

The Analysis of China's "Debt Diplomacy" in the South Caucasus

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Abstract

China's "One Belt, One Road" state program has been developing for a long period. The growing scale of Chinese cooperation with the South Caucasus in recent years has turned Beijing into a highly influential force in the region. Given these recent regional developments, the work is aimed to find out the probability of South Caucasus countries falling into China's 'debt trap'. The main reason proving the usage of politics in a certain area is the concept of "soft power", but in reality, so-called cooperation, under which a country assists others by an influx of foreign income with the hidden intention to gain power over a certain region. The accusations from journals and different scientific sources went viral not only in China but also in The Western World, showing potential inclinations toward this policy.

Thus, the amount of turnover in international trade of The South Caucasus with China, its public debts, and China's foreign investments in this region are comparatively examined. Based on all these evaluations, the work analyzes the reasons for the rising unrest in by analyzing the development of the Caucasian States' relationship with China to reveal the intentions of this state. Azerbaijan, Georgia, and Armenia both the good and the bad which will be meticulously examined to determine the cause because of which China included them in the project "Belt and Road". Therefore, the possible advantages of the so-called cooperation between these states and China will be disclosed.

The study contributes to a certain shortage of comparison in terms of analysis of countries within this region from the perspective of China's debt diplomacy.

Keywords: China, debt trap, Azerbaijan, Georgia, Armenia

Öz

Çin'in "Bir Kuşak, Bir Yol" devlet programı uzun bir süredir gelişmektedir. Son yıllarda Çin'in Güney Kafkasya ile artan işbirliği ölçeği, Pekin'i bölgede oldukça etkili bir güç haline getirmiştir. Bu son bölgesel gelişmeler göz önüne alındığında, çalışma, Güney Kafkasya ülkelerinin Çin'in 'borç tuzağına' düşme olasılığını araştırmayı amaçlamaktadır. Belirli bir alanda politikanın kullanımını kanıtlayan ana neden "yumuşak güç" kavramıdır, ancak gerçekte, sözde işbirliği, bir ülkenin belirli bir bölge üzerinde güç kazanma niyetiyle yabancı gelir akışıyla diğerlerine yardım ettiği bir durumu ifade eder. Dergilerden ve çeşitli bilimsel kaynaklardan gelen suçlamalar sadece Çin'de değil, aynı zamanda Batı Dünyasında da viral hale gelmiş, bu politikaya yönelik potansiyel eğilimleri göstermiştir. Bu nedenle, Güney Kafkasya'nın Çin ile uluslararası ticaretindeki ciro miktarı, kamu borçları ve Çin'in bu bölgeye yaptığı yabancı yatırımlar karşılaştırmalı olarak incelenmektedir. Tüm bu değerlendirmelere dayanarak, çalışma, Kafkasya Devletleri'nin Çin ile ilişkilerinin gelişimini analiz ederek bu devletin niyetlerini ortaya çıkarmak için artan huzursuzluğun nedenlerini analiz etmektedir. Azerbaycan, Gürcistan ve Ermenistan'ın hem iyi hem de kötü yönleri titizlikle incelenecek ve Çin'in onları "Kuşak ve Yol" projesine dahil etmesinin nedeni belirlenecektir. Bu nedenle, bu devletler ile Çin arasındaki sözde işbirliğinin olası avantajları ortaya konulacaktır. Çalışma, Çin'in borç diplomasisi perspektifinden bu bölgedeki ülkelerin karşılaştırmalı analizi açısından belirli bir eksikliğe katkıda bulunmaktadır.

Anahtar Kelimeler: Çin, , borç tuzağı, Azerbaycan, Gürcistan, Ermenistan

Introduction

The core idea of the "soft power" concept widely used by China is to create an attractive image through which it can achieve its goals in terms of economics and policy at the global level. The thesis discusses the theoretical background of the "debt trap" concept as some states use the "soft power" policy as a part of this concept. The "soft power" concept implies the influence of bigger countries on other nations and their decisions by allurements, not cooperation. The country starts to implement its values, culture, lifestyle, and education to create dependency and maximize its benefits. This is a part of a "debt trap" policy as China considers such factors as location, geopolitical influence, resources, and economic vulnerability during any situation in a state. Consequently, it begins to imply its cultural interests as a "soft power" and eventually starts to invest an enormous influx of money in terms of so-called help. Then the country can't pay this money and turns to be in a "debt trap".¹

Another explanation of the term may be seen from the perspective of Professor Joseph Nye, a renowned political scientist, who is a key authority on soft power. He states that the debt trap policy involves a scenario where one country provides loans to another, causing the borrowing nation to incur unsustainable debt and dependency. This dependency often forces the borrowing country to surrender control over strategic assets or political decisions to the lender. Soft power, a concept introduced by Joseph Nye, is the capacity of a country to influence others and shape their preferences through appeal and attraction rather than through force or monetary incentives. By entrapping countries in debt, the lending nation can exert significant influence over the borrower, often gaining soft power as the borrower becomes reliant on the lender for economic stability and development support. This approach allows the lender to shape political and economic landscapes in the borrowing country, aligning them with its strategic interests without direct coercion.²

China lends large sums of money for major infrastructure projects to countries of its interest. The executor or shareholder of the projects is one of the Chinese state-owned companies, and all financing is done on behalf of this company. The cost of the projects is represented in billions of dollars. However, additionally, the Chinese government allocates funds to other countries in tranches, and with each new tranche, the borrowing rate continues to increase.³ Although everything seems transparent, the core issue is that the Chinese government does not strictly control how the money is spent nor neglect the factor of diversion of money. Consequently, large projects remain unfinished, and countries owe China billions of dollars for nothing.⁴

For instance, Sri Lanka started several new projects by borrowing \$1 billion from China, the debt increased to \$8 billion in a few years and the country fell into this debt trap, as they were refinanced again by one of China's state-owned banks at 7% per annum. Sri Lanka has leased the strategic port of Hambantota to a Chinese company for 99 years as debt stifles its economy. The main advantage of this port is the access of China to the Indian Ocean. Such facts prove that the geopolitical aspects of this issue are more interesting than the economic interests of China. The level of debt of countries like Laos and Cambodia to China is so significant because of the way they are experiencing this time recognized in the world as China's subsidiary countries. Looking at Pakistan, the "China-Pakistan Economic Corridor" here, financed \$27 billion by the Chinese government is another classic case of debt. Thus, the IMF (International Monetary Fund) issued a report expecting the nation's incapacity to give back the debt to China.⁵

China is developing partnerships with the South Caucasus governments and strengthening its

¹ Jasmin et al. (2023) *Chinese Soft Power in Bangladesh: Debt Trap or Shared Interests?* The Journal of Indian and Asian Studies, Vol. 4, No. 1

² Nye, Joseph. "Soft Power: *The Means to Success in World Politics.*" PublicAffairs, 2004.

