and said that within the multipolar world (Russia now prefers the term “polycentric”), Russia and China “dictate to the world how to live, not him [Clinton] alone!”³

Around the same time, pro-Western and anti-Western expert groups within Russia were echoing one another on the issue of a rising “China threat.” The former group endorsed Russia’s turn to the West, while the latter stressed that the pro-Western stance had weakened Russia to the point where it was being overtaken by China. Unsurprisingly, China was concerned with its unpopularity among the two major Russian strategic camps, pro-Western and anti-Western. Putin has not promoted the “China threat” narrative since becoming the president of Russia in 2000. Instead, he signed a so-called “Big Treaty”⁴ with China in 2001 that championed economic cooperation and diplomatic alignment on sensitive geopolitical issues like the status of Taiwan. Putin reinterpreted Sino-Russian relations in terms of bilateral benefits, rather than as a counterbalance to the West. In fact, Putin sought to cultivate better relations with the West during the first part of his presidency.

Throughout Putin’s rule, the development of relations between Russia and China has been the most stable cornerstone of Russian diplomacy. In contrast, relations between Russia and the West have been variable and unstable in a way that often concerns Beijing. When Russia’s relations with the West were improving, China worried that Russia might side with the U.S.’s anti-Chinese policies. However, when Russia’s relationship with the West was deteriorating, China became concerned that tensions might boil over. China, as the main beneficiary of economic globalization, feared the possible fallout from international turbulence.

While Putin’s Russia openly expressed its displeasure with the U.S.-led liberal world order, for a long time China was more accommodating to this international order in its public posture despite certain frustrations voiced behind closed doors. Even with such differences, Russia and China have converged regularly on the substance of global affairs. This was especially true after Xi came to power in 2012 and paid his first visit to Russia in March 2013. President Xi matched the assertive style of Putin far more than previous Chinese leaders had.

...Diverging regionally

In the Black Sea basin, the policies of Russia and China are based on substantially different premises. Russia has been involved in the Black Sea since the earliest stages of its existence as a self-determined entity. Its political and economic interests in the region thus are backed by a long historical precedent.⁵ Throughout its history, Russia’s engagement with the region has varied in scope. At certain moments, Russians crossed the sea to extend their country’s borders to the south, at others they limited themselves to solidifying control over the sea’s northern shores. History has taught Russia to appreciate the geostrategic importance of the region, which it sees as critical for Russian interests. Russia is highly aware, for example, that the Russian Black Sea Fleet makes it the strongest military power in the region. As a result of these factors, Russia is wary of non-regional powers that could reshuffle the regional balance to Russia’s detriment.

Russia is also concerned with foreign-led economic projects in the Black Sea, particularly those that aim to provide Europe with access to the Caucasus region and Central Asia independent of Russia. Such projects compete with Russia's own economic and infrastructural projects in the region, including plans to build undersea pipelines to transport Russian gas, such as the "Blue Stream" pipeline between Russia and Turkey that was built in the early 2000s. In 2007, Russia and Italy initiated "South Stream," a trans-Black Sea pipeline that would have allowed Russia to bypass Ukraine when delivering gas to Southern Europe. This project was abandoned in 2014 due to EU regulations and replaced with the "Turk Stream," which serves the same purpose but diverts gas flows via Turkey. Russia believes that other projects in the area could potentially undermine its own geopolitical standing and investments. Russia sees China as an outside power in the region and thus its actions are a matter of concern by default.

For China, its interests in the Black Sea are a natural extension of its policies in Central Asia, the Caucasus, the Middle East, and Europe. The Black Sea in and of itself has little strategic importance for China, but it matters for Beijing as a work site for the Belt and Road Initiative (BRI). That is why Chinese diplomacy has undertaken the task of stepping up port-related cooperation with countries along the Mediterranean and the Black Sea.⁶ The 2016 Riga Guidelines for Cooperation between China and Central and Eastern European Countries also places the Black Sea in this broad context of global interconnectivity while setting out the parameters for the Port Area Cooperation initiative between China and countries bordering the Baltic, Adriatic, and Black seas.

Through the BRI framework, China has hoped to support economic globalization. In contrast, Moscow judged globalization to be in decline in the aftermath of the 2008 financial crisis and focused its hopes and efforts on regional integration in both economic and security matters.⁷ This divergence between Chinese and Russian perspectives on globalization manifests itself in different ways and relates to specific economic imperatives. First of all, China needs to pass through vast Eurasian territories safely and without excessive barriers. This might eventually clash with Russia's intention to reconstruct its power in the post-Soviet space and promote regional Russia-centric arrangements. Overall, China was not saddened to see the contraction of Russian influence in the Black Sea basin during the post-Cold War era. While Russia, one could argue, struggled for hegemony in the post-Soviet space, China preferred to engage on a state-to-state basis with partners that were economically self-determined, but relatively weak, at least vis-à-vis Beijing. China hoped to avoid trade barriers, but Russia's policies spurred competition with the U.S. in Georgia, Ukraine, and Moldova, posing challenges to the free flow of goods desired by Beijing. When it came to military affairs, China shared in Russia's disapproval of "NATO's advance to the East," but was more reluctant to directly counter the U.S. and Western influence in the Black Sea region.

Another issue that is relevant to military affairs in a significant, albeit less direct, way is Chinese official media coverage of armed conflict involving Russia forces. Chinese media outlets, as a general rule, do not take sides when covering events in the post-Soviet realm. For example, the military conflict in the Caucasus in 2008 was portrayed in a pointedly neutral way. At the official level, the only support for Russia was the provision of humanitarian assistance to the affected residents of South Ossetia. China consistently refrained from making any statements that could be regarded as political support for Moscow's actions against Georgia in 2008. Moreover, China maintained economic relations with Georgia. While the flow of goods and investments was insignificant in quantity for China, it was crucial

for Tbilisi when it fell under strict Russian sanctions. Their economic ties eventually evolved into a free trade agreement (FTA) in 2017.

Despite economic connections, Beijing rebuffed Tbilisi's efforts to obtain its political support. But China did not recognize Abkhazia and South Ossetia either, partially perhaps in order not to set a precedent for separatist movements within its own borders. In general, Chinese authorities avoided comments about Georgian-Russian relations or regional geopolitical problems, stressing instead Georgia's role as a connecting hub between Asia and Europe.

China also maintained relations with Ukraine, which it considers a node on the Silk Road that feeds into EU markets. Cooperation with China strengthened Euro-integration sentiments in Kyiv, increasing the Ukrainian elite's confidence that a break with Russia would not undermine Ukraine's role as a transit hub. Furthermore, arms sales to China became an important business for Ukraine in the 1990s. This is still the case, even though the number of military-technical contacts shrank once the U.S. started to exert pressure on Kyiv to cancel deals.

Effects of the 2014 Ukrainian crisis

The 2014 Ukrainian crisis crystalized Russia's strategic vision and priorities. The "rally around the flag" was overwhelming in Russia, and it quickly became evident that Russia would not stand down under foreign pressure.⁸

If the Ukrainian crisis brought clarity to Russia's foreign policy calculations, it brought chaos to China's. Supporting Russia's view on Crimea would have meant abandoning China's interests in the sovereignty of states in the post-Soviet space and taking a step toward forming an anti-Western Beijing-Moscow axis. Taking an anti-Russian position was also undesirable from China's perspective, especially given the importance of the Crimean issue for the Russian political leadership.

Russia and China maintain autonomy in their interests and actions, but their continuing quasi-alliance and the high level of mutual trust between their leaders preclude either country from forming bonds with the enemies of the other. This is a particular challenge for China, as it tries to cultivate ties with a broad range of international partners. Chinese strategic thinkers are masters of devising sophisticated formulas to juggle various political factors, but in the case of Crimea the task was demanding even for them.⁹ Chinese experts objected to the term "friendly neutrality" proposed by some Russian academics because it suggested that China's official position is a mere fig leaf for support that it cannot openly express in certain cases. Official statements defined the Chinese position on Crimea as "just and fair," framing it as a reaction derived from principles rather than a reaction to Russia's behavior. In simple terms, China did not approve or disapprove of Russia's actions. Despite the vagueness of its declared position, China, to the surprise of many observers, successfully managed to maintain practical cooperation with Russia in the Black Sea region.

A Black Sea phase was added to the 2015 Russian-Chinese "Joint Sea" naval exercises, which also included phases in the Mediterranean, the Peter the Great Gulf, the waters of the Clerk Cape, and the Sea of Japan. The general intention behind this exercise was to display the Russian and Chinese flags

together in the maritime regions vital to their interests and to highlight their common vision of the geopolitical situation. However, in the Black Sea, the exercises featured certain particularities. Chinese ships appeared in the Black Sea near the Ukrainian crisis zone¹⁰ but did not visit Crimea. Moreover, the headquarters of the exercise was established at the military base of Divnomorskoye (Novorossiysk), not in Sevastopol on the Crimean Peninsula, where the Black Sea Fleet headquarters is located. The exercises were also limited to two Chinese ships that were accompanied by the missile-carrying hovercraft *Samum* (1239) of Russia's Black Sea Fleet. The majority of Russian ships did not appear during the first stages of the exercises in the Black Sea.¹¹

Despite official announcements from the Russian Ministry of Defense that the ships were holding communication training sessions and practicing joint maneuvering, it was clear that the Russian and Chinese navies tried to make the exercises in the Black Sea as modest as possible. Such a decision was apparently made not only to soften Western or Ukrainian discontent but also to avoid adverse reactions from other Black Sea littoral states.

The joint military exercise in 2015 was an occasion for China to demonstrate its political support for Russia in the aftermath of the Ukrainian crisis. However, this demonstration was designed to be a message of political support and military muscle in the realm of global great power competition, rather than in the Black Sea specifically.

Russia-China cooperation was not confined to the political and military realms. Energy surfaced as an existential problem for Russia's effective control over Crimea. More than 70 percent of Crimea's energy supply had relied on Ukrainian energy resources. From the start, stabilizing the energy supply on the peninsula was a priority for the leadership in Moscow. To reduce Crimea's energy dependence on Ukraine, the Kremlin came up with the idea of a "power bridge" that would connect the peninsula's energy system with Russia's through a complex of several energy facilities, including an underwater cable in the Black Sea, across the Kerch Strait.

This infrastructural project could not be implemented without sophisticated foreign equipment. Because of U.S. and EU sanctions, the world's leading suppliers refused to sell the necessary equipment. China was the only option. In March 2015, Russia signed a contract with the Chinese company Jiangsu Hengtong Power Systems for the production and supply of a 220-kilowatt subaquatic high-voltage cable. On Oct. 11, 2015, the Chinese cable-laying vessel *Jiang Ji 3001* arrived in Kerch from Shanghai.

Despite Ukrainian allegations that the Chinese vessel was in violation of international law, work on laying the power cable on the bottom of Kerch Strait began as planned on Oct. 18. In less than two months, the first string of underwater cable crossing the Kerch Strait was launched, allowing transfers of up to 200 megawatts per day. Putin attended the launch ceremony in Simferopol on Dec. 2. On Dec. 15, during a video conference from the Kremlin, the Russian president gave a command to launch the second line of the power bridge from the Krasnodar region to Crimea.

It is noteworthy that during the two ceremonies, Moscow did not thank Beijing for supporting the energy independence of Crimea or even mention Chinese involvement. The project was also not featured in the official reports from the June 2016 meeting between the Russian Minister of Energy Alexander Novak and the president of Hengtong Group, Cui Gengliang, that took place as part of the XX

St. Petersburg International Economic Forum.¹² Beijing is well-known for its self-promotion, highlighting even the smallest of projects and construction work abroad, usually labeled as components of the BRI. Against this background, it is remarkable that China's involvement in the Kerch Strait project was intentionally kept in the shadows. Arguably, the low-key approach was an integral part of the Russian-Chinese deal.

Considering that the deal was not financially significant, China obviously had objectives other than economic ones. Since China did not advertise the project, it clearly did not intend to intimidate its rivals or make a statement about where its loyalties lie. Perhaps instead the goal of Chinese leaders was to strengthen their own personal ties with their Russian counterparts by showing sympathy for their strategic concerns. Beijing is traditionally enthusiastic about opportunities to strengthen *guanxi* — the system of social networks and influential relationships — with the elite of partner countries. In this case, personal trust between Xi and Putin was presumably strengthened. The Chinese leadership probably built personal relationships with prominent Russians on other levels as well. For example, the main contractor for the construction of the energy bridge in Crimea was a subsidiary firm of the Federal Grid Company headed by Andrey Murov; Andrey's father is Gen. Yevgeny Murov, a member of President Putin's inner circle and the head of the powerful Federal Protective Service (FSO) from 2000 to 2016.

In 2018, an incident in the Kerch Strait marked a significant change in China's interpretation of and approach to regional grievances in the Black Sea. On Nov. 25, 2018, three warships of the Ukrainian Navy with members of the Security Service of Ukraine (SBU) on board, attempted to move from the Black Sea to the Sea of Azov by sailing under the new Russian bridge, the only direct connection between Crimea and the Russian mainland. In response, Russian coast guards used weapons to block the Ukrainian ships. Beijing stayed neutral throughout the ensuing political controversy, neither supporting the Russian interpretation that Kyiv staged the incident nor commenting on the Kerch Strait's international legal status. This official neutrality was clearly out of tune with strong-worded condemnations of Russian actions by other permanent members of the U.N. Security Council. China's deputy permanent representative to the U.N., Wu Haitao, stated during an emergency meeting of the Security Council that China had noted the altercation between Russian and Ukrainian naval ships, adding that China was "concerned with the tension arising thereof." He called for restraint to avoid further escalation between Russia and Ukraine.¹³ A bit later, *Global Times*, an English-language publication known for its blunt expression of Chinese mainstream views on foreign policy, published an article by Cui Heng, a researcher at the East China Normal University. In the article, Heng wrote: "Judging from the events that unfolded in the strait, Ukraine was clearly the instigator and Russia was the responder. When the U.S. and the EU became involved, they found themselves trapped within the role of Ukraine's protector."¹⁴

Taking sides in the great power competition

China has long chosen to steer clear of regional geopolitical tensions. The Crimean crisis radically changed the situation and revealed a simple truth for China — the Black Sea region is becoming a platform for the rivalry of great powers. This led China to render support to Russia, although sometimes only implicitly.

Consequently, when Black Sea affairs are driven primarily by regional dynamics (even if there is some involvement by great powers), Russia and China do not form a common front. However, as Black Sea affairs become a facet of great power competition between the U.S. and Russia, Moscow and Beijing are growing more united in the region.