³ Lingmin, K. (2019). *Exploring China's Soft Power: Manifestations of the Chinese Dream in Contemporary Practices of Cultural Diplomacy.* PhD thesis, University of York Politics, p. 154

⁴ Blomquist, K. (2022). In *pursuit of (soft) power: Chinese artificial intelligence governance in an age of great power competition.* Social Science of the Internet at the Oxford Internet Institute, p.88. available at: <https://ora.ox.ac.uk/objects/uuid:a0387253-cee7-43a4-b3fc-fa5ceb7fa42e>

⁵ Repnikova, M. (2022). *Chinese Soft Power. Elements in Global China.* available at: <https://doi.org/10.1017/9781108874700>

position in this region. To nail the influence in the region, Beijing mainly uses BRI areas such as the Economics Corridor, establishing a link between China and Western and Central Asian countries, the Digital Silk Road, and the Healthcare Silk Road. While Azerbaijan and Georgia are already actively participating in BRI projects, Armenia is in search of mutually beneficial conditions for cooperation with China. China's presence in the South Caucasus is seen primarily in the economic sector.⁶

However, China tries to maintain neutrality in interregional conflicts and does not take sides.⁷ Investment in the South Caucasian countries is an opportunity to neutralize the threat of separatism, which can find support in the region from China. The South Caucasus offers new markets as well as important hydrocarbon resources for the Chinese economy, and more importantly, the region is also an alternative route - a land route - for transportation to European markets.

Hypothesis and Methodology

The main hypothesis of the work is directly related to the examination of the probability, that China may make South Caucasian countries get into the "debt trap".

It will be analyzed by the qualitative methodology based on the literature of different economic, scientific, and political experts along with the statistical data. Moreover, a comparative analysis of Azerbaijan, Georgia, and Armenia will be conducted to clarify the possibility of the "debt trap" policy.

Literature Review

Scientifically proved research based on the opinion of articles from geopolitical, and economic experts was used as the theoretical ground for this work. The data was taken from scientific books, articles, and other materials published in well-known journals, proving its validity.

Research Questions

1. The core idea of the "debt trap" policy and how it works?
2. What is the reason, that made other countries get into the financial burden?
3. Are South Caucasus countries financially dependent on China?
4. What is the probability, that the "debt trap" may happen in South Caucasus?

Objective of the Study

The priority of this work is to conduct research to find a) China's soft power strategy in the South Caucasus region b) to determine the dependence of regional states on the Chinese economy, c) to analyze the directions of China's economic policy in this region from a debt diplomacy perspective. By answering these questions, this analysis will attempt to determine the possibility of whether these three states are facing the same situation as the states of the African or Asian continent or not.

1. China's Soft Power Policy in The South Caucasus

Although the influence of China's policy called "soft power" in the region of South Caucasus is weaker than that of other external factors such as Russia, the strengthening of Beijing's economic presence in the Caucasian States in recent years will potentially lead to a gradual change in this regard.⁸ China's restrained and cautious strategy, mainly targeting the exclusive circle of the countries in the region, meant very limited efforts to influence the broader public in the South Caucasus.⁹ More investments were made in energy-rich Azerbaijan compared to other states of the South Caucasus: \$581 million over the period, which, at \$60 per person, is also the highest per capita in the region. Most of these funds were directed to the construction of pipelines, transferring oil and gas, starting from the Caspian Sea and straight to Turkey, which "was in the interests of China for at least two reasons." First, investments in pipelines were likely to bring good returns. In addition, "China's contribution to financing the construction of the energy corridor may have helped Beijing attract Turkey to the One Belt, One

⁶ Rolland, N. (2018). *China's Ambitions in Eastern Europe and the South Caucasus*. Paris: Ifri.

⁷ Sahakyan, M. (2021). *Armenia and China's Belt and Road Initiative: Lost Opportunities and Future Prospects 2.0*. available at: <https://russiancouncil.ru/en/analytics-and-comments/columns/eurasian-policy/armenia-and-china-s-belt-and-road-initiative-lost-opportunities-and-future-prospects-2-0/> (Accessed: 2 May 2024).

⁸ Kamrava, M. (2017). *The Great Game in West Asia*, *Oxford Scholarship Online*. International Relations. p. 261–266. available at: <https://doi.org/10.1093/oso/9780190673604.003.0012>

⁹ Aliyev, N. (2020). *China's Soft Power in the South Caucasus*. Central Asia-Caucasus Institute and Silk Road Studies. available at: <https://cacianalyst.org/publications/analytical-articles/item/13604-chinas-soft-power-in-the-south-caucasus.html>

Road project".¹⁰

In recent years, China's economic participation in Azerbaijan, Georgia, and Armenia has significantly expanded. Based on the statistics from the World Bank, since 2005, Beijing's trade turnover with Baku, Yerevan, and Tbilisi has increased by 2070%, 380%, and 885%, respectively.¹¹ In the implementation of projects of strategic importance, Beijing uses public and private banks and financial organizations like the Asian Infrastructure Investment Bank, China Development Bank, Exim Bank, and the Industrial and Financial Bank of China.

Over 40 percent of China's trade with the region falls on Azerbaijan. The Baku-Tbilisi-Kars railway is considered one of the main components of Beijing's global transport project in the area, in which Azerbaijan is a key participant. Another strategically important project of Azerbaijan is the International Sea Trade Port of Baku, which China supported by supplying equipment based on an intergovernmental grant agreement signed between Beijing and Baku. According to the official data of the Armenian side, during a short period, China became Armenia's second-largest trading partner. In the first half of 2019, Chinese-Armenian trade increased by almost 50 percent to \$342 million. China has provided at least \$37 million in economic aid to Armenia since 2012 and has also donated plenty of public buses and ambulances to the country.

1.1. The Relations with Azerbaijan

The volume of trade between Azerbaijan state and the Chinese government increased by 14.5% in January-April of this year and reached over 600 million dollars. According to the information from the World Bank, starting from 2010 with a debt equaling 7 billion dollars and ending with a debt of over 15 billion dollars in 2020. The country's long-term debt obligations are over 15 billion dollars with the volume of debts taken with the state guarantee has reached 14 billion dollars. The flow of foreign direct investments to the country also decreased from 3.35 billion dollars to only 507 million dollars in 2020 accordingly.¹²

As China develops its overland trade route, it is investing in the modernization of the port of Baku and the railway of Baku-Tbilisi-Kars. In parallel, Beijing signed a \$821 million document with Baku to expand its participation in the non-oil sectors, including the development of chemical industrial parks, agro-industrial parks, and greenhouse complexes. With China's assistance, within the framework of the Azerbaijan Digital Hub program, a corridor will be created between the European and Asian continents, which will complement the Digital Silk Road connecting Mumbai and Frankfurt through Azerbaijan.¹³ Currently, Azerbaijan remains China's largest trading partner among Caucasian States. Although total exports to China from Azerbaijan declined in 2020, they still account for 3.1% of the country's exports (\$432 million). The volume of trade between Azerbaijan and China varies from year to year but tends to grow.¹⁴

In 2016, Huawei launched the Seeds of the Future program to teach programming to Azerbaijani students in China. The following year, Huawei announced plans to launch smart city and public Wi-Fi programs in Azerbaijan, while reaffirming its intention to develop 5 G technology.¹⁵

¹⁰ Kamrava, M. (2017). The Great Game in West Asia, Oxford Scholarship Online, International Relations, p. 261–266, available at: <https://doi.org/10.1093/oso/9780190673604.003.0012>

¹¹ Ögetci, M. (2015). *China in the South Caucasus: not a Critical Partnership but Still Needed*. In: The South Caucasus-Between Integration and Fragmentation, European Policy Center

¹² The Worldbank Data (2023). available at: <https://data.worldbank.org> (Accessed: 2 May 2024).

¹³ Lianlei, B. (2016). *Azerbaijan in the Silk Road Economic Belt: A Chinese Perspective*. *Caucasus International*: 6(1): 27-39. available at: <http://www.caspianpolicy.org/caspian-region-in-the-silk-road-economic-belt-sreb-a-chineseperspective/>

¹⁴ State Statistics Committee of the Republic of Azerbaijan (2023). available at: <https://www.stat.gov.az/source/trade/>

¹⁵ Eurasianet (2022). *Анализ вложений Китая в Южный Кавказ*. available at: <https://russian.eurasianet.org/анализ-вложений-китая-в-южный-кавказ> (Accessed: 2 May 2024).

Years	2017	2018	2019	2020	2021
trade turnover	1,298,342.3	1,310,222.9	2,184,314.1	1,846,760.6	1,780,641.1

Table 1: Foreign trade turnover with China

Source: compiled by the author, which is based on the data of the State Statistics Committee of the Republic of Azerbaijan. <https://www.stat.gov.az/source/trade/>



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Azerbaijan intends to integrate the Zangezur Corridor into China's "One Belt, One Road" international economic and trade route and make it a part of the Middle Corridor, and it is receiving positive signals from Beijing.¹⁶

The statistics below show the number of imports to Azerbaijan in million USD and the role of China in 2023.

¹⁶ Azertac (2023). "One belt, one road" is a project of great importance for the region. available at: https://azertag.az/xeber/Bir_kemer_bir_yol_region_uchun_boyük_ehemiyet_dasiyan_layihedir-1266512. (Accessed: 2 May 2024).

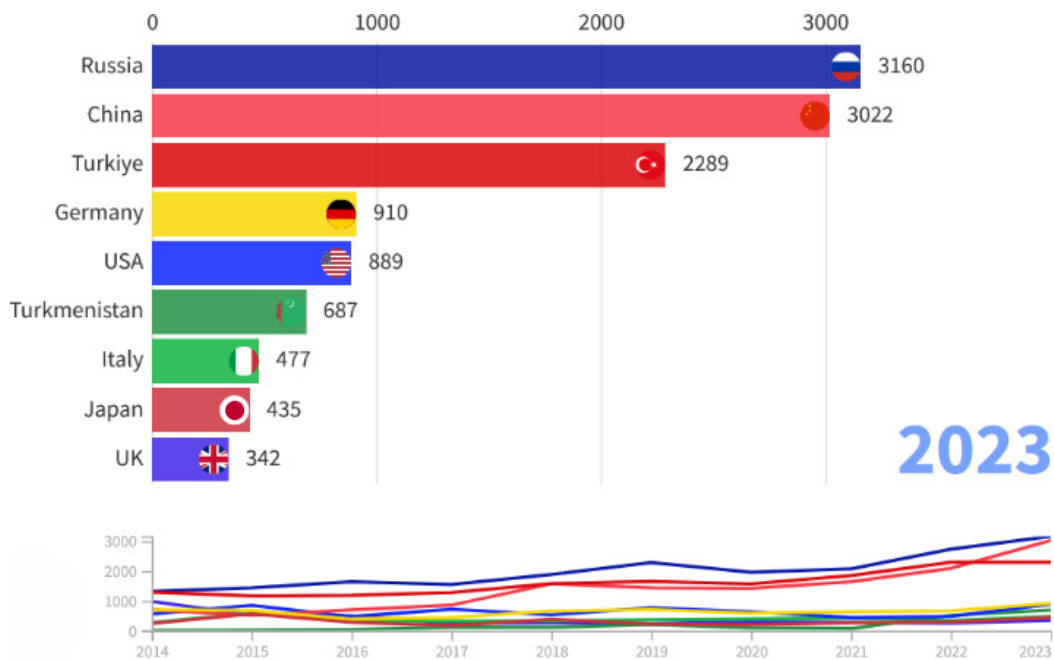


Figure 2: The import to Azerbaijan by countries

Source: <https://www.caspianpolicy.org>

China has spent considerably on projects related to transportation, digital technology, natural resources, and the non-oil sector in Azerbaijan. Beijing is currently developing overland trade routes. It invests in the modernization of the International Sea Trade Port in Baku and the railway from Baku to Tbilisi and Kars. Beijing signed an economic agreement with Baku worth 821 million dollars. The contract that each party accepted also covers chemical industrial parks, agro-industrial, and greenhouse complexes. A Digital Trade Hub was set up via the enormous role of Azerbaijan.