Of course, limits remain on how closely and how openly China can align with Russia. For instance, China will not revisit the anti-separatist fundamentals of its declared policy and remains committed to rejecting the “Kosovo precedent.” Russia, in contrast, took to arguing for the applicability of the “Kosovo precedent” in certain cases.¹⁵ This means that China will not be on the Russian side in the question of recognizing South Ossetia and Abkhazia. On the official level, China will continue to downplay regional grievances and tensions. Nevertheless, China has, on the whole, switched sides in the Black Sea.

One can see this shift in Beijing’s approach. Previously, China tolerated the expansion of Western influence in Ukraine and Georgia, hoping that Russia would not overreact, but now it highlights the role of the “instigators” — that is the regional partners of the U.S. In other words, the emphasis has swung from tolerating Western actions and disliking Russian counter-reactions to the exact opposite position: tolerating Russian actions and disliking Western encroachment on Moscow’s interests.

About-turns of the same kind in other regional domains could occur under similar conditions. This will pave the way for future Russia-China cooperation, narrowing the traditional gap between convergent high policy ideations and divergent practical interests on the ground. In light of these developments, we may see the two countries siding with each other (politically, if not militarily) not only on major issues of world politics, but also in regional situations where the core interests of either are contested by other big players.

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“China, a rising superpower, and Georgia, a small middle-income country, have quietly been enhancing their economic relationship.”



Introducing visitors to Georgian wine at an import expo in Shanghai (Photo by Xinhua/Sadat via Getty Images)

Georgia and China:

The Economic Ties that Could One Day Bind

Vakhtang Charaia and Mariam Lashkhi

Global economic interconnectedness reached historic heights in the 21st century. However, this trend is at risk of a reversal due to international trade wars, geopolitical tensions, and most recently, a global pandemic that has affected not only the world's economic situation, but also the everyday lives of all its inhabitants. Countries are struggling to attract foreign direct investment (FDI) and expand trade under current conditions: Supply chains have slowed, consumer spending is down, political upheaval abounds, and most states have been unable to stave off recession. At the same time, global crises often open up new opportunities that can ultimately lead to progress and prosperity. Under these circumstances, countries big and small are looking for strategic partnerships to overtake their competitors. This is why China, a rising superpower, and Georgia, a small middle-income country, have quietly been enhancing their economic relationship.

China's global aspirations have been growing over the past decade. The centerpiece of its strategy for global economic leadership is the Belt and Road Initiative (BRI), an international strategy to develop infrastructure projects and facilitate trade throughout Eurasia.¹ After decades of domestic transformation and rapid economic growth, China's state and private enterprises are looking to enhance their FDI like never before. Along with these investments comes political influence as well as power, both "soft" and "hard." Nonetheless, despite China's best efforts, multiple factors limit its ambitions: the dollar's status as the global reserve currency; the military power of NATO; open and hidden trade wars with the U.S. and EU; EU screening procedures on Chinese investments; geopolitical and economic tensions around the world; and lastly, the coronavirus pandemic. To mitigate some of these issues, China has been reaching out to small nations such as Georgia that have bright long-term prospects for FDI, trade, and transit.²

China is a welcome partner for countries all over the world, even if some resist its overtures. Beijing knows how to tailor its offerings to the needs and desires of its foreign partners, and so as long as all parties are profiting, these countries do not complain if China often gets the better end of deals. In particular, small developing countries in Eastern Europe, the South Caucasus, and elsewhere are eager to open their doors to new Chinese opportunities. For them, the issues related to the coronavirus are only a small obstacle on this long-term path. Currently, cooperation between Georgia and China is less than between Georgia and the West, but presents its own unique opportunities and challenges, nonetheless. Georgia believes it can attract more attention from China, but it should remember two important issues: first, the unequal partnership threat, and second, the potential backlash from the West.

Overall economic cooperation

Diplomatic relations between China and Georgia date back to June 1992, not long after the dissolution of the Soviet Union. China was one of the first countries to recognize Georgia's independence and showed great political and moral support for the small, newly reemerged, democratic nation by opening an embassy in Tbilisi.

Despite three decades of partnership, tangible economic cooperation only started in 2005 and ramped up in the 2010s. In October 2015, the Georgian government convened the "Tbilisi Silk Road Forum," the first in a series of biennial conferences promoting international investment in Georgia. Several hundred investors from 34 different countries were in attendance. In homage to China's preeminent role at the event, the second iteration in 2017 was dubbed the "Tbilisi Belt and Road Forum," even though some 54 countries were represented by more than 2000 delegates. Most recently in 2019, there was a comparable number of attendees, this time from 60 countries.

Georgia joined the BRI in March 2015. A core component of the Initiative is the creation of an effective transit corridor from the Black Sea to China via the Southern Caucasus (Georgia and Azerbaijan) and Central Asia. The prospective integration will promote a new level of cooperation between Georgia and China across multiple sectors. In November 2019, for the first time ever, an outbound train from China (departing from Xi'an) passed through Georgia before terminating in the EU (arriving in Prague, Czech Republic). The 820-meter-long train passed through 10 countries and covered a total distance of 11,500 km during its 12-day journey. This successful voyage shows Georgia's potential to become a high-traffic waystation on an EU-China transit corridor. On Oct. 4, 2020, Danish transport company Maersk inaugurated a rail line connecting China and Georgia as a block train arrived in Tbilisi from Xi'an. While other lines pass through Georgia on the way to Europe, this one is the first to cater specifically to Georgia's import needs. With this development, Maersk adds yet another vector to its burgeoning transit network in the South Caucasus, which includes both rail and maritime components.

In May 2017, China and Georgia, after over a year and a half of negotiations, strengthened their partnership considerably by signing a free trade agreement (FTA), China's first in West Asia and its 11th overall. Pursuant to the agreement, China over the next four years will phase out tariffs on 95 percent of Georgian products entering its market of 1.4 billion people.³ Among the tariff-exempt products are leading Georgian exports, such as wine, mineral water, non-alcoholic beverages, fruits and vegetables, honey, nuts, tea, and medicines. For its part, Georgia officially waved tariffs immediately upon the memorandum signing. It is likely not a coincidence that Beijing approached Tbilisi with a FTA proposal shortly after Georgia reached an Association Agreement (AA) with the EU and joined the Deep and Comprehensive Free Trade Area (DCFTA). There are only three other countries (Israel, Iceland, and Switzerland) that have FTAs with both the EU and China, and none of them are direct competitors with Georgia.

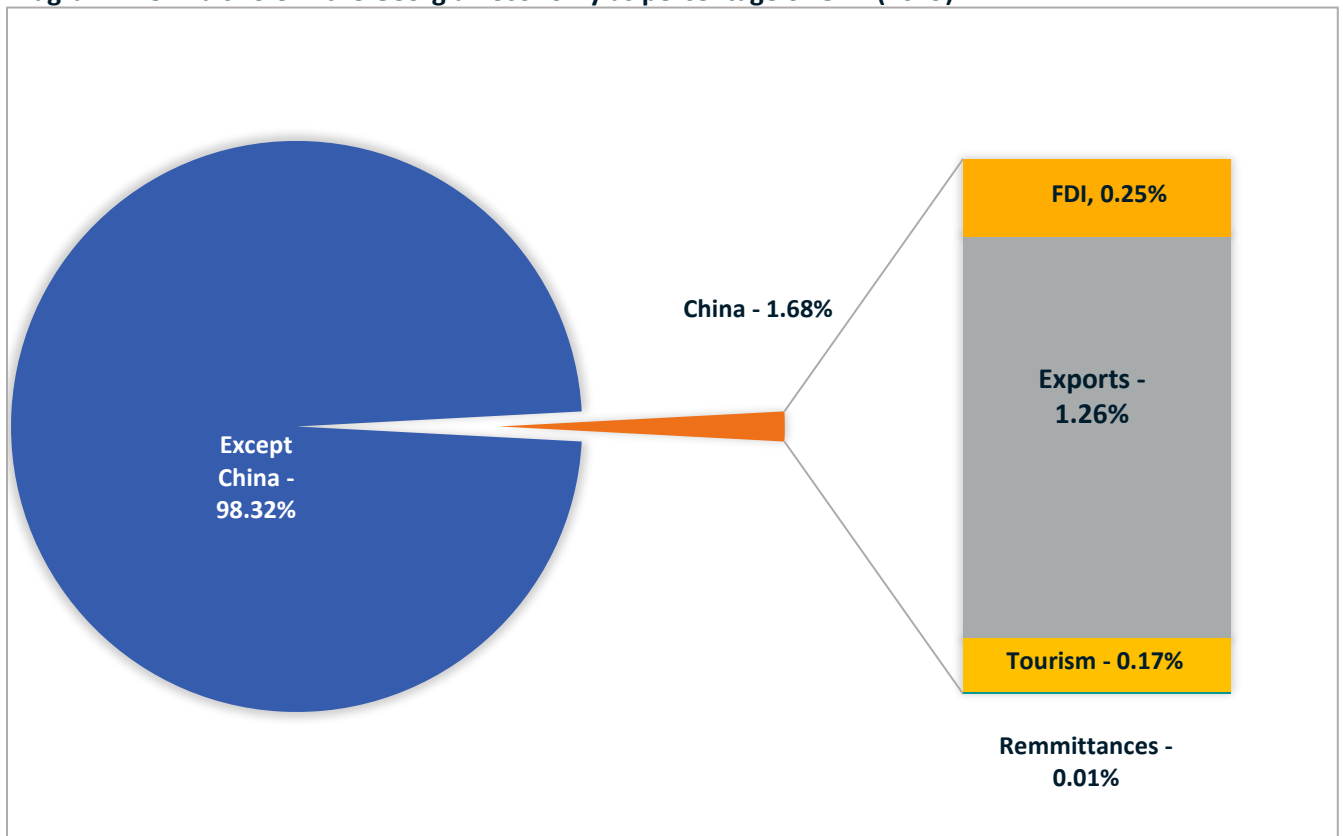
The FTA with China means more to Georgia than just a new market for its goods and services. In fact, the country stands to benefit in multiple ways. Local businesses and infrastructure projects will boom as Georgia turns into a transport hub, creating jobs and raising living standards. Georgia will also gain access new technologies in diverse sectors. Companies from countries lacking FTAs with China and the EU may wish to move production to Georgia to benefit from lowered trade barriers when exporting their goods to two of the world's largest markets. Georgia looks even more attractive to investors when one also considers its World Trade Organization membership and FTAs with the Commonwealth of Independent States and with neighboring Turkey. Furthermore, Georgia also holds Generalized System

of Preferences status with the U.S., Canada, and Japan, which lowers tariffs on 3,400 specific goods,⁴ and is in the process of FTA negotiations with additional countries, including India and Israel.

To bring in some numbers, Georgia has already attracted almost \$700 million in FDI from China in a wide range of sectors, from the tourism industry and airline companies to solar panels and electric cars. Diversification of investments is a crucial factor for a Georgian economy that is overconcentrated in a small number of fields. The amount of investment from China fluctuates annually but remains a considerable contribution to the national economy even in lean years.⁵ Over the past decade, China has increased its annual trade with Georgia 33-fold,⁶ becoming one of its top trading partners.

For the time being, China's involvement in the Georgian economy is significantly less than other countries but follows an upward trajectory. According to the 2019 statistics, the Georgian economy made almost \$300 million from China across a variety of sectors — from tourism (\$30 million), investments (\$43.8 million), exports (\$223 million), and remittances (\$1 million) — which is equivalent to 1.68 percent of Georgian GDP that year (see Diagram 1). When one adds up FDI, imports of Georgian products, tourism, and remittances from Georgian nationals abroad, China's role in the Georgian economy comes out to be 30 percent less than America's, 300 percent less than Turkey's, and around 800 percent less than Russia's.

Diagram 1: China's role in the Georgian economy as percentage of GDP (2019)

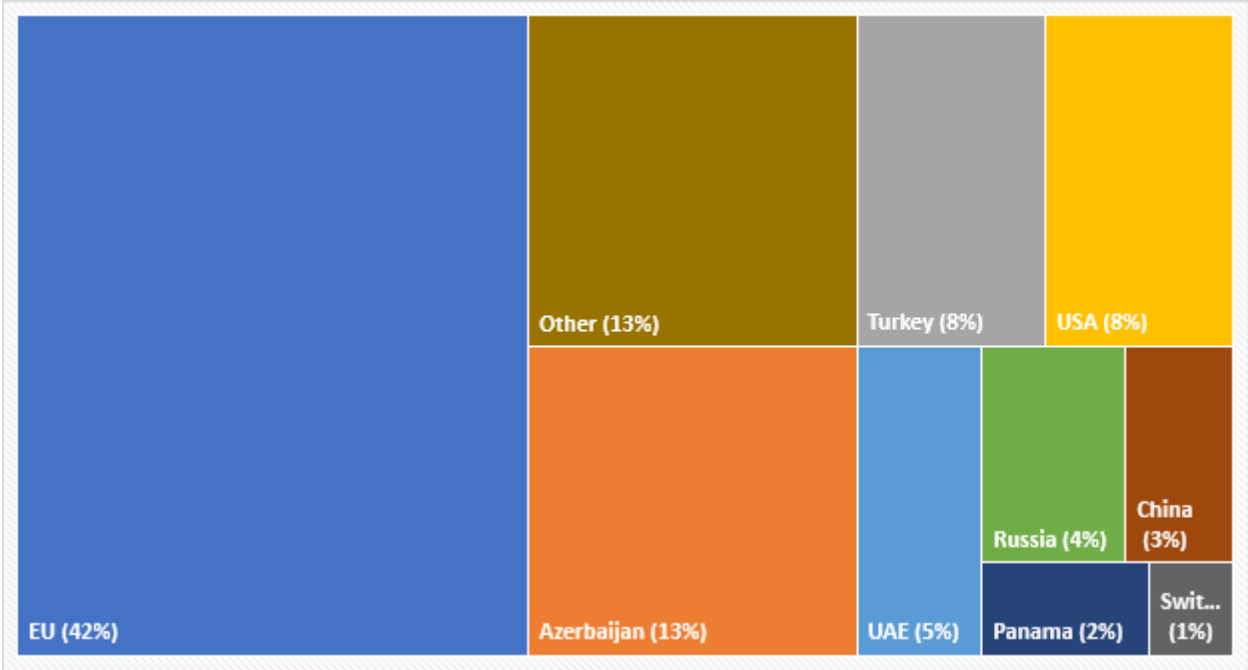


Source: Authors' calculation based on Geostat data

Cooperation in FDI

Since its independence, Georgia has attracted more than \$21 billion in FDI, of which \$690 million (about 3 percent) has come from China. This makes China the seventh-largest foreign investor in Georgia, lagging significantly behind the EU, Azerbaijan, Turkey, and others.