China also decided to influence Azerbaijan not only financially, but also by creating close bonds within the country. The Chinese government decided to sign agreements with local countries regarding the supply of Chinese phones to Azerbaijan.¹⁷ A tendency to the marketplace of China additionally exists as local people have also started to sell their goods through Alibaba, which serves as clear proof of Chinese policy implementation.¹⁸

Also, the Confucius Institute under the Azerbaijan University of Language was opened and different Chinese language classes started to gain popularity.¹⁹ As in 2015, China was Azerbaijan's ninth trading partner, but only within three years in 2018 it turned out to be the fourth.²⁰

Chinese investors have an enormous interest in the oil and gas sector in Azerbaijan. They can also enter the market from different areas, but currently, CNPC, Sinopec, and CNOOC companies are highly interested in investment in oil and gas. China has always had an interest in the Caspian Sea because of

¹⁷ Azernews (2024). China exports smartphones increases. available at: <https://www.azernews.az/business/223895.html> (Accessed: 2 May 2024)

¹⁸ ERE Forms (2023). another meeting took place between Azexport and Alibaba portals. available at: <https://ereforms.gov.az/en/media/xeberler/azexport-ve-alibaba-portallari-arasinda-novbeti-gorus-bas-tutub-627> (Accessed: 2 May 2024)

¹⁹ Press and Information Office of BSU (2011). *Confucius Institute has been opened at Baku State University*. available at: http://bsu.edu.az/en/news/confucius_institute_has_been_opened_at_baku_state_university (Accessed: 2 May 2024)

²⁰ Eurasia Daily Monitor Volume (2019). *Azerbaijan and China Sign \$800 Million Economic Package: The Geo-Economic Implications*. available at: <https://jamestown.org/program/azerbaijan-and-china-sign-800-million-economic-package-the-geo-economic-implications/> (Accessed: 2 May 2024)

the petroleum.²¹

As Azerbaijan has relatively stronger economies than other countries the South Caucasus and other forces are also interested in the resources of this country, it has a lower probability to fall into the debt trap of China.

1.2. The Relations with Armenia

Beijing has greatly expanded military cooperation with Yerevan. In the 1990s, China trained Armenian officers and supplied multiple rocket launchers to Yerevan. Beijing not only provided modern Chinese missiles to Yerevan in 2011 but also signed a military agreement providing for annual military assistance to Armenia in the amount of 5 million yen.²² Despite this fact, the imbalance of power in the region in the after-war period opened up new paths and opportunities for both sides and other regional powers.

The state of China has also expanded dramatically within the previous ten years. In 2020, China ranked third in terms of exports from Armenia with 11.5% (\$289 million) and second in terms of imports with 14.5% (\$663 million). When compared to 2010, this is a substantial gain, as in that period China accounted for only 3.1% (\$30 million) of Armenian exports and 10.6% (\$402 million) of imports.²³

Other sources also show the sharp increase in trade between Armenia and China which is especially visible in the import and exports from China below. The data will be shown for the period of 2023.

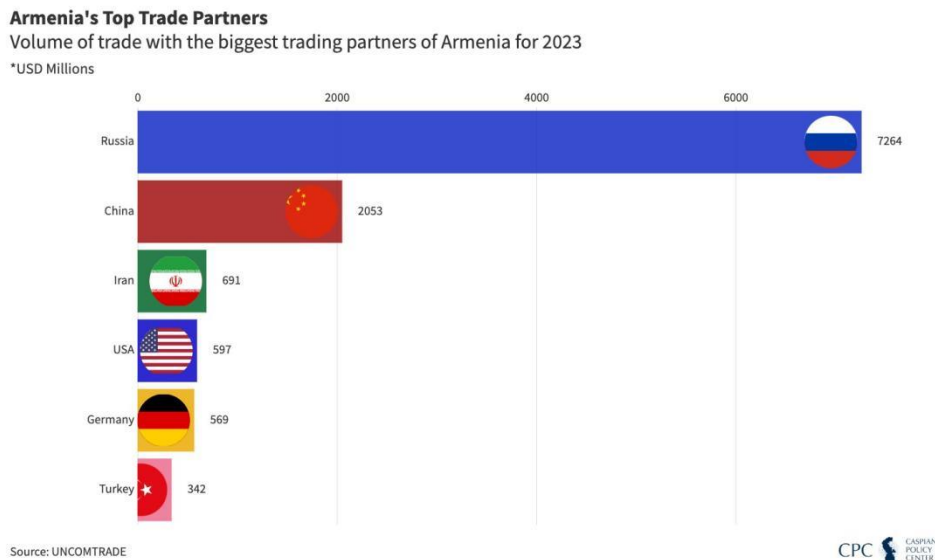


Figure 3. Armenia's top trade partners
Source: <https://www.caspianpolicy.org/>

Another statistic shows the sharp increase in the import to Armenia from China at the beginning of 2023

²¹ Azertac (2021). Azerbaijan-China relations in background of Azerbaijan's oil and gas sector. available at: https://azertag.az/en/xeber/azerbaijan_china_relations_in_background_of_azerbaijans_oil_and_gas_sector-1779183 (Accessed: 2 May 2024)

²² Trend (2017). *Beijing-Yerevan Military Co-op Jeopardizes Russia's Interests in South Caucasus*. available at: <https://en.trend.az/scaucasus/armenia/2792990.html>. (Accessed: 2 May 2024)

²³ State Statistics Committee of the Republic of Armenia (2023). available at: <https://www.armstat.am>

Armenia Imports By Country	Value	Year
Russia	\$3.88B	2023
China	\$1.63B	2023
Vietnam	\$815.20M	2023
Iran	\$597.23M	2023
United States	\$549.96M	2023

Table 2. Armenia's imports by country

Source: <https://tradingeconomics.com/armenia/imports-by-country>

Beijing also uses technological, cultural, and other elements of "soft power" in Armenia. In 2008, the Confucius Institute was opened in China, and then an art school in Yerevan, where students learn Chinese. Huawei has signed an agreement with Yerevan to develop a smart city project, collaborating with VIVA-MTS, a subsidiary of Russia's MTS, to jointly develop digital infrastructure. Although China's economic presence in Armenia is currently relatively small, its participation in the development of digital infrastructure is expected to increase significantly.²⁴

As the year came to an end, the foreign public debt to GDP ratio was evident and (hereinafter - GDP) was equal to 42.5%, and overall foreign public debt per capita was about 1,900 dollars. It is predicted that indicators related to foreign debt in Armenia will worsen in the current year. This factor's foundation is the decline in a nation's economic activity as a result of the aftermath of COVID-19, the increase in the budget deficit, and the increase in expectations regarding the national currency decrease. It is important to remember that in the second quarter of 2020, the quarterly economic growth decreased by 13.7% in comparison with the indicated period of last year. Tax collections were reduced, and budget expenditures were increased to support economic activity, leading to the rise in the ratio of the shortage in the budget to the Gross Domestic Product from 2.25% to 5%. The growth of the budget deficit conditioned the attraction of new debts. In 2020, during its first half, direct foreign debt equals 175 million.²⁵

Armenia tried to solve this financial situation with India as these two countries assisted each other due to the war-like circumstances, especially mentioning military provocations against Azerbaijan for Armenia and the Kashmir conflict for India. Despite trade between the two countries in terms of buying weapons, China was the first one to try to invest in Armenia.²⁶

According to the National Statistical Office of Armenia, comparing the exact period last year, the trade turnover between Armenia and China increased by about 35 percent during the six months of the current year and amounted to 243.1 million dollars. Imports from China to Armenia make up a large amount of trade turnover. Armenia's export to China is made up of copper concentrate. According to preliminary estimates, 500 million dollars are required for the realization of the project. CITIC state corporation was involved in the project by China, "Vallex group" company by Armenia.²⁷

By the beginning of 2023, the foreign debt of the country has been formalized in the amount of 6 billion 451 million US dollars. The debt gradually increased from 2013, starting from 3 billion 739

²⁴ Asbarez (2023). *China Ready for Closer Ties with Armenia*. available at: <https://anca.org/china-ready-for-closer-ties-with-armenia/> (Accessed: 2 May 2024).

²⁵ State Statistics Committee of the Republic of Armenia (2023). available at: <https://www.armstat.am>

²⁶ Lakshminarayanan et al. (2023). *Armenia-India partnership: geopolitical and geo-economic implications in the Eurasian context*. available at: https://www.researchgate.net/publication/367558874_Armenia-India_partnership_geopolitical_and_geo-economic_implications_in_the_Eurasian_context

²⁷ Sahakyan, M. (2021). *Armenia and China's Belt and Road Initiative: Lost Opportunities and Future Prospects 2.0*. available at: <https://russiancouncil.ru/en/analytics-and-comments/columns/eurasian-policy/armenia-and-china-s-belt-and-road-initiative-lost-opportunities-and-future-prospects-2-0/> (Accessed: 2 May 2024).

million dollars, and reached its pinnacle in 2022, equaling 6 billion 648 million dollars.²⁸

China is the second country with which Armenia conducts the most import-export operations after Russia. The fact that Armenia has a large number of foreign debts and is looking for allies, especially the need for foreign investments to restore its damaged economy after the 2nd Karabakh war, forces Armenia to get closer to China. Because of this reason, it can be seen that Armenia is a state highly likely to fall into China's debt trap among the countries of the South Caucasus.

1.3. The Relations with Georgia

Given Georgia's growing potential as a transit country, China has provided significant resources for the country's strategic and infrastructure projects. Since the early 2000s, Beijing has invested heavily in Georgia's hydroelectric power plants, land transportation networks, railways, seaports, and industrial free zones.²⁹

	2022		2023		CHANGE (%)
	THSD.US DOLLARS	SHARE IN DOLLARS	THSD.US DOLLARS	SHARE IN DOLLARS	
TOTAL EXPORTS	4 242 653.1	100.0	5 592 844.0	100.0	31.8
Of which:					
China	615 684.4	14.5	736 837.9	13.2	19.7
Azerbaijan	531 725.1	12.5	672 628.0	12.0	26.5
Russia	610 060.1	14.4	651 628.4	11.7	6.8
Armenia	256 115.8	6.0	584 579.8	10.5	128.2
Türkiye	322 761.3	7.6	435 485.3	7.8	34.9
Bulgaria	253 948.5	6.0	423 665.8	7.6	66.8
United States	194 670.7	4.6	265 059.6	4.7	36.2
Kazakhstan	96 181.6	2.3	238 173.3	4.3	147.6
Ukraine	307 435.7	7.2	232 077.9	4.1	-24.5
Peru	13 709.3	0.3	153 889.6	2.8	1 022.5
Other countries	1 040 360.6	24.5	1 198 818.1	21.4	15.2

Table 3. Top trading partners by exports to Georgia

Source: <https://www.geostat.ge/en>

Regarding the information in the table above, the country that Georgia exports the most to is China. In the ranking, Azerbaijan is 2nd and Russia is 3rd. These indicators show that the Chinese market is of great importance to Georgia.