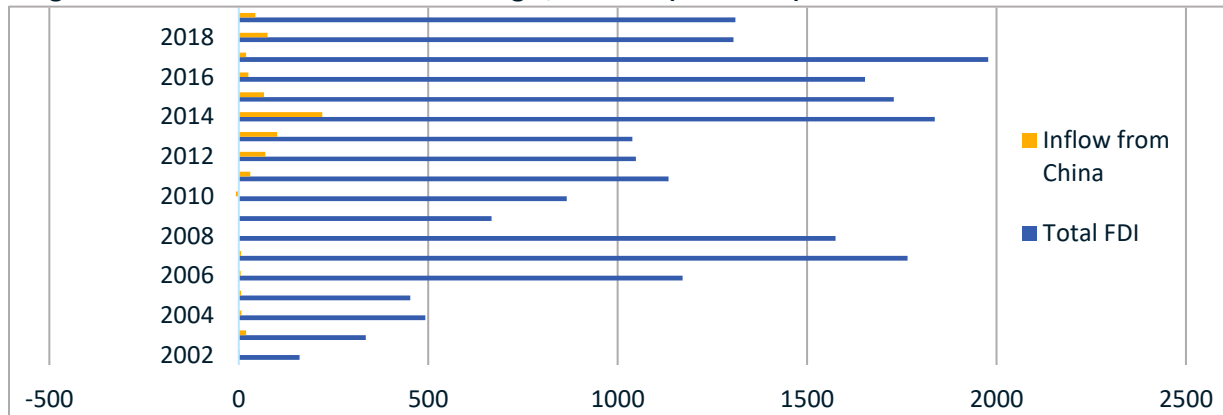
Diagram 2: FDI Stock in Georgia (Cumulative, 1996 – Q2 of 2020)



Source: Authors' calculation based on Geostat data

Chinese investors first entered the Georgian market in 2002, with \$2.5 million in total investment for that year. China's FDI reached its zenith in 2014 at \$220 million, representing 12 percent of total FDI inflows (see Diagram 2). The total for 2019 fell short of that for 2014, but still saw a significant investment of \$44 million.

Diagram 3: FDI inflow from China to Georgia, 2002-19 (\$ millions)



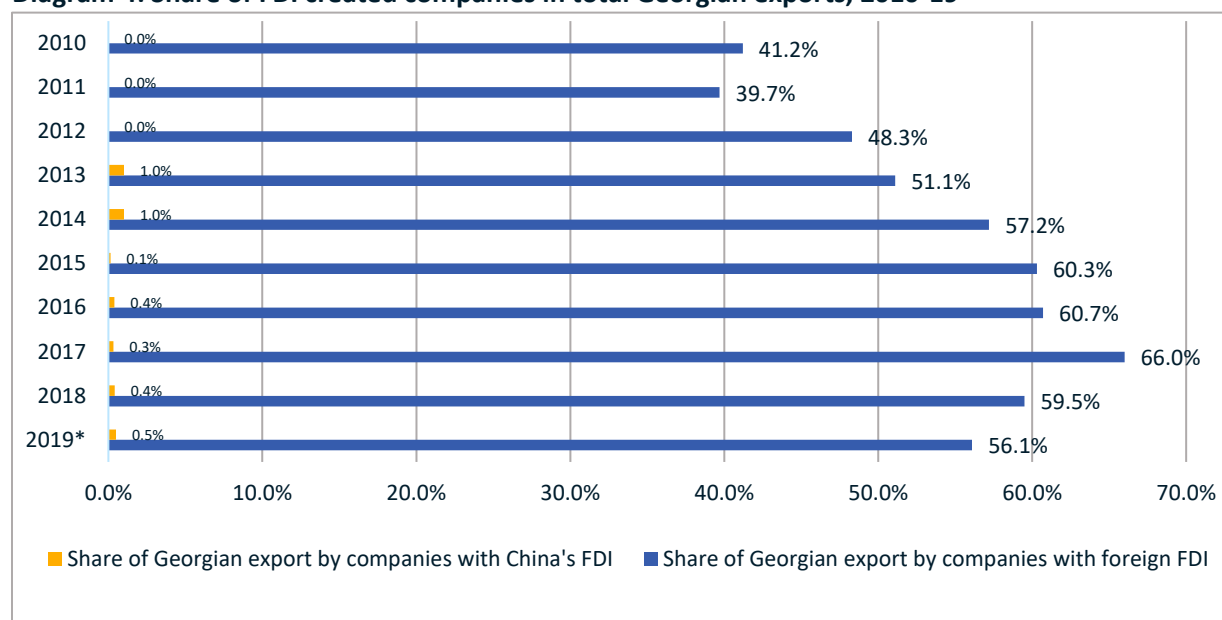
Source: Authors' calculation based on Geostat data

As of Jan. 1, 2020, there are 222 Chinese companies registered in Georgia, among them:

- 200 companies with Chinese capital only
- 12 companies with Chinese and Georgian joint capital
- 10 companies with Chinese and other foreign capital

With a few recent exceptions, Chinese investors in Georgia have mainly been interested in local-market-oriented investments. This means that they generally do not seek out Georgia's excellent opportunities in terms of free trade. According to statistics from different years, China's average share of capital investment in export-oriented, FDI-funded Georgian companies is less than 1 percent, while these companies make up more than half of total Georgian exports (see Diagram 4). For the last three years, construction, real estate, and financial services have been the leading the sectors for Chinese investments, attracting 90 percent of the total (see Table 1).

Diagram 4: Share of FDI created companies in total Georgian exports, 2010-19



* 2019 Jan-Oct. Source: Authors' calculation based on Geostat data

Table 1: China's FDI in Georgia by year and sector, 2017-19 (\$ millions)

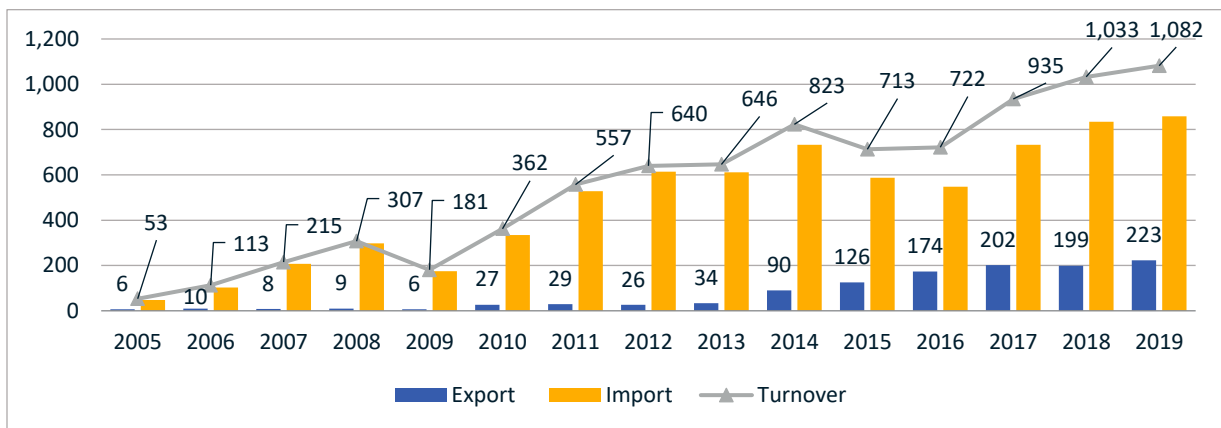
	2017	2018	2019
Agriculture, fishing	-0.01	-0.02	0.22
Mining	0.48	-1.22	-0.10
Manufacturing	2.67	1.42	2.22
Energy sector	2.72	-4.27	2.20
Construction	-1.4	44.66	26.00
Hotels & restaurants	0.03	0.11	0.16
Transports & communications	0.12	-0.09	0.91
Health & social work	-0.001	-	-0.0001
Real estate¹	0.96	20.58	2.14
Financial sector²	12.96	13.06	5.41
Other sectors	0.85	1.5	4.25
Total	19.36	75.74	44.41

Source: Authors' calculation based on Geostat data

Cooperation in trade

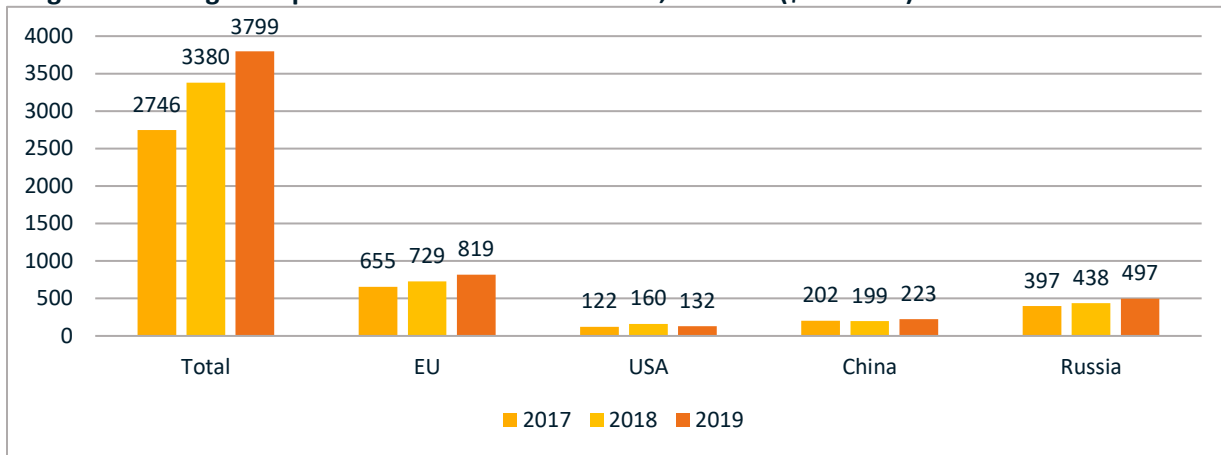
Trade between China and Georgia in recent years has been on the rise, exceeding \$1 billion for the first time in 2018. At the same time, it should be mentioned that the FTA between China and Georgia, despite its importance and potential, has been slow to come into effect. Once the agreement is fully implemented, we can expect to see an increase in the value and diversity of exports, with new Georgian companies entering the Chinese market. Georgian exports to China for the last 10 years (2010-19) have increased by 700 percent, but over the last two years (after the FTA) they increased by only around 10 percent. Entering the Chinese market, despite the FTA, proved difficult for Georgian companies after their initial breakthrough. According to the 2019 statistics, China was Georgia's third-largest trading partner, generating trade worth \$1.09 billion, up 5 percent from the previous year. This amounted to an 8.5 percent share of Georgia's total trade. But these results mainly reflect Chinese exports. Georgian exports to China account for a mere 21 percent of the total bilateral trade of \$1.09 billion (see Diagram 5). While only 6 percent of Georgia's exports go to China (\$223.1 million), 9.5 percent of its imports (\$858.5 million) come from China. Such dissymmetry shows that Georgian companies are still struggling to penetrate the Chinese market. Yet there is reason to believe the balance of trade will be more even in the future. This is because over the past 15 years Georgian exports to China have grown by a factor of nine, while Chinese exports to Georgia have only increased fivefold. (It is worth noting, however, that Georgian exports were starting from a lower volume and thus had more room to expand.) To give a more global overview, five markets still surpass China as destinations for Georgia's exports: the EU (22 percent of Georgia's exports), Azerbaijan (15 percent), Russia (13 percent), Armenia (8 percent), and Turkey (7 percent) (see Diagram 3). At the same time, China is the third-largest exporter to Georgia.

Diagram 5: Total trade between Georgia and China, 2005-19 (\$ millions)



Source: Authors' calculation based on Geostat data

Diagram 6: Georgian exports to different destinations, 2017-19 (\$ millions)



Source: Authors' calculation based on Geostat data

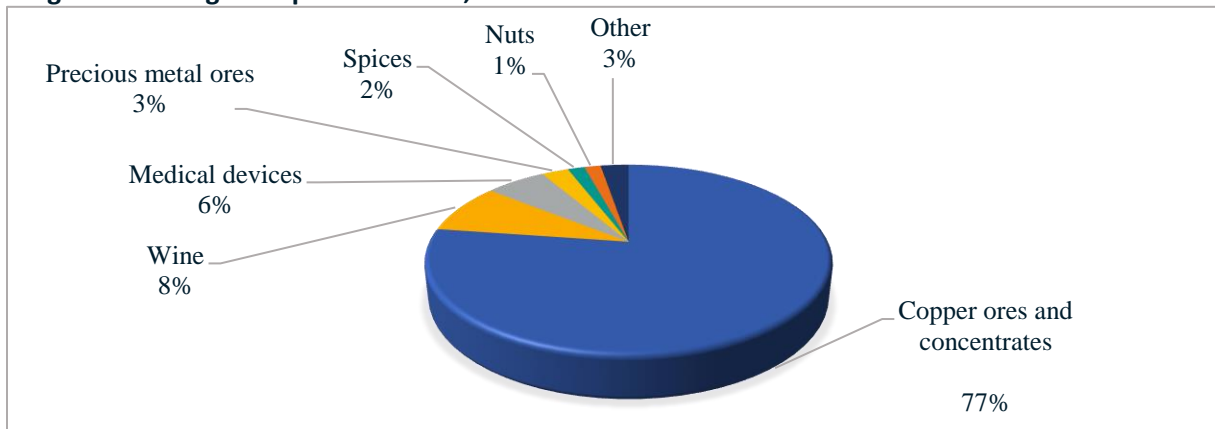
Diagram 7: China's role in Georgia's international trade (2005-19)



Source: Authors' calculation based on Geostat data

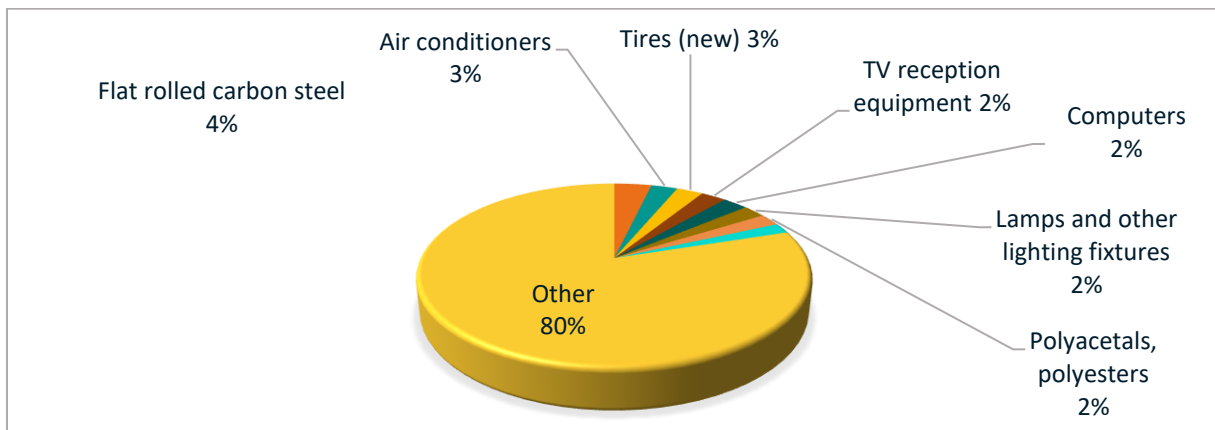
Another issue for Georgia is that its exports to China are undiversified, as copper and wine together make up 85 percent of total Georgian exports to China (see Diagram 8). Five products make up 96 percent of all Georgian exports to China. On the plus side, China is one of the few countries to which Georgia exports its own goods (wine, mineral water, copper, etc.) rather than reexporting those of other countries (cars, medicine, plastic, etc). On the minus side, Georgia's dependence on only a few products means that a slowdown in one of the key sectors (particularly copper mining) could leave Georgia on the wrong side of an even wider trade gap. In contrast, China's exports to Georgia are highly diversified, with no single product taking up a share of more than 4 percent (see Diagram 9).