²⁸ State Statistics Committee of the Republic of Armenia (2023). available at: <https://www.armstat.am>

²⁹ Huseynov, V. (2018). *Use of Soft Power in Tandem with Economic Expansion: Examining the Case of Chinese Soft Power in South Caucasus*. available at: https://www.academia.edu/38335704/Use_of_Soft_Power_in_Tandem_with_Economic_Expansion_on_Examining_the_Case_of_Chinese_Soft_Power_in_South_Caucasus

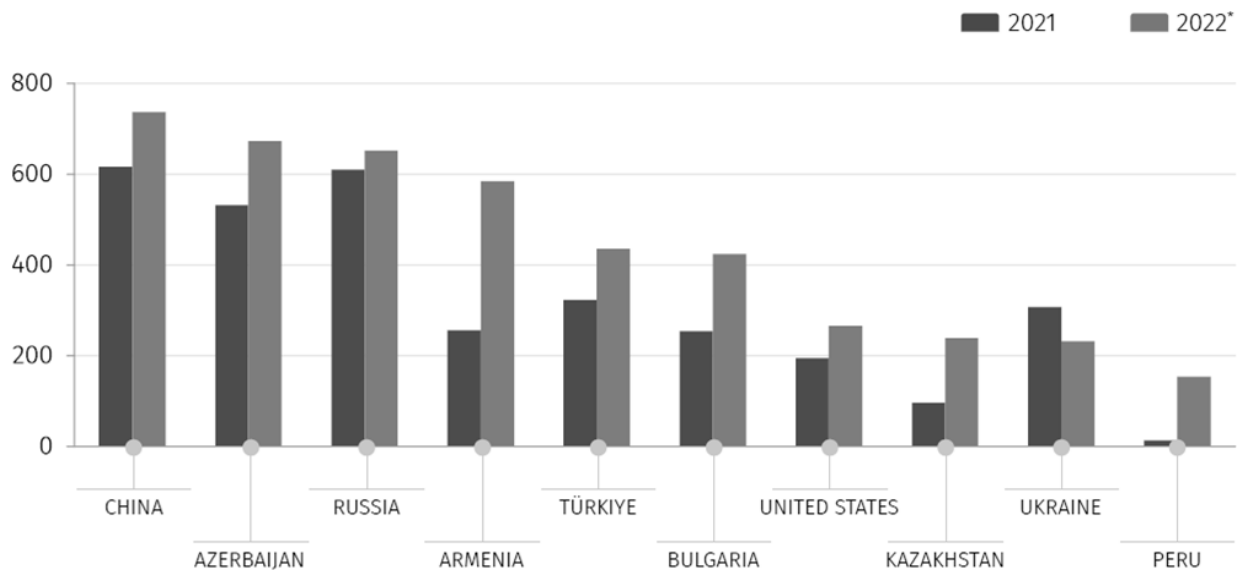
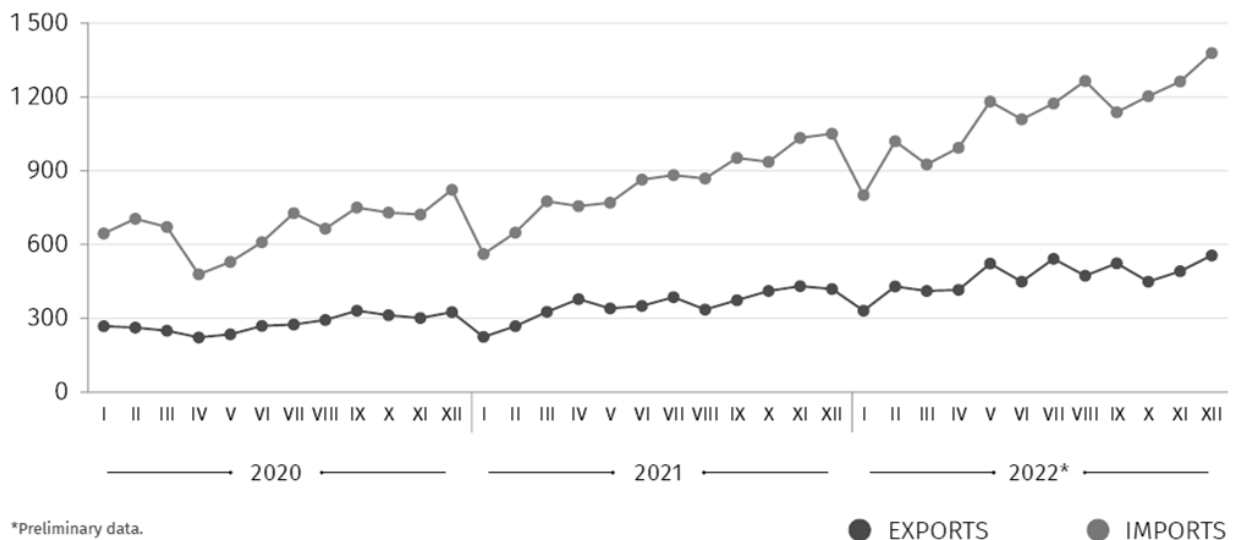


Figure 4. Top trading partners by exports in Georgia in 2021-2022 (million us dollars)

Source: <https://www.geostat.ge/en>

In May 2017, Beijing ratified a free trade deal with Tbilisi, making it the region's only state to conclude such an agreement. The agreement includes 17 sections on trade in items and services, safeguarding the ownership of intellectual property freedoms, and also electronic commerce, market competition, and environmental protection.

In 2020, China became Georgia's largest trading partner in exports with a share of 14.2% (\$477 million) - a rise of almost two times in comparison with 2017 and a share of 7.4% (\$201 million). Although China is Georgia's third-biggest partner in trade in imports, this figure still stands at 8.8% (\$709 million).



*Preliminary data.