Diagram 8: Georgian exports to China, 2019



Source: Authors' calculation based on Geostat data

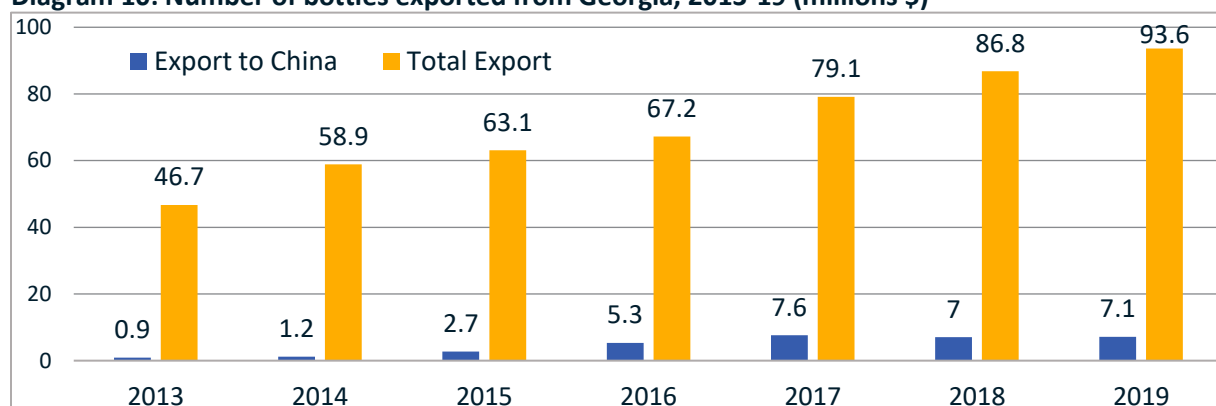
Diagram 9: Georgian imports from China, 2019



Source: Authors' calculation based on Geostat data

One eye-catching aspect of Georgia's export profile is the prominence of wine. Georgia is among the top 20 wine-exporting countries in the world. According to the 2019 statistics, Georgia exported over 93.6 million bottles of wine, 9 percent more than the previous year. In monetary terms, wine exports in 2019 reached a historic high of \$240 million, up 17 percent from 2018. China is a relatively new market for Georgian wine, but it's a dynamic one. Since China's first Georgian restaurant opened in Urumqi, Xinjiang in 2011, 40 such establishments where Georgian wine is sold have cropped up all over the country. Chinese wine merchants, restaurateurs, and private consumers can choose from almost 60 exporters. According to 2019 statistics, Georgia exported 7.09 million bottles (\$18.9 million) to China, with only Russia and Ukraine importing more.

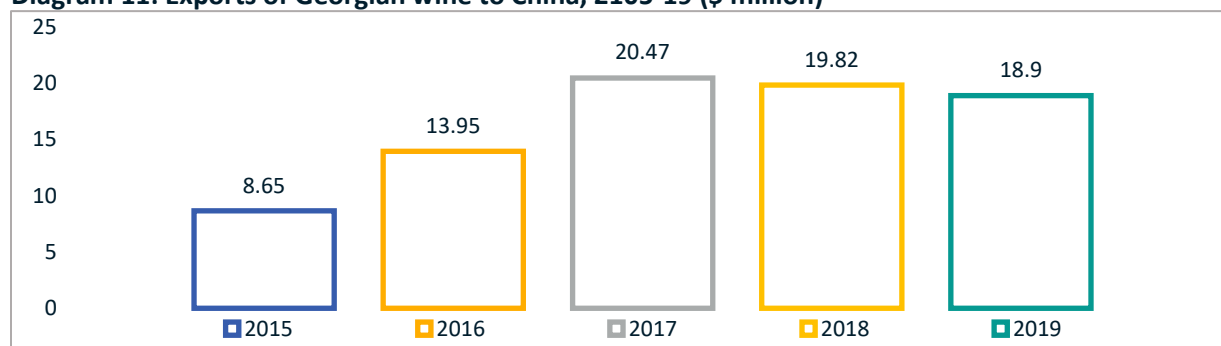
Diagram 10: Number of bottles exported from Georgia, 2013-19 (millions \$)



Source: Authors' calculation based on Geostat data

Georgian wine exports to China were significantly boosted by the free trade regime, which lowered tariffs on this product by 40 percent. Exports of Georgian wine to China have increased around 700 percent over the last six years, and over the last four years Georgia's position has risen from 18th to 9th among the top wine-exporting countries to China. Demand is increasing for Georgian *qvevri* wine. Produced through a uniquely Georgian process whereby the grapes are fermented, stored, and aged in large earthenware vessels, *qvevri* wine is an important part of Georgia's heritage. In particularly high demand are dry red *qvevri* wines, which come in mid-range and premium varieties. The average price for Georgian wine has risen in recent years from \$5 to \$15 per bottle.

Diagram 11: Exports of Georgian wine to China, 2015-19 (\$ million)



Source: Authors' calculation based on Geostat data

How do trade goods move between China, Europe, and Georgia?

Georgia is a major transit corridor for cars and trucks transporting goods between China and Europe. Recently, shipment by car has been on the rise (see Table 2). Georgia's most exported products (copper ore, wine, nuts) are often sent to China in trailers.

Table 2. Car transport shipment between Georgia and China, 2014-19 (thousands of tons)

	2014	2015	2016	2017	2018	2019/9
Export to China (net)	43.7	76.3	92.9	134.4	118.7	64.1
Import to Georgia (net)	172.3	145.4	151.0	191.6	209.1	156.9
Transit flow via Georgia into Europe (gross)	114.2	66.4	56.4	80.4	103.4	142.7
Transit flow via Georgia into China (gross)	48.8	52.7	28.4	19.7	20.5	31.7

Source: Authors' calculation based on Geostat data

While shipment by car is commonplace, shipment by rail between Georgia and China is even more widespread. In the first 9 months of 2019, shipment increased by 55.6 percent in comparison to the whole of 2018. However, this rail route is still new and often shows fluctuations in the amount of transported goods, which is generally attributable to large orders (see Table 3)

Table 3. Railway shipments between Georgia and China, 2013-19 (thousands of tons)

	2013	2014	2015	2016	2017	2018	2019/9
Export	0.4	0.3	0.6	0.1	0.4	3.2	0.3
Import	32.0	54.5	33.1	38.3	25.2	33.1	27.2
Transit (inflow)	238.0	239.5	160.0	122.2	149.7	189.7	211.7
Transit (outflow)	67.3	87.0	53.6	52.4	96.9	47.5	186.3
Total	337.8	381.3	247.3	213.0	272.2	273.5	425.5
In comparison to previous year	-13.5%	12.9%	-35.1%	-13.9%	27.8%	0.5%	55.6%

Source: Authors' calculation based on Geostat data

A breakdown of Chinese companies and projects in Georgia

Several Chinese companies in Georgia have over 200 employees. The largest of these is the Hualing Group, which has spent over \$170 million on residential and commercial construction on the outskirts of Tbilisi. Relatively smaller companies include:

- Eastern Energy Corporation: active in Georgia since 2004, mainly operates in the energy sector.
- Rustavi Steel Corporation Company: owns a construction/armature enterprise in the city of Rustavi.
- China Nuclear Industry 23 Construction Co. LTD: helped to construct the first wind power plant in Georgia; the plant successfully entered the Georgian energy market in 2016 with a 20.7-megawatt capacity.
- China Tianchen Engineering Corporation (TCC): opened a new thermal power plant in 2020 with a 230-megawatt capacity.
- Changan: assembles cars for Volkswagen, Ford, Volvo, and other Western brands in China; built an electric car factory in 2019 in partnership with Georgian investors; the first cars are expected to be completed in late 2020 and manufacturing capacity is expected to reach 40,000 cars annually.

In recent years, China has realized or promised to realize several noteworthy projects in Georgia:

- \$1 billion capitalization of the “Georgian Development Bank” by “CEFC China Energy Company Limited” and “Eurasian Invest LLC” in 2018
- Development of the tea industry, which has a long tradition in Georgia
- Creation of the Georgian-Chinese Fund for the Regeneration of Georgia with \$50 million of capital
- Creation of Silk Road Common Market Zone to support trade between China and Georgia.

The pandemic’s effect on Georgia-China economic cooperation

The pandemic has already transformed the economic structure of many countries,⁷ including Georgia, which is now trying to transition from a goods-based economy after two decades with a focus on services. Prior to the pandemic, the tourism industry contributed 12 percent of Georgia’s GDP and employed 120,000 people directly as well as an additional 500,000 indirectly. As a result, the global drop-off in travel hit the Georgian economy hard and forced it to take out a \$1.5 billion (8.5 percent of GDP) international loan. While the country’s government has shown good crisis management skills, the recent turmoil has revealed the need for economic development in Georgia. Different international organizations have calculated the contraction of Georgia’s economy at around 5 percent, worse than China (3 percent) but better than the EU average (around 10 percent).⁸

Table 4. Georgia-China economic cooperation during COVID-19

	2019 year*	2020 year*
Georgian exports to China (January – August)	\$96 million	\$297 million (Increased copper ore – 400%) (Decreased wine – around 30%)
Georgian imports from China (January – August)	\$574 million	\$441 million (Increased textiles – 600%) (Decreased air conditioners – 66%)
FDI inflow from China to Georgia (I-II quarters of 2020)	\$7.6 million	\$2.6 million (65% decrease)

* Precise time periods are mentioned in columns

Source: Authors' calculation based on Geostat data

The following information provides a cursory overview of the pandemic's effects on Sino-Georgian cooperation:

- Some challenges related to trade did arise, but overall statistics for 2020 show that Georgian exports to China have actually increased (Table 4);
- Many Chinese workers returned home from Georgia to celebrate Chinese New Year before COVID-19 became widespread. For several weeks, these workers were unable to travel back to Georgia. Since then, they have been able to return and work has resumed on suspended infrastructural projects
- Tourism from China has fallen to zero. But in 2019, fewer than 50,000 Chinese nationals visited Georgia, generating only \$30 million. Georgia's economy has been much harder hit by the disappearance of tourism from Europe and Russia.
- FDI inflow from China has greatly helped to diversity Georgia's economy in the last few years. This inflow could be at risk for the rest of 2020 (Table 4).

Conclusion

Economic cooperation between Georgia and China is growing but remains limited so far. Tangible cooperation between the two countries only started in the last decade and still has much room for growth, especially in the areas of investments and trade, as well as tourism, remittances, and transit.

Despite growing cooperation in recent years, China's role in the Georgian economy is small in comparison to other countries and thus has not prompted too much concern from the West.

Although these ties are still underdeveloped, they demonstrate how Georgia has sought to gain a foothold in a variety of overseas markets. Since the quest for a diversity of economic partners has defined Georgia's strategy over the past decade, it certainly cannot be seen as an adaptation to the effects of COVID-19. However, the wisdom of this strategy has become quite clear in light of the pandemic, from which different countries are recovering at disparate rates and to varying degrees.

Georgia's success or failure is not determined by any one external market. Instead, it can pivot between partners depending on what their economic situation allows them to offer Georgia.

China is recovering quickly and can thus throw a lifeline to smaller countries. For China and Georgia, there are opportunities for partnerships that are yet to be explored. It is hard to say at this point which side will get more from this cooperation, but both countries will win as the benefits are significant, be it in terms of trade, investments, transit, or other economic activities. Amid the challenges posed by the pandemic, Georgia and China can still find ways to help each other economically through a difficult time.

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“China’s political, military, economic, and other ties with most [Black Sea littoral states] are limited in breadth and depth. Significant manifestations of Chinese FDI and infrastructure development ... are sparse.”



The Yavuz Sultan Selim bridge in Istanbul without traffic due to a national curfew (Photo by OZAN KOSE/AFP via Getty Images)

Keeping Current on the BRI in the Black Sea:

Small Ripples, but no Big Waves

Jean-Marc F. Blanchard

The People's Republic of China's global footprint has long been expanding. This influence has manifested itself in a massive amount of exports; a substantial increase in outward foreign direct investment (OFDI); extensive overseas contracting activities; the projection of the People's Liberation Army (PLA) further away from China's shores for longer periods of time; the large number of Chinese workers and other civilians abroad; and, more recently, its Belt and Road Initiative (BRI). This expansion has propelled China into regions where historically its influence has been limited. Such is the case in the Black Sea region (BSR), where China has been arriving on the scene with attention-grabbing actions like the dispatch of two PLA Navy guided missile frigates in 2015.¹ The situation is still evolving as China bolsters and expands its political, economic, and socio-cultural linkages with Black Sea littoral states (BSLS).² For some, the BRI will bring China's involvement in the BSLS and the wider BSR to a new level.³

China's dealings with the BSLS, which will only increase because of the BRI, are fueling worries.⁴ Many argue the BSR is vital to U.S. interests and that more energy should be devoted to preventing others from controlling it.⁵ To quote one commentator:

If China is to succeed in building both political and infrastructure links between Beijing and Black Sea States, sheer inertia and economies of scale may lock the region into a decades-long dependence on China, which could result in the eventual reorientation away from Brussels and the West towards Beijing.⁶

At present, however, such anxieties are unwarranted. China's political, military, economic, and other ties with most BSLS are limited in breadth and depth. Significant manifestations of Chinese OFDI and infrastructure development in the BSR are sparse. Beyond this, there are numerous obstacles that are currently slowing the expansion of the BRI. These will likely present future challenges as well.