Figure 5. Exports and imports dynamics by months in Georgia, 2020-2022(million us dollars)

Source: <https://www.geostat.ge/en>

As of May 31, 2020, the state debt of Georgia exceeded 5 billion 979 million dollars or 18 billion 990 million GEL, which is 767 million 842 thousand GEL more than the previous month. The largest creditors of the Georgian state are the Development Bank of Asia, the World Development Association, and Reconstruction and Development's International Bank. Based on the information

available as of July 1st, 2023, the country's total foreign debt increased by \$163,260 to \$6,142,531,000. Germany ranks first (\$372,396 million), France ranks second (\$457,182 million), and Japan ranks third (\$213,377 million).³⁰

Table 4. Top trading partners by imports to Georgia

Source: <https://www.geostat.ge/en>

	2022		2023		CHANGE (%)
	THSD.US DOLLARS	SHARE IN DOLLARS	THSD.US DOLLARS	SHARE IN DOLLARS	
TOTAL IMPORTS	10 099 756.0	100.0	13 450 054.2	100.0	33.2
Of which:					
Turkey	1 828 975.9	18.1	2 370 933.1	17.6	29.6
Russia	1 023 181.6	10.1	1 835 412.4	13.6	79.4
China	865 021.2	8.6	1 125 964.5	8.4	30.2
United States	648 197.2	6.4	941 322.6	7.0	45.2
Germany	482 007.2	4.8	661 572.6	4.9	37.3
Azerbaijan	598 391.0	5.9	642 077.9	4.8	7.3
Armenia	418 429.6	4.1	613 189.9	4.6	46.5
Japan	186 749.9	1.8	307 144.3	2.3	64.5
Romania	177 601.5	1.8	291 594.7	2.2	64.2
Italy	248 397.8	2.5	287 199.5	2.1	15.6
Other countries	3 622 803.0	35.9	4 373 642.6	32.5	20.7

In Georgia, China has also opened a Confucius Institute to expand the country's ability to teach and learn Chinese. Beijing provides scholarships to Georgian students who are going to study in the state of China and annually attracts more than 20 foreign language teachers to promote and popularize Chinese culture and language in Georgia.³¹

China-Georgia relations are not intensified today, they are largely limited to the support of states to each other's territorial integrity and collaboration in terms of the Great Silk Road Project. China also attaches great importance to the Kars-Tbilisi railway line and supports the project financially. Although Georgian Minister of Foreign Affairs Salome Zurabashvili stated that they were waiting for Chinese companies to their country in her conference with the Foreign Minister of China Li Zhaoxing in Shanghai, where she went for the briefing of the United Nations Economic and Social Commission on April 28, 2004, serious results could not be obtained in this regard today.³²

2. Evaluation

China's policy in the South Caucasus region includes economic, energy, transportation logistics, and security problems. It is crystal clear, that the main elements of the "soft power" implemented by China in the scope of its relationship with the Caucasian States are investment and economic cooperation. The reasons for this are the creation of a good neighborly environment that contributes to

³⁰ State Statistics Committee of the Republic of Georgia (2023). available at: <https://www.geostat.ge/en>

³¹ Avdaliani, E. (2023). *What's Behind China's Strategic Partnership With Georgia?*. available at: <https://carnegieendowment.org/politika/90394> (Accessed: 2 May 2024).

³² Ministry of Foreign Affairs of the People's Republic of China (2004). *Foreign Minister Li Zhaoxing Holds Talks with Georgian Foreign Minister Salome Zurabishvili and Meets with Kyrgyz Foreign Minister Askar Aytmatov*. available at: https://www.fmprc.gov.cn/eng/gjhdq_665435/2675_665437/3170_664312/3172_664316/200404/t20040428_555869.html (Accessed: 2 May 2024)

China's internal development and the giving a central place to the South Caucasus within the framework of the "One Belt, One Road" project. As understood from the official doctrines of the Economic Belt of the Silk Road and the 21st century Maritime Silk Road, The Belt, and Road initiative's primary objective is to establish a transportation infrastructure to deliver goods to Europe through the South Caucasus region.³³

The South Caucasus countries are trying to use their advantageous strategic location as an important link in the transportation routes between Europe and Asia. Especially Azerbaijan and Georgia attach great importance to and support the International Transport Route through the Caspian Sea (Central Corridor) project "Tasits". In February 2018, a conference on "The Role of Trans-Caspian East-West Trade and Corridor in the Realization of the Belt and Road Initiative" was held in Beijing with the support of the Azerbaijan, Georgia, Turkey, and Kazakhstan Embassies of the Trade Ministry of China. In November 2018, a working group was formed to coordinate the relations in the transportation sector.

The mechanism of the "debt trap" policy may be observed in the works of Hamed Al Habsi, who could provide evidence of the Chinese policy. The clear example of Tanzanian economics and its dependence on China was shown from different angles. The country had some financial issues and China provided financial help. As time passed by, the financial burden started to increase leading to the country's inability to pay for debts.³⁴

Countries with financial difficulties either have to borrow money from other countries to manage the debt or give China access to their territory. China expects the second option, as it was proved in the works of a professional in economics Anzette Were, who has been analyzing situations in African countries for a while. Nowadays, Sudan, Angola, Kenya, Gabon, and Mauritius have a collective GDP of over 300 billion dollars, but with a debt-to-GDP ratio of 60%. They started to look for money sources. China borrowed about 6 billion dollars from these countries annually from 2010 to 2014. Africa could not return the debt, but China's President Xi Jinping borrowed 60 billion dollars from Africa. The main factor proving the "debt trap" policy is the result in Africa nowadays, as the country has an annual infrastructure financing deficit of about \$93 billion, which can only be solved by Chinese intervention proving the dependency on this country.³⁵

Another example is China's enormous interest in the Black Sea, including Eastern and Central Europe. In 2020 the turnover with Turkey was over 24 billion dollars. Additionally, it helped Ukraine as it became the first partner of the country in trade after the conflict with Russia. The main powers nowadays in Eastern and Central Europe are Russia, the United States, and China. China tries to lure other countries by broad investment, but the true intentions of this country are hidden.³⁶

Statistics show, that 63% of the overall foreign debt of developing countries was related to China, however, this number was not even 40% ten years ago. By this pace, China will emerge as the largest creditor in 2030 with enormous power over other states.³⁷ Eventually, it will lead to global leadership as China's backbone is the economic vulnerability of the countries in which China invested money.³⁸

³³ Emerson, M. et al. (2019). *The Belt and Road Initiative in Central Asia and the South Caucasus: The perspective of China, Russia, The European Union, India and the United States of America*. Emerging Markets Forum.