In the following sections, I provide a general overview of the BRI, giving special attention to its maritime dimensions.⁷ Following this, I examine the BRI in the BSLS, with a focus on seaports and other transportation infrastructure. I then discuss several factors that are currently hindering the progress of the BRI and some challenges going forward. I conclude with some brief recommendations for policymakers and businesspeople.

China's BRI

The BRI consists of two components—the Silk Road Economic Belt (SREB) and the Maritime Silk Road Initiative (MSRI), both announced by Chinese President Xi Jinping in 2013. The SREB is an overland route that appears to pass through Russia and Central Asia towards Western Europe. In contrast, the MSRI is a sea-based route, which appears to cut through the South China Sea and the Indian Ocean and from

there to Western Europe via the Persian Gulf, Red Sea, Suez Canal, or various land passages.⁸ There is no official map of the BRI, but Chinese government statements, think tank reports, project announcements, news reports, and post-summit communiqués collectively provide a sense of the areas that the BRI likely will traverse. Analysts have been forced to rely on these documents to identify MSRI and SREB projects and participants because no official list is available to the public. They have employed similar methods to differentiate between superficial and substantive participants.

Although the BRI is primarily about connectivity infrastructure, it entails non-connectivity infrastructure, too. With respect to the former, examples include high-speed rail (HSR), highways, bridges, tunnels, subways, and airports.⁹ Projects are not limited to the building of new infrastructure; they also can involve the modernization or expansion of existing infrastructure, the supply of parts and equipment, and services. Seaports are an important component of the BRI's hard infrastructure. Illustrations include the expansion work needed for deep-water ports, the installation of computer systems and cranes, the building of logistics facilities, the construction of shipping berths, and the development of transportation infrastructure within seaports.¹⁰ Illustrations of non-connectivity infrastructure include hydropower dams, telecommunications networks, oil fields, wind farms, and special economic zones (SEZs).

Connectivity infrastructure serves multiple goals for China.¹¹ On the economic front, China can more easily sell goods overseas by opening new markets and expanding (directly and indirectly) existing ones. In addition, China can enhance its resource security by expanding resource production, increasing the number of resource suppliers, and diversifying resource supply routes. Furthermore, it benefits Chinese multinational corporations (MNCs) by creating opportunities for Chinese OFDI, contracting, the sale of supplies, the provision of design and engineering services, and the operation of projects such as HSR or seaports.

Given the above, the value of seaports to China is quite clear. First and foremost, they make it easier to export larger volumes of goods. Additionally, new or expanded seaport facilities in countries like Iran, Pakistan, and Myanmar can contribute to China's resource security, which is not just an economic issue but a political one as well. Chinese seaport activities in countries such as Cambodia, Djibouti, Greece, Sri Lanka, and Tanzania have also fueled new contracting, OFDI, parts and equipment supply, ship repair, and port service and managerial opportunities for Chinese MNCs such as COSCO Shipping, China Merchants Group (CMG), and China Harbor Engineering Company (CHEC).¹² Seaports can also help China attain various political objectives by constructing a Sino-centric system. Finally, they may enhance China's political relationships and boost China's soft power.

China wants to extend the BRI to the BSLs because of the many attractive advantages that these states provide.¹³ First is their location. The Black Sea is strategically situated, offering water and land connections to Eastern, Central, Southern Europe, and Russia. It also offers access to the Mediterranean through the Bosphorus and Dardanelle Straits. Also worth noting is BSLs' proximity to the Arabian Peninsula, Caspian Sea, and Iran. Geopolitically, one analyst stresses, certain BRI routes enable China to avoid areas that either belong to Russia or are under Russian or U.S. hegemony.¹⁴ Second, the BSLs offer markets for Chinese goods as well as engineering, contracting, supply, investment, and services opportunities for Chinese MNCs. Third, the Black Sea and neighboring Caspian Sea harbor rich natural gas and oil reserves, and the BSLs may serve as an important corridor for the transit of energy. Fourth, with respect to non-energy resources, the region is a significant producer of agricultural products such as wheat, corn, barley, and soybeans, that can be exported to China or purchased and exported elsewhere by Chinese companies.¹⁵

Looking specifically at seaports, the Black Sea is an important hub for the flow of various goods. It is already home to numerous deep-sea and river ports, many of which would benefit from modernization

and/or expansion.¹⁶ As such, there are ample opportunities for China to become involved. Such increases in BRI-related seaport activity are likely to entrench China more deeply in this strategic crossroads, provide business opportunities to Chinese MNCs like CMG and CHEC, and improve China's resource security.

The BSLS themselves have a plethora of reasons to welcome China's BRI. At a very general level, they hope for trade, Chinese OFDI, and infrastructure. For a country such as Bulgaria, the BRI is a pathway to improve its transportation infrastructure, foster industrialization and innovation, facilitate regional development, promote agricultural development, and advance energy security.¹⁷ Both Georgia and Ukraine covet Chinese OFDI, infrastructure, markets, loans, and tourists. Turkey views the BRI as a way to diversify its economy and expand its trade and role in regional trade activities, surmount regional development disparities, obtain foreign currency, improve its infrastructure, and promote the development of its neighbors.¹⁸

Countries also see political value in embracing the BRI. Ukraine and Turkey view China's mega-connectivity initiative as a way to greater autonomy vis-à-vis the European Union (EU). Georgia and Ukraine seem to hold the view that working with China under the auspices of the BRI can strengthen their position against Russia.¹⁹ For Turkey, the BRI is a route to boost its political profile and influence, bolster its ties with China, and gain greater autonomy vis-à-vis the U.S.²⁰ The point of the above is that this welcoming environment will encourage, all other things equal, China and Chinese firms to consider broadening and deepening the BRI in the BSR.

The footprint of the BRI in the BSLS

Studies about BSLS Chinese OFDI and contracting often provide exaggerated statements or questionable figures for reasons ranging such as mistaking headlines or Memorandums of Understanding (MoUs) for real deals, confusing Chinese contracting with Chinese OFDI, and failing to track if projects ever are realized. To provide a better assessment, I use figures compiled by American Enterprise Institute's (AEI) and Heritage Foundation's *China Global Investment Tracker (CGIT)*, which show only moderate amounts of Chinese OFDI and contracting in the BSLS between 2010 and 2019.²¹ For the nine-year period, Chinese OFDI totaled \$32.90 billion, of which the vast majority (\$27.67 billion) flowed into the Russian energy sector. Over the same time span, Chinese contracting ran \$41.34 billion, with the vast majority (\$19.86 billion) taking place in Russia, mostly in the energy sector. Turkey attracted \$4.69 billion of Chinese OFDI, largely in energy, and issued \$7.98 billion of contracts, primarily in energy and chemicals. Chinese OFDI in Bulgaria, Georgia, Romania, and Ukraine were negligible. However, Ukraine did issue almost \$10 billion of contracts to Chinese firms. Bulgaria, Georgia, and Romania, however, were insignificant locales for Chinese contracting.

Of note, *CGIT* figures indicate that the amount of Chinese OFDI and contracting related to connectivity infrastructure has been rather trivial. Unfortunately, the *CGIT* does not give us a satisfactory way to pinpoint "BRI" investments and contracts. This is because it classifies almost all Chinese OFDI and contracting after 2013 as "BRI Chinese OFDI and contracting," even when these investments are not directly related to BRI. However, because most transportation projects have clear links to the BRI's purposes, it is reasonable to focus on seaports and other transportation infrastructure to gauge the presence of the BRI in the BSLS. Definitive information, though, often remains elusive.²² Regardless, careful analysis strongly suggests that there is very limited BRI-related Chinese OFDI and contracting in the BSLS, besides Turkey.

In Bulgaria, Chinese firms are involved in the Ports of Varna and Burgas. In 2016, it was reported that China planned to invest €20 million to create a logistics facility and trading pavilion at the Port of Burgas.

The next year, CHEC showed a keenness to invest in an industrial zone for grain exports in both ports. In 2019, China Machinery Engineering Corporation signed a €120 million contract to modernize the Port of Varna's infrastructure.²³ As for Georgia, CEFC China Energy took a 75 percent stake in the Poti Port Free Industrial Zone (FIZ). However, Beijing later took control of the company as a result of corruption and other problems, and it is not clear what has happened to its stake in FIZ.²⁴ Regarding Romania's Port of Constanta, China's COFCO, a major cereals trader, owns a grain terminal there, but there is no other significant activity. Lastly, despite fanciful talk of potential multi-billion-dollar port developments, as far as seaport infrastructure is concerned, Ukraine has signed just \$60 million of dredging contracts, won by CHEC, at Yuzhny and Chornomorsk ports.²⁵ There is no evidence of Chinese OFDI in Ukrainian seaports.

Turkish seaports tell a slightly different story. In 2015, a consortium of Chinese firms including China Merchants Holdings International and COSCO invested nearly \$1 billion for a 65 percent share in the Kumport Terminal, the third largest container terminal in Turkey, situated in the Ambali Port complex.²⁶

For other transportation infrastructure, there was hope of increased involvement by Chinese firms such as HNA in airports, freeways, and tunnels in Bulgaria, but most projects, such as the Plovdiv Airport modernization and expansion, never concretized.²⁷ In Georgia, China's POWERCHINA helped construct the country's east-west expressway known as ZC6. Georgia viewed this as highly important because it is the "only transportation infrastructure running from country's east to west, thereby connecting the Caspian and Black Seas."²⁸ Turning to Romania, there does not seem to be any noteworthy Chinese involvement in its transportation infrastructure, despite Romanian entreaties.

The situation is different in Turkey. A consortium of Chinese firms have spent almost \$700 million to take a majority stake in the Yavuz Sultan Selim Bridge (also known as the "Third Bosphorus Bridge"), various highways, and other transportation infrastructure.²⁹ In addition, Chinese firms such as China Railway Construction Corporation and China National Machinery Import and Export Corporation worked with Turkish firms to build the second phase of the Ankara-Istanbul HSR, for which China has reportedly provided \$750 million in financing.³⁰

Possible turbulence for the BRI in the Black Sea

There are five major factors stunting the future development of the BRI in the BSLs:

1) *Current events and resulting concerns about the BRI at large:* China has done better than most in managing the economic fallout of the COVID-19 pandemic, but its growth rate has slowed, government and corporate debts remain high, and the country has numerous pressing internal demands. These issues, combined with China's newfound wariness about lending money after experiencing problems with borrowers, will limit the resources it can or will devote to expanding the BRI. The BRI is also facing backlash in some participant states due to onerous debt burdens that have emerged in connection with BRI infrastructure. On top of this, there are worries about the economic viability of BRI projects and their political, environmental, and social consequences. Worries about these problems have the potential to make BSLs cautious about embracing the BRI.

2) *The BSLs's relatively limited importance to China:* In terms of China's geo-political and economic aims, the BSR is far less significant than Southeast Asia, South Asia, or the Middle East. Indeed, a review of various PRC government websites uncovered no strong statements about the BSR's importance. Regarding the latter, relations with Russia and Turkey are important to China, but this relevance derives from the countries themselves, rather than the fact that they are located in the BSR. Bulgaria, Georgia, Romania, and Ukraine lack the attributes that would drive extensive investments in and/or heavy lending to them. We should not forget the interests of Chinese companies. As far as investments are

concerned, in recent times, they have focused on Western Europe or North America, which offer coveted brands, large markets, or technology, or opportunities in resource-rich states.³¹ On these metrics, BSLS have some, but not great, appeal, as shown by low levels of Chinese OFDI in countries such as Bulgaria, Romania, and Turkey, the small size of many investments, and the quick termination of various ventures. Relatedly, as the discussion above showed, BSR infrastructure projects are rather unimpressive.³²

3) *The preferences of BSLS*: The BRI is not a solo and BSLS development plans, domestic political situations, and broader geopolitical objectives will influence how extensively they embrace and implement the BRI. To illustrate, after a period of courting China, Romania prioritized linkages with the EU and U.S., partly because of its worries about Russia.³³ While Turkey has clearly pivoted towards China, there is displeasure about the country's large trade deficit with China, China's treatment of Uyghurs (a Turkic ethnicity), and China's lack of support for aspects of Turkey's foreign policy agenda in places like Syria. There also are concerns about the potential adverse effect of Chinese economic competition. Beyond this, Turkey has its own competing connectivity scheme called the Middle Corridor Initiative (MCI). In theory, there are many synergies linking the MCI and the BRI. In practice, this is not so simple.³⁴ And the BRI also can compete with Turkey's MCI because the SREB and MSRI involve many routes.

4) *Countervailing schemes or pressures from actors such as the EU or U.S.*: At present, the EU has several programs aimed at the BSR, some more directly than others. They include the Eastern Partnership, Black Sea Synergy, and the Transport Corridor Europe-Caucasus-Asia (TRACECA). To differing degrees, these programs entail, transportation infrastructure, funding mechanisms, working groups, and research programs.³⁵ Though they will not sap the interest of the BSLS in the BRI, they do have the potential to influence the breadth, depth, and speed of the BRI's progress. The U.S. does not have any similar programs to the EU. However, it is still a potent obstacle to the BRI's progress in some BSLS. For example, there is a U.S. military base near the Port of Constanta, which limits the prospects for Chinese involvement in this port.³⁶

5) *Interstate disputes and lack of unity in the BSR*: The Black Sea is a politically contentious region with several active fault lines. Russia has disputes with Ukraine and Georgia over land borders, the delimitation of exclusive economic zones, and the treatment of ethnic Russians. Beyond this, there are fears about Russian ambitions in countries like Romania and possible tensions between countries such as Turkey and Russia (at present tensions are muted).³⁷ These frictions have shut borders, sparked economic sanctions, and militarized the region. Broadly, these trends have disrupted normal interactions. Some BSLS like Romania and Ukraine also confront internal political challenges. While Chinese companies are willing to invest and operate in problematic political environments, research indicates they prefer to invest in places that lack conflict and are politically stable.