³⁴ Habsi, H. (2021) *Economic Development vs Debt Trap: Is China's involvement in East Africa's economy a front to take over the region for strategic purposes? A case study of Tanzania*. available at: https://www.modul.ac.at/uploads/files/Theses/Bachelor/Undergrad_2021/BSC_2021/1821039_AL_HABSI_Hamed_Bachelor_Thesis.pdf

³⁴ Vestikavkaza (2020). *Что мешает Китаю на Южном Кавказе?*. available at: <https://vestikavkaza.ru/analytics/cto-mesaet-kitau-na-uznom-kavkaze.html> (Accessed: 2 May 2024).

³⁵ Were, A. (2018). *Debt Trap, Chinese Loans and Africa's Development Options*. available at: <https://saiia.org.za/wp-content/uploads/2018/09/Policy-Insights-66.pdf>

³⁶ Ertem S.H. (2021). *Karadeniz rekabetinde yeni küresel oyuncu: Çin*. Fikirturu. available at: <https://fikirturu.com/jeo-politika/karadeniz-rekabetinde-yeni-kuresel-oyuncu-cin/> (Accessed: 2 May 2024).

³⁷ Ischia, I. (2021). *Çin'le İktisadi İlişkilerin Perde Arkası*. Birikim. available at: <https://birikimdergisi.com/haftalik/10597/cin-le-iktisadi-iliskilerin-perde-arkasi> (Accessed: 2 May 2024).

³⁸ TRT World (2020). *How China's debt trap diplomacy works and what it means*. available at: <https://www.trtworld.com/africa/how-china-s-debt-trap-diplomacy-works-and-what-it-means-32133> (Accessed: 2 May 2024)

In China-Armenia relations, it was the military dimension that drew more attention. Although the Chinese authorities said to the Azerbaijani authorities, who reacted to their sale of missiles to Armenia, "We are ready to sell you the same weapons", the visit of the Chinese Ministry of Defense delegation to Armenia in August 2004 shows that China-Armenia relations are gradually developing. Meanwhile, the share of China in foreign investments in Armenia is supposed to greatly rise in the upcoming period. On October 15, 2001, China Shanxi Synthetical Rubber Group Co., Ltd., on the production of synthetic rubber. The signing of a 100-million-dollar Sino-Armenian joint investment agreement between Nairit and Armenia is considered one of these indicators.

In China-Azerbaijan relations, the issues of giving importance to energy and territorial integrity come to the fore. China has started to be closely interested in the energy sector of Azerbaijan and has entered the oil sector as of 2003. The Chinese oil company Shengli Oil, which has been negotiating since mid-2002 on the operation of the Pirsaat oil field and conducted a pact with the Azerbaijan State Oil Company (SOCAR) on June 4, 2003, also started partnership in the Karachukur oil field operation with the agreement signed on June 18, 2004.

Conclusion

Azerbaijani government implements its joint projects in cooperation with China only using its investment. Also, the fact that Azerbaijan has rich energy resources and acts as a gas exporter for large projects such as TANAP and TAP, which provide Europe with energy, causes a conflict of interests between Europe, Turkey, and Russia, as well as China. For this reason, China's complete economic influence on Azerbaijan seems unlikely.

As for Georgia, it is more actively involved in import-export operations with China than with Azerbaijan and Armenia. While Georgia's main importing partner is Turkey, its top exporting destination is China. Georgia borrowed from China several times in the early 2000s. However, this amount was much lower than the debts received by European Union states like Germany. Taking into account all of these factors, it should be noted that the likelihood of Georgia becoming a victim of China's debt diplomacy and falling into a debt trap is very low.

Taking into account the political and economic climate of Armenia today, its borders with Turkey being closed and being at war, it is very important for Armenia to develop relations with China as a new ally and to participate in joint projects. However, China's interests in Armenia collide with those of Russia and Iran. Considering Armenia's attempts to cooperate with China, the size of the country's foreign debts, and the current political and economic situation, it can be finalized in terms of the relatively higher possibility of the country being adversely affected by China's debt diplomacy.

A lot of African countries stopped borrowing money from the West and started to rely on China, which eventually led to the "debt trap". It seemed especially attractive as it provided preconditions of "good governance" and the appearance of "no strings attached". The major lesson to not occurring in the "debt trap" was related to borrowing money only if there's the necessity and the amount that a country can return in the future.³⁹

China helps developing countries and they occur to be in the "debt trap" because of underdeveloped local institutions, a low level of domestic savings, and the incompetence of authorities in debt management. The debt challenges along with already existing economic difficulties played a vital role in the Chinese "debt trap" policy.⁴⁰

Summarizing all the data about the Chinese "debt-trap" policy, the situation of South Caucasus's dependency on China is unlikely to happen. Various factors preventing this outcome from happening should be considered: the financial well-being of the state; already existing other sources of income in terms of natural resources and international trade; and existing interested sides in the South Caucasus like Russia, Iran, Turkey. Even the current debt of these countries to China is payable proving the financial independence of these countries. This serves as clear proof, that the South Caucasus is a strong region and the relationship with China is fully under control and will not affect the future of Azerbaijan, Georgia, and Armenia.

³⁹ EPRC (2021). *How Uganda can avoid China debt trap*. available at: <https://eprcug.org/eprc-highlights/how-uganda-can-avoid-china-debt-trap/> (Accessed: 2 May 2024)

⁴⁰ Interchopen (2020). *Belarus-China: Avoiding the "Debt Trap"*. available at: <https://www.intechopen.com/chapters/75896> (Accessed: 2 May 2024)

It should be mentioned, that the limitations of the thesis are connected to the possible scope of work. The main information has theoretical background and is based on scientific and political literature. The topic itself is controversial and a lot of experts are discussing this issue from different angles. This work is qualitative in terms of used literature but does not include interviews with geopolitical experts, which could give additional and precise information based on their opinions and experience.

The work may serve as a ground for future research. Certain opinions about Chinese relationships with other countries cannot be formalized because of different opinions from geopolitical experts, but the work shows the probability of a negative Chinese policy called a "debt trap". The materials from this thesis can be used by others who are trying to prove this Chinese policy. Statistical graphics, comparative methods, examples of other countries, and how they occurred in the "debt trap" may be especially useful to prove this type of Chinese policy.

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