In general, the region is divided by discrepancies in military capabilities, memberships in different international organizations and alliances, and other factors.³⁸ Multilateral endeavors, such as the Black Sea Economic Cooperation, the aforementioned Black Sea Synergy, and the 17+1 cooperation framework, do exist, but an honest appraisal suggests they do not provide a meaningful foundation for coordinating infrastructure projects. Further complicating the situation is competition between infrastructure projects of the BSLS. Often, in fact, there is even competition within the same country, as shown by dueling seaports such as Chornomorsk, Fish, and Illichivsk Ports in Ukraine and Anaklia, Batumi, and Poti Ports in Georgia.³⁹ This unfettered competition spreads limited funds and state capacities too thinly, and general disunity limits both the benefits of BRI projects and the willingness of China and participant countries to implement projects.

Conclusion

While it is indisputable that China's presence in the BSR is increasing, BRI OFDI and contracting are not as impressive as the headlines and quite a few studies suggest. A review of Chinese OFDI, contracting, and seaport and transportation infrastructure, does not show a tsunami of progress, but rather small waves. The ship of investment has not come to port for the diverse reasons detailed above. This list of impediments does not even account for competition from players outside the BSR such as Greece, Iran, and Egypt; China's worries about antagonizing Russia; China's concerns about the intentions of BSLS like Turkey; and the dearth of proper infrastructure *inside* BSLS states to support the development of the BRI.⁴⁰

The policy implications of the above are clear. First, despite worries that "the new Silk Road will increase China's influence," there is no need for anxiety yet about China's rising role in the BSR connected to the BRI.⁴¹ Second, policymakers and businesspeople should be cautious about joining BRI projects. There are opportunities, but rewards will only come if they participate on the right terms. Third and relatedly, while the limited progress of the BRI in some BSLS suggests potential opportunities for other countries, international organizations like the EU, and MNCs, many of challenges China's BRI is facing also will confront these players if they prove willing to jump into the fray on their own and thus they must be well prepared.

In the early 1980s while visiting China, then President of Turkey Kenan Evren quipped, "What if we sell one orange to each Chinese?" implying that sales to China would be an easy way for his country to overcome its economic challenges. If only it was that easy. BSLS actors observing the BRI should remember that these sales are a multi-stage process with numerous barriers that must be broken down before an orange is grown, much less reaches its final destination.

The author wishes to thank Lauren Daly for her helpful assistance with gathering research materials.

Acronym Annex

AEI – American Enterprise Institute

BRI – Belt and Road Initiative

BSLS – Black Sea littoral states

BSR – Black Sea region

CHEC – China Harbor Engineering Company

CGIT – China Global Investment Tracker

CMG – China Merchants Group

FDI – Foreign direct investment

FIZ – Free industrial zone

HSR – High-speed rail

MCI – Middle Corridor Initiative

MNC – Multinational corporation

MoU – Memorandum of Understanding

MSRI – Maritime Silk Road Initiative

OFDI – Outward foreign direct investment

PLA – People’s Liberation Army

SEZ – Special economic zone

SREB – Silk Road Economic Belt

TRACECA – Transport Corridor Europe-Caucasus-Asia

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“As China, like the rest of the world, transitions away from fossil fuels, the Black Sea represents a potential export market for Chinese renewable energy, nuclear technologies, and clean tech.”



A wind generator in southeastern Ukraine (Photo by Dmytro Smolienko/ Ukrinform/Barcroft Media via Getty Images)

China and the Black Sea: The (Limited) Energy Nexus

Michal Meidan

Often when discussing the geopolitics of energy and China, analyses tend to look at China's appetite for fossil fuels and its decades-long quest to limit its import dependency on the Middle East for oil by investing in pipelines. In terms of natural gas, China's dependence on seaborne liquefied natural gas (LNG) has grown substantially, but the increase has nonetheless been tempered by a network of pipelines from Central Asia and Russia. Indeed, over the years, as China's demand for imported fossil fuels has grown, decision makers have sought to diversify import sources and invest in upstream assets around the world, in part also to increase China's pricing power in global energy markets.

Yet Chinese companies have little involvement in oil and gas flows in and through the Black Sea. Investments in the upstream sector are limited, in part because the size of the asset base in the Black Sea remains unclear and exploration to date has yielded mixed results. Moreover, China's appetite for investing in overland oil pipelines is waning, especially given growing expectations that oil demand will peak over the next decade or so.

Given China's limited exposure to imports from the Black Sea region and small investments in its hydrocarbons, the question of the Black Sea as an energy transit route — while critical for the EU for example — also carries limited significance for China's energy interests. That said, investments along the Belt and Road Initiative (BRI) have led to a growing Chinese presence in Black Sea littoral states as the BRI connects China with Europe and the Middle East. However, the energy dimension is relatively absent from the equation.

Given China's abundant coal-fired capacity and expertise, Chinese coal companies could find new export markets in the region. But as the world seeks to tackle climate change and reduce coal utilization, this too could become a contentious investment space.

Indeed, as China, like the rest, of the world transitions away from fossil fuels, the Black Sea represents a potential export market for Chinese renewable energy, nuclear technologies, and clean tech. Yet the geopolitical rift between China and the U.S., alongside growing European concerns about Chinese investments in and control of critical infrastructure, have hindered Chinese projects in Romania and could further complicate Chinese investments in local grid networks.

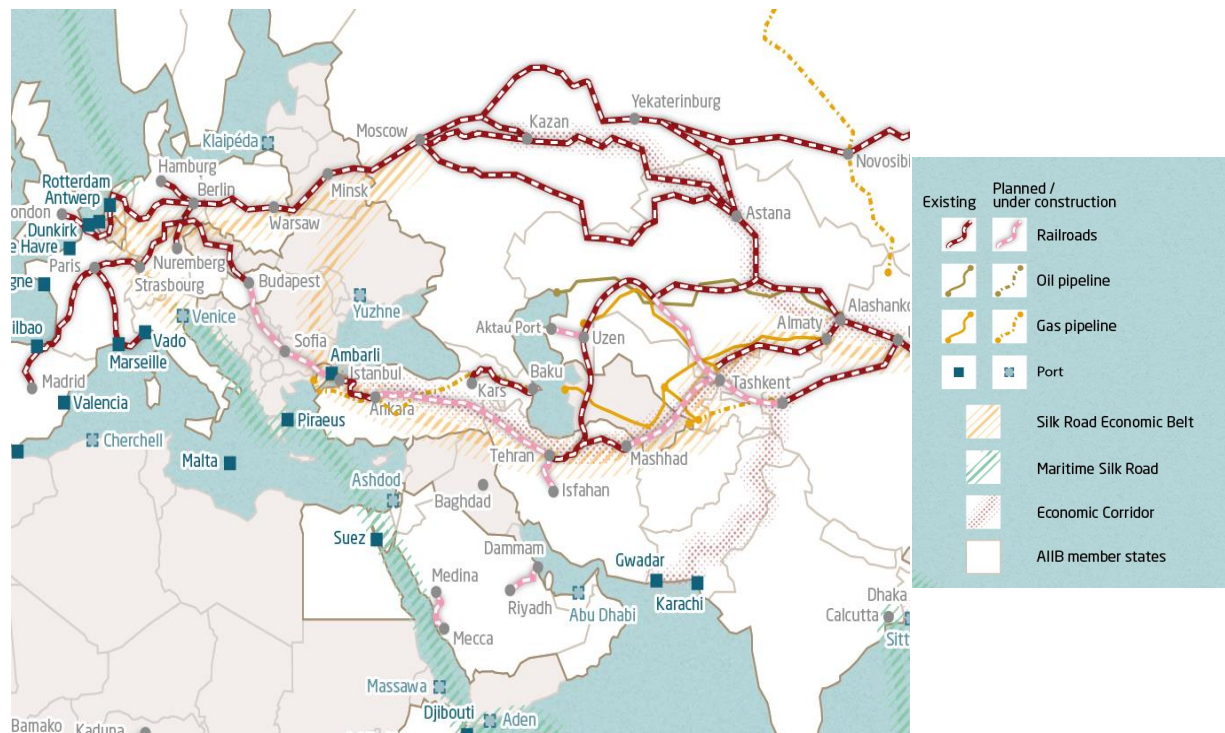
Why China doesn't care about the Black Sea's fossil fuel potential

The Black Sea region is of critical importance to the EU's energy security as a transport corridor for hydrocarbons — with as much as 10 percent of Europe's oil and oil products transiting through it — and potentially, as an energy-producing region. But for China, Black Sea hydrocarbon supplies are of limited appeal given their distance. And since Europe is not a large supplier of fossil fuels (oil, oil products, natural gas or coal) to China, the Black Sea is also of limited importance as a transit route. China's supply sources do not extend west of the Caspian Sea (see Figure 1) and even though countries to the south of the Caspian are important suppliers to China, any overland routes are unlikely to pass through the Black Sea.

Can the Black Sea become a future source of supplies to China?

China's insatiable appetite for energy has made it the world's largest consumer of fossil fuels. The country is the world's top importer of crude oil, accounting for 14 percent of global oil demand in 2019, according to BP.¹ While it accounted for a more modest 8 percent of global gas demand, it is the largest source of new demand globally. Since 2011, China has accounted on average for one-third of global gas demand growth. Even though China has considerable oil and gas reserves domestically, its voracious appetite for energy has outstripped its domestic resources, leading to a growing dependence on imported natural resources from around the world.

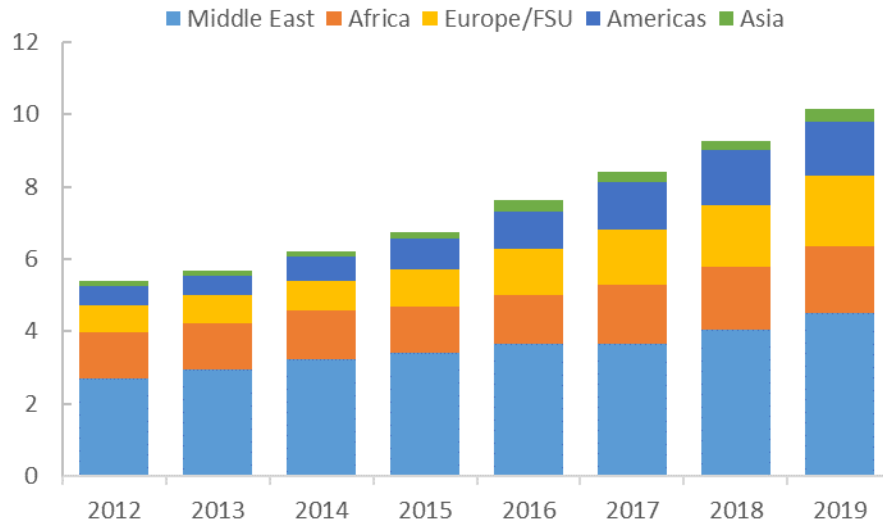
Figure 1: Belt and Road initiative, infrastructure



Source: Merics

The Black Sea littoral states, however, with the notable exception of Russia, have little to no direct energy trade with China. Even the extended Black Sea area, including Greece, Armenia, and Azerbaijan, has limited energy trading ties with China (Figures 2, 3). Though Russia has emerged as a key supplier of both oil and gas to China, the gas supplies come from fields in East Siberia — whereas gas that is exported to Europe is sourced from Western Siberian gas fields² — so Russian flows to China that come from the Black Sea are extremely limited.

Figure 2: Chinese oil imports by region, million bpd

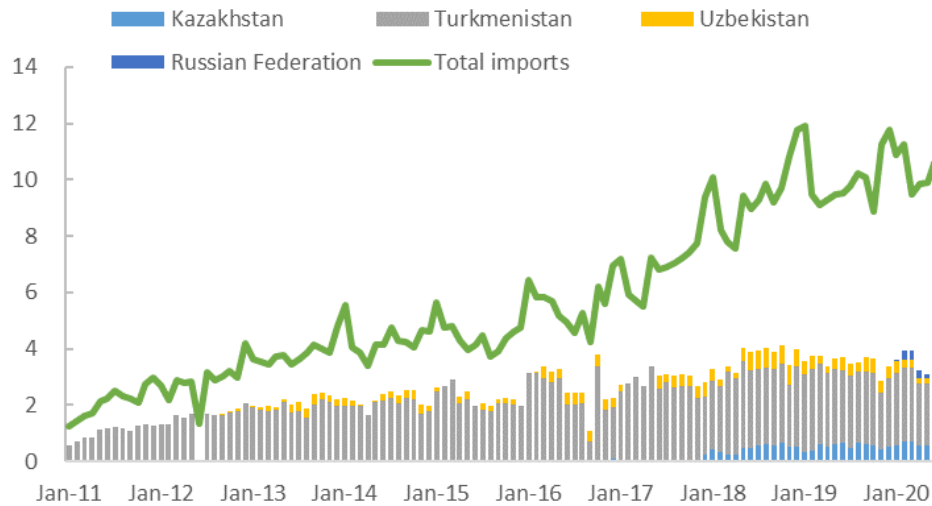


Source: China General Administration of Customs

Going forward, however, as China’s energy demand continues to grow and energy security — in the context of Beijing’s deteriorating ties with Washington — rises on the policy agenda, could the Black Sea become a new source of supplies?

China’s quest for energy security has been the subject of much research.³ The country’s concerns about its energy security and import dependency, combined with supportive corporate strategies, have led China’s national oil companies to invest heavily in the international upstream, be it in order to secure resources, generate revenues, or gain international experience. Moreover, the Chinese government has long been keen to diversify its energy import sources in order to limit its reliance on the Middle East. It has also sought to open up overland supply routes to reduce its exposure to risks associated with seaborne supplies, fearing that the U.S. — as the world’s leading military power — would seek to cut off supplies in the case of a conflict. China has therefore become more heavily involved in Central Asia, securing energy supplies, mainly of natural gas, while also shoring up its presence in these markets more broadly.⁴

Figure 3: China's pipeline imports by country vs. total imports, bcm



Source: China General Administration of Customs

Is the Black Sea the new North Sea?

The resource potential of the Black Sea is too uncertain to be enticing for Chinese companies, which show few signs of active engagement in developing oil and gas in Black Sea littoral countries. Even though the Black Sea has been touted as the new North Sea, with many oil and gas fields known to lie around the margins of the Black Sea, efforts to explore its reserves have met with mixed success, as with the most recent discoveries of oil and gas in the Romanian and Crimean offshore.

Over the past decade, Romanian oil production, for example, has averaged 100,000 barrels per day (bpd). With the exception of Russia, all the other littoral countries of the Black Sea have traditionally been dependent on energy imports, and the volumes produced locally would be too little and too costly to ship to China. China's imports over the last decade have also far exceeded this production, averaging 6 million bpd and exceeding 10 million bpd since 2017. Similarly, Romanian gas production of 10 billion cubic meters (bcm) in 2019 is a drop in the ocean compared to China's overall imports of 120 bcm that same year. There are additional plans in Romania to increase gas production on the Black Sea shelf in the Neptun Deep project, which is being implemented by the Austrian company OMV.⁵ The new gas field, with confirmed gas reserves of up to 84 bcm, should fully meet Romania's needs and allow it to export certain volumes of gas to other countries, including Hungary. OMV has also recently acquired adjacent acreage offshore Bulgaria to explore the assets in the hope of bringing gas to market.

Stepping up exploration and development activity in the region could go some way toward easing littoral states' import burden, but estimates of the available reserves in the Black Sea vary, so it is unclear to what extent they could become energy exporters. In 2017, Wood Mackenzie reported an estimate of 1.35 billion barrels of oil equivalent (bboe) of yet-to-find reserves, roughly the equivalent of Sudan's total proved reserves. In 2000, however, the USGS World Petroleum Assessment estimated reserves in excess of 7 bboe,⁶ or the equivalent of Azerbaijan's proven oil reserves. Turkey has estimated that the Black Sea holds recoverable reserves of 10 billion barrels of crude and 2 trillion cubic meters of

natural gas.⁷ More recently, Turkey has made significant gas findings in the Black Sea, which it hopes to develop by 2023. Any substantial findings offshore of Turkey would likely be consumed domestically, displacing imports from a host of countries including both Russia and the U.S.

To be sure, any new discoveries are beneficial for China, as a consuming country, to the extent that increased availability of supplies globally could limit price increases and contribute to lower prices.⁸ But new finds of both oil and gas in the Black Sea would first and foremost meet local demand and only then be exported. What is more, despite the strategic imperative to add pipelines, the costs and complexities of long-distance routes, concerns about the reliability of natural gas supplies from Central Asia in recent winters, and ongoing reform of China's domestic midstream could limit the construction of new long-distance projects in the coming years.

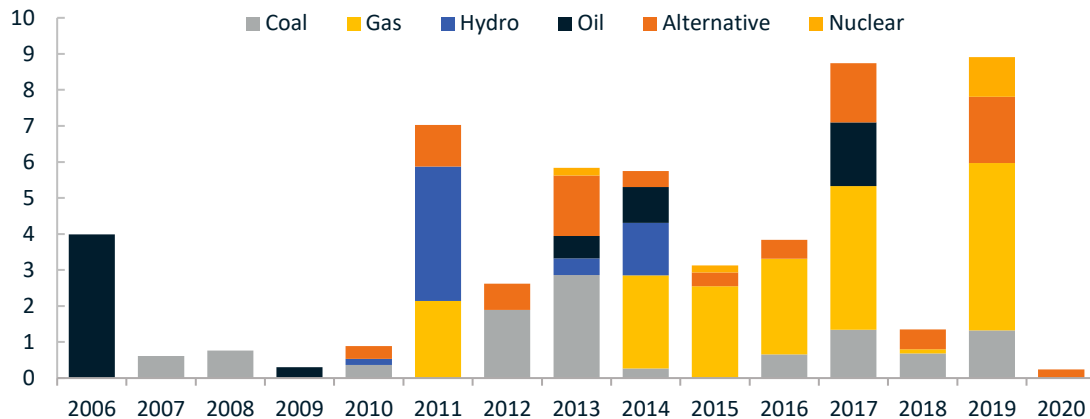
As such, the Black Sea's potential as an energy source for China is highly unlikely, just as Chinese companies' desire to invest in the upstream will be limited.

The missing link in China's energy transport routes?

China's quest for energy security is also credited with bolstering the country's efforts to develop pipeline networks in Central Asia. The BRI, launched in 2013, is deemed part of this grand plan. The BRI is a catch-all for Chinese development aid, private and public loans, and foreign direct investment, which is increasing China's commercial presence and geopolitical influence in Eurasia more broadly. And while the BRI envisages the creation of a transport corridor to Europe and the Middle East, through Central Asia and the Black Sea, the process of building pipelines in Central Asia has not accelerated significantly. For example, an agreement signed with Uzbekistan, Tajikistan, and Kyrgyzstan to build a fourth line of the Central Asia-China gas pipeline in September 2013 has been slow in its implementation and the pipeline is unlikely to come on stream in the coming years. To date, large investments in oil and gas have been in Russia (see Figures 4 and 5).

China's ambitions to expand its pipeline networks through Central Asia remain an open question, let alone any ambitions to extend them to the Black Sea region for the sake of energy security. That said, China is actively increasing its presence throughout Central Asia, the Black Sea, and the Balkans as they offer key transit routes for maritime shipping, as well as rail and road transport. Indeed, China is looking to create a new trade corridor that would link Central Europe with the Black Sea and the Caspian Sea, allowing Caspian and Central Asian hydrocarbons, Chinese goods, and some local products to be delivered to Germany and the Czech Republic via the Romanian port of Constanta. Plans for a Danube-Aegean canal have also been proposed since at least 2008 but have not borne fruit due to high costs and concerns about the impact on the already precarious Danube ecosystem. What is more, this plan clashes with the EU's Strategy for the Danube Region, which envisions several more modest canal projects to boost shipping.

Figure 4: Chinese investments in the Black Sea region by subsector, \$ billion



Source: China Global Investment Tracker, The American Enterprise Institute and The Heritage Foundation

Nonetheless, China’s trade, transit, investment, and other activities in the Black Sea region remain significantly smaller than in many other regions of the world.⁹ Although Chinese and local partners regularly announce commercial deals in memoranda of understanding, actual concrete projects have been few and small in scale. This is likely due to the fact that the Black Sea region is of little strategic interest for China in terms of energy. Given the region’s emergence as an area of East-West competition, there are few reasons for China to get caught up in it, even if the Black Sea littoral states would like to see China more heavily involved as a counterweight to Russia.

The energy transition creates new opportunities for China in the Black Sea

As the world increasingly focuses on the energy transition and countries seek to electrify their economies, there are emerging opportunities for Chinese companies to export nuclear power plants, components and services, as well as renewable energy to the region. However, this shift presents certain challenges. While Chinese companies have signed agreements to sell nuclear plants to littoral countries before, a landmark deal in Romania was recently scrapped, likely on national security grounds. At the same time, despite increasing investments in renewable energy to date, China has been “carbon-agnostic”: it exports fossil fuels, has no policy monitoring the carbon content of exports in general, and invests in coal-fired power plants around the world.¹⁰ The Black Sea littoral states that are also EU members offer Chinese companies a potential foothold in the European power market, but growing international concerns about Chinese investments in strategic sectors could complicate these efforts.

Can China gain a foothold in the European power market through the Black Sea?

The Black Sea, as part of the China-CEEC (Central and Eastern European Countries) summit, offers China additional inroads into Europe. The China-CEEC summit (or 17+1) is a Chinese initiated-platform launched in 2012 to expand cooperation.¹¹ Although the initiative predates the formal announcement of the BRI, the 17+1 summit is widely seen as an extension of the BRI. The three priority areas that China has identified for increasing cooperation under the 17+1 are infrastructure, advanced technologies, and green technologies.

As part of these initiatives, China and Romania discussed plans for Chinese state-owned power generator Huadian to expand the Rovinari coal plant in southwest Romania. Delays occurred almost immediately, and Huadian failed to complete an environmental assessment before the scheduled construction start date in 2014. Huadian subsequently signed a joint agreement on a construction timetable in April 2016 only to be delayed once again. Throughout the process, concerns arose about both the environmental implications for an already polluted region and the economic viability of the project,¹² leaving its fate uncertain. Moreover, the project — despite Romanian government support — runs contrary to European plans to phase out coal power by 2030 and reach net-zero carbon emissions by 2050.¹³

In contrast, nuclear power may be a more fruitful pursuit. From a late and inauspicious start in the 1990s, China's nuclear fleet has risen to become the world's third largest. According to Chinese government projections, within the next decade China may surpass the United States as the world's leading nuclear energy producer. As part of this process, Chinese companies have been keen to expand their global outreach. China General Nuclear Power Group (CGNPG) was in talks to upgrade a nuclear power complex at Cernavodă in Romania. This deal was hugely important for CGNPG, given that a Chinese-built reactor in an EU member state would give the company a strong marketing boost. By building in Romania and exploring a smaller nuclear deal in Bulgaria, Chinese companies could gain a foothold in a competitive and saturated nuclear energy market. This would also give them influence in a vital energy hub powering Southern Europe and Turkey.¹⁴ Moreover, the Cernavodă project, located on the strategically significant Danube-Black Sea Canal, would increase Chinese companies' share of Romanian electricity production to 15-20 percent.

However, this project has raised concerns about Beijing increasing its influence and intelligence collection potential at a critical location within a Euro-Atlantic frontier country.¹⁵ As a result of these security concerns and mounting pressure from the U.S., the Romanian government asked the Romanian state company Nuclearelectrica, which runs the nuclear power plant in Cernavodă, to terminate negotiations with its Chinese partner in May 2020. The Romanian government reportedly prefers to seek a partner from a NATO country.¹⁶

Going forward, then, even as China develops its nuclear capabilities and moves to expand investments in power grids globally, concerns about Chinese investments in strategic sectors, alongside pressure from the U.S., could hinder such projects. Investment screening by the EU is aimed at protection European security interests,¹⁷ but as such could become increasingly politicized.

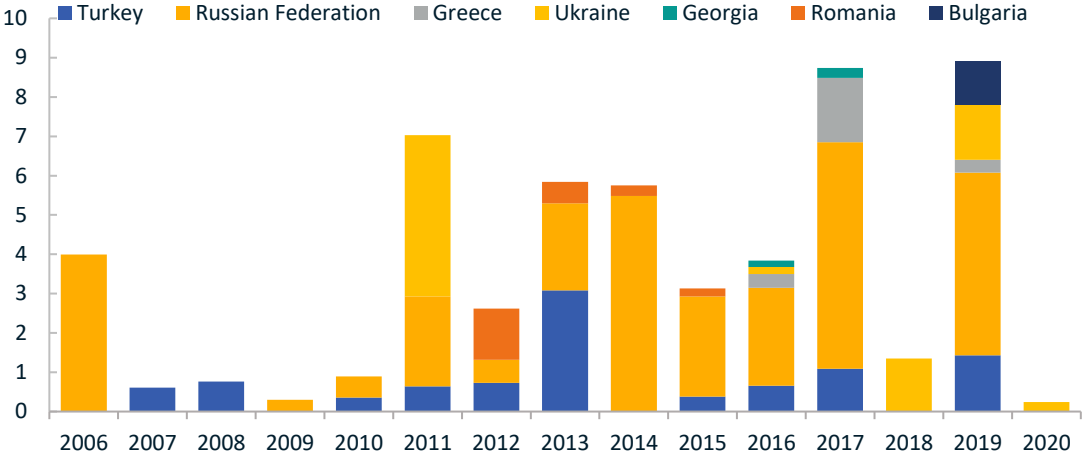
Renewable energy: A potential market for China in the Black Sea?

The Black Sea ecosystem has been suffering from substantial environmental degradation. As a virtually enclosed inland sea, it is particularly vulnerable to additional pressure from activities such as industrialization, urbanization, overfishing, and transport (not only of hydrocarbons). Given the abundance of hydrocarbons transported through the region, mainly from the Caspian Sea, there are risks of oil spills during transit. Hydrocarbon exploitation in the Black Sea itself could add new sources of pollution.

In light of these concerns, the EU Commission is seeking to contribute to “reductions in carbon emissions” through exploring “synergies [...] with the offshore conventional energy sector.”¹⁸ For China, a major producer and exporter of renewable energy technologies, there are clearly opportunities, although the EU Commission also aims to develop markets for its renewables exporters.

Some Chinese companies have already made moves in this market. Since 2017, Chinese companies signed a raft of agreements with Ukraine to invest in solar and wind farms, agreeing in 2019 to build Europe’s largest onshore windfarm in the country. Similarly, Chinese companies have been finding investment opportunities in renewables in Turkey. Much like within the EU, where Chinese companies have invested and continue to invest in renewable energy, projects in the Black Sea could also develop further.

Figure 5: Chinese investments in the Black Sea by country, \$ billion



Source: China Global Investment Tracker, The American Enterprise Institute and The Heritage Foundation

But while sales of solar and photovoltaic equipment may not be contentious, investments in the grid could draw scrutiny from regulators. Ultra-high-voltage power lines, which enable China to transport power across thousands of kilometers within China’s borders, are also an export market that the Chinese state-owned grid company is keen to explore. China’s Global Energy Interconnection initiative, which aims to create the world’s first global electricity grid, has been designated a “national strategy” and championed by Chinese President Xi Jinping. While Chinese companies would not own or necessarily operate the grid, there are concerns that the interconnection plan is also a geopolitical strategy on a par with China’s BRI.

China and the Black Sea: The limits of energy engagement

China’s energy ties with the Black Sea are limited and will likely remain so. Constrained by the region’s limited hydrocarbon endowment and distance from China, oil and gas flows from the Black Sea to China are set to remain small. As a result, the Black Sea is also of limited strategic importance to China as an energy transit route. In effect, it is the least critical area on the route between China and Europe and the Middle East. While Beijing will not want the Black Sea to become a geostrategic blind spot, it is addressing these vulnerabilities through shipping and transport infrastructure. Despite other investments, it is unlikely to seek a deeper engagement in energy in order to offset any potential vulnerabilities.

While it is true that nuclear investments have been complicated by a more cautious attitude toward Chinese investments in Europe, just as investments in coal will become increasingly contentious as the world tries to achieve net-zero carbon by 2050 (the EU) and 2060 (China), this shift to energy transition and electrification provides China with an opportunity. With its capacity in renewable manufacturing, its growing nuclear capabilities, and its expertise in efficient coal-fired capacity, China is poised to enter new potential export markets in the Black Sea and beyond.

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“Hoping to repeat the success of Kumport, Turkey has been making a vigorous effort to draw foreign — and that increasingly means Chinese — capital investment.”



A Turkish cargo ship transporting humanitarian aid to Gaza (Photo by Sezgin Pancar/Anadolu Agency via Getty Images)

Turkish Ports and China's Maritime Silk Road:

Expectations and Benefits

Altay Atlı

Located on Istanbul's southern shores, Kumport is a busy container port around 20 nautical miles to the west of the entrance to the Bosphorus. Kumport is essential for Turkey's economy because it connects shipping routes in the eastern Mediterranean with the country's economic heartland and its direct connections with the motorways linking Turkey and Europe make trade more efficient. With a capacity to process 2.1 million twenty-foot equivalent units (TEU) of containers annually, it currently ranks as the fifth largest commercial port in Turkey.

Kumport matters for Turkey as one of its major transit hubs, but that is not the only reason why it stands out: It is also a poignant example of how Chinese direct investment is reshaping the Turkish economy. When Kumport began operations in 1994, it was completely owned by Turkish companies and only processed bulk cargo. In 2002, it transformed into a fully-fledged container port. The main turning point in the port's history, however, came in 2015 when a consortium of Chinese companies, including Cosco Pacific, China Merchants Port Holdings, and China Investment Corporation, purchased a 65 percent stake worth \$940 million from the Turkish owners. As a result, the port became entirely foreign-owned, since the other 35 percent had already been sold to the State General Reserve Fund, the sovereign wealth fund of Oman, four years earlier.

Foreign participation in Turkish ports has been an ongoing process for at least the last two decades and several international corporations have taken part in privatization tenders, purchasing stakes as high as 100 percent. Today, of the 27 major container ports in Turkey, 2 are owned by the Turkish state, 15 by Turkish companies, 7 by consortia of Turkish and foreign companies, and 3 by foreign companies exclusively. What is new, however, is the growing prominence of Chinese investors, who have shown a remarkable commitment to their projects.

After the Chinese takeover of Kumport, the new owners continued to upgrade the facilities. The first phase of investments concluded in 2017, and the second phase started the following year, with \$100 million earmarked for the next five years. These investments have borne fruit. Kumport increased its cargo and container processing capacity so that it can now host up to 20,000-TEU "mega ships." It now boasts the highest export and import volumes of any port in the Sea of Marmara. In addition to traditional improvements, new ownership has also taken significant steps to reduce the port's carbon footprint, and it became the first container port in Turkey to implement a zero-waste project.

Kumport is a success story of Chinese investment in Turkey, and it has led to a shared willingness to further expand bilateral economic cooperation. China's Belt and Road Initiative (BRI) is widely regarded in Turkey as an opportunity in this respect. Through the BRI, China has been plowing funds into infrastructure projects throughout Eurasia in order to create a network of trade routes and hubs that

will facilitate the westward transport of Chinese goods. By attracting BRI-related Chinese capital, Turkey hopes to establish a certain degree of balance in bilateral economic relations with China and compensate for a merchandise trade deficit of \$16.4 billion (\$19.1 billion in imports vs. \$2.7 billion in exports) in 2019.

Financial cooperation between the two countries is helping to lay the groundwork for BRI investments in Turkey. Following a number of commercial loans opened by Chinese banks for Turkish institutions and a twice-renewed bilateral currency swap line between the central banks, an agreement between the Turkish Wealth Fund and China Export and Credit Insurance Corporation (Sinosure) will promote bilateral economic, trade, and investment cooperation, including insurance support of up to \$5 billion provided by Sinosure.

Chinese direct investment in Turkey currently stands at \$2.8 billion, only a fraction of the total investment made by Turkey's Western partners. The Turkish Central Bank estimates that the Chinese share in the total stock of foreign direct investment in Turkey as of 2019 was just 0.8 percent, compared to a cumulative 58.6 percent for the European Union (EU). While China cannot match the EU as an economic partner for Turkey, the BRI is bound to catalyze significant growth in Chinese investment into Turkey.

The focus of the BRI on infrastructure development overlaps neatly with Turkey's priorities. During his keynote speech at the Belt and Road Forum for International Cooperation in Beijing in May 2017, Turkish President Recep Tayyip Erdogan emphasized, "The New Silk Road initiative is a very important project covering over 60 countries and almost 4.5 billion people in the world. It is of great importance that this initiative, which will benefit from bilateral, multilateral and regional cooperation, is put into practice in an understanding of win-win."¹ Erdogan went on to express his hopes that the the BRI will synergize, rather than compete, with Turkey's own "Middle Corridor Initiative," as both projects seek to promote Eurasian trade integration through infrastructural development in a wide array of countries. Turkey and China have taken initial steps toward ensuring fruitful collaboration on this front. In 2015, the two countries signed a memorandum of understanding (MOU) entitled "Harmonization of the Silk Road Economic Belt, 21st Century Maritime Silk Road and the Middle Corridor Initiative." The MOU proposes collaboration on multiple levels, including policy coordination, bilateral trade liberalization, financial integration, and cultural exchanges. Perhaps the most critical objective laid out by the MOU is to improve cooperation in "infrastructure projects in Turkey, China and third countries in the areas of motorways, railways, civil aviation, seaports, as well as energy transit lines and telecommunication networks."

As such statements show, investment is targeted at diverse modes of transport. Chinese companies have already undertaken construction on the Yavuz Sultan Selim Bridge over the Bosphorus and its connected motorways as well as segments of the Istanbul-Ankara high-speed railway. For both sides, the top priority remains ports, particularly their renovation and expansion, as Chinese companies avoid starting projects from scratch ("greenfield projects") in this sector. This priority is reflected in the MOU's provisions for "improving capacities of and cooperation between ports in cargo transportation" and in Erdogan's reference in his Beijing speech to "a maritime leg" of the Middle Corridor.

This emphasis on ports is logical. China wishes to incorporate Turkish ports into its growing logistics network in the eastern Mediterranean, which already includes several ports, such as Piraeus in Greece and Haifa in Israel. For Turkey, it is critical to procure investments for ports, which form the backbone of its maritime infrastructure and as such are of vital importance for the economy. According to figures released by the Turkish Association of Port Operators (TÜRKLİM), the port operating sector contributed TL96.3 billion to the national economy in 2018 (around \$18.2 billion at the time) and created a total of

230,000 jobs directly and indirectly. As of March 2020, maritime routes carried 64.2 percent of Turkey’s exports by volume and 58.7 percent of its imports by value. By comparison, land routes carried 27.6 percent of exports (by volume) and 18.6 percent of imports (by value), air routes carried 6.9 percent of exports and 16.2 percent of imports, and railways carried 0.9 percent of exports and 1.0 percent of imports. A comparison of these figures with the same month of last year reveals an increase in maritime shipping combined with a sharp decline in land and air transport. From these statistics it is clear that the COVID-19 pandemic has only increased the importance of maritime shipping, a mode of transport that requires less interpersonal contact and remains unaffected by land border closures.

Hoping to repeat the success of Kumport, Turkey has been making a vigorous effort to draw foreign — and that increasingly means Chinese — capital investment into three specific ports that, in Erdogan’s words, constitute the “maritime leg” of the Middle Corridor: İzmir Candarli, Mersin, and Zonguldak Filyos. Upgrading these is the objective of a new initiative by the Ministry of Transportation and Infrastructure, the “Three Major Ports on Three Seas,” so named because the ports sit on the shores of the Aegean Sea, the Mediterranean Sea, and the Black Sea respectively.

All three ports already have some facilities in place and thus meet an important criterion for prospective Chinese investors. Although Chinese companies have not made concrete moves on these three projects, they are closely tracking opportunities, mostly through the liaison offices in Turkey, and less frequently, fact-finding visits at the ports themselves.

Map of Turkish ports targeted by Chinese investments with nearby cities



Source: Provided by the author

Candarli and Mersin

Of the three port projects, Candarli is most often associated by Turks with potential Chinese involvement. In May 2011, ground was broken on the Northern Aegean Candarli Port project. With an anticipated total capacity of 12 million TEU, it would be the largest container port in Turkey and one of the 10 largest ports in Europe. The project was due for completion by 2017, but bureaucratic obstacles and financial problems caused delays. So far, only a jetty is in place. Candarli is a build-operate-transfer project with an expected overall cost of around \$1 billion. Attracting foreign capital is seen as a way to cover major expenses and overcome current impasses. When the port is completed, it will be integrated with Izmir, Turkey's third largest city and a major industrial center, through railroad and land connections. Strategically situated, it will become a major transit hub in the Aegean.

Potential Chinese involvement in the Candarli project has deepened relations between the city of Izmir and China. In 2015, China opened a consulate general in Izmir. Consul General Su Gaochao expressed his hope that the diplomatic mission would "promote Izmir to Chinese entrepreneurs and industrialists, and to create an investment environment in the city."² Although the consulate was closed in 2019 for reasons of "operational efficiency," mutual interest between Izmir and China has continued to increase, with China chosen as the guest of honor at the 88th edition of the annual Izmir International Fair in 2019.

Izmir's local policymakers envisage a key position for the city along the BRI, as evidenced by the words of the city's mayor, Tunc Soyer: "Our aim is to continue to be the East's gateway into the West on the BRI. ... The BRI is very much compatible with the current conjuncture, and we want to assume a new role by bringing the initiative together with Izmir. We want to become a milepost along the Middle Corridor and open up the West to China's values, products, and trade through Izmir."³ Some also believe that the Candarli Port will be useful for China because it will complement the major Chinese-owned port on the other side of the Aegean, the Port of Piraeus near Athens. Candarli can take up some of the slack from Piraeus, which is unable to handle its workload and cannot be expanded due to natural limits. According to Yusuf Ozturk, chairman of the Izmir chapter of Turkey's Chamber of Maritime Commerce, Piraeus' limitations turn Candarli into a "golden opportunity" for the Chinese. "A high-capacity port is needed here for the BRI," he said, "Candarli will be an intercontinental container transit hub. The Chinese have to create an opening in the eastern Mediterranean for the future. They already know about this alternative, and all we need to do is to keep the issue on the agenda."⁴

Turkey's port infrastructure development projects carry geopolitical considerations as well, and nowhere is this more evident than in the discussions around the Candarli project. One important figure who weighed in on the geopolitical stakes is Admiral (ret.) Cem Gurdeniz, the architect of the "Blue Homeland" doctrine that aims for Turkey to consolidate its influence on the three seas surrounding the country. In his view, the Candarli project is vital to ensuring that the Port of Piraeus does not make gains at the expense of Turkish interests: "If Piraeus is chosen by the China as the European hub on the Maritime Silk Road, this could force China to take sides in a possible Turkish-Greek confrontation in the Aegean in the future. ... History has shown that there are risks involved when Eurasia enters into strategic relations with the Atlantic system. Turkey should explain these risks, as well as the sensitivity of the Aegean Sea and the advantages offered by Candarli to the Chinese, and insist on Candarli's inclusion in the Maritime Silk Road project. This would serve both China's interests and the Turkish-Greek equilibrium in the Aegean."⁵

Another facet of the “Three Major Ports on Three Seas” initiative will be a new container port in the province of Mersin. This province hosts Turkey’s largest container port, Mersin International Port (MIP), itself an example of foreign partnership (Singaporean company PSA International Pte Ltd holds a 90 percent stake). The new project will complement the port to better serve the economic hinterland of the Cukurova region and broader Middle Eastern markets. Tasucu, a district of Mersin that is home to two smaller ports that help transport ferries and cargo ships departing to the Turkish Republic of Northern Cyprus, is planned as the site of the new container port to be brought to life by privatizing and upgrading the existing facilities.

Members of Mersin’s local business community argue that Chinese companies were in fact interested in building the new port, but due to long planning and tendering processes, investors got involved in the privatization of the Greek Cypriot port of Limassol instead. However, Chinese actors might regain interest in Mersin, among other reasons because it could serve as a possible logistics hub for China’s involvement in the post-conflict reconstruction of Syria.

Filyos

When it comes to Chinese involvement in Turkish port development, perhaps the most interesting story to follow will be the Port of Filyos in Zonguldak on the southeast coast of the Black Sea. As of this writing, 98 percent of infrastructure is completed, and the port is expected to enter into service by 2023, once the corresponding superstructure is completed as well. The superstructure includes an attached industrial zone that will generate development for the provinces of Karabuk, Bartin, and Zonguldak. The Port of Filyos will also play a crucial role in reducing “the threat faced by the Turkish Straits due to increasing maritime traffic.”

If the “Three Major Ports on Three Seas” initiative ultimately connects with the major land routes and railways of the country, a connection between Filyos and Candarli can open up a new overland transit route between the Black Sea and the Mediterranean. Turkey’s minister of transportation and infrastructure, Adil Karaismailoglu, conveyed his belief that the strategic value of Filyos goes well beyond its offering an alternative for the Turkish Straits. “With the Port of Filyos, we are opening one more gateway to the Blue Homeland,” he wrote. “During these historical days when our sovereignty over the seas is receiving world-wide recognition we faithfully continue to preserve the Blue Homeland with this project that will turn our country into a region of trade and industry.”⁶

The Blue Homeland doctrine is currently being put into practice, especially in the eastern Mediterranean, where Turkey is shoring up its maritime borders and adopting an increasingly assertive stance through offshore gas drilling projects and declarations of exclusive economic zones. Turkey does not have maritime disputes with the littoral countries of the Black Sea like it does with Greece in the eastern Mediterranean. However, the Black Sea will become increasingly important for Turkey, given the discovery of large gas reserves off Turkey’s north-western shores in late August this year. Filyos, in this sense, is not only an economic development project, but also a key strategic asset for Turkey.

Although Filyos is nearing completion, Chinese companies could definitely become involved in future upgrading projects or in the industrial zone attached to the port. They can also choose to invest in other Turkish Black Sea ports. In any case, investments would add significant weight to China’s presence in the Black Sea by helping to form a logistics network that also includes other ports with Chinese participation, such as the Anaklia Black Sea Deep Water Port in Georgia and the Port of Chornomorsk in Ukraine.

As Turkey seeks to collaborate on the 21st Century Maritime Silk Road, Chinese investments can reinvigorate efforts to improve Turkish port infrastructure and connectivity with neighboring regions. At its core, this partnership is about mutual benefits: Turkey stands to gain from Chinese experience, technology, and finance, and China can add to its growing logistics network in the eastern Mediterranean. However, Turkey still needs to do its homework, communicate effectively with the Chinese side, and offer a favorable business environment. As the Turkish Industry and Business Association (TÜSİAD) proposed after a workshop on the prospects for Turkish-Chinese cooperation in the logistics sector, “Port development projects in Turkey should be presented to the Chinese in a convincing way. Promotion should highlight the ports’ importance in a regional context and address aspects such as the geopolitical position of Turkey, the new economic geography taking shape in the eastern Mediterranean, and the potential for construction in a post-war Middle East.”⁷

Despite clear enthusiasm, Turkish-Chinese cooperation in port development and Turkish participation in the BRI are still at an early stage. For Turkey, the BRI currently is more about expectations than real, on-the-ground projects. Whether these expectations can be turned into results will depend on several factors beyond the intentions of both sides, such as regional geopolitics, the state of the global economy in the post-pandemic period, and the repercussions of the new Cold War-like form of great power competition between the United States and China.

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