

BAKU DIALOGUES

POLICY PERSPECTIVES ON THE SILK ROAD REGION

Vol. 6 | No. 1 | Fall 2022

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The “One China” Issue in U.S.-China Relations

Zhiqun Zhu

Speaker of the U.S. House of Representatives Nancy Pelosi's visit to Armenia in September 2022 caused some limited geopolitical commotion, as most readers of *Baku Dialogues* are keenly aware. Without downplaying its regional significance in the slightest, it was, however, her visit to Taiwan in August 2022 that made global headlines and triggered a new round of tensions in the Taiwan Strait. At the core of that controversy is the status of Taiwan. While the People's Republic of China (PRC) condemned the visit as a violation of the “one China principle,” the U.S. government and Pelosi herself insisted that it was consistent with America's “one China policy.”

Five decades after U.S. President Richard Nixon's historic visit to

China, the Taiwan issue remains the most difficult and potentially most explosive dispute between the United States and China. While Beijing maintains that the “one China principle,” with the PRC representing all of China, is the foundation of U.S.-China relations, Washington emphasizes that its “one China policy” treats Taiwan as a separate entity from the PRC. Meanwhile, Taipei, under the rule of the Democratic Progressive Party (DPP), has asserted that Taiwan is already independent and the two sides across the Taiwan Strait are not subordinate to each other.

As the U.S.-China rivalry intensifies, Taiwan has quickly re-emerged as the biggest hot-button issue between the two great powers. The Taiwan issue is

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so serious that it routinely tops the agenda of meetings and phone calls between Chinese and U.S. officials, including calls between PRC President Xi Jinping and U.S. President Joe Biden. Shortly before Pelosi's visit to Taiwan, Xi warned that “those who play with fire will get burned” during a phone call with Biden.

Why is Taiwan such an important and difficult issue in U.S.-China relations? How did the United States get involved in Taiwan in the first place? What exactly is “one China?” What does the future hold for the Beijing-Washington-Taipei trilateral relationship?

A Brief History

Taiwan was ceded to Japan by the Qing Dynasty following China's defeat in the first Sino-Japanese war in 1894-1895. Taiwan remained Japan's colony until 1945 when Japan surrendered at the end of World War II. The Chinese view this period as part of the “century of humiliation” when Western powers and Japan invaded and dominated

Pelosi's visit to Armenia caused limited geopolitical commotion but it was her visit to Taiwan that made global headlines and triggered a new round of tensions between America and China.

a weak China, roughly from the mid-nineteenth to the mid-twentieth century. The “century of humiliation” still shapes Chinese politics today, and Xi Jinping's “Chinese Dream” or “rejuvenation of the Chinese nation” encompasses the complete unification of China.

U.S. involvement in Taiwan can be traced back to World War II. Towards its end, U.S. President Franklin D. Roosevelt, UK Prime Minister Winston Churchill, and Chinese Generalissimo Chiang Kai-shek met in Cairo on 26 November 1943 to outline the Allied position against Japan and make decisions about postwar Asia. The general statement issued at the conclusion of the meeting includes the following regarding Taiwan (Formosa):

It is their purpose that Japan shall be stripped of all the islands in the Pacific which she has seized or occupied since the beginning of the first World War in 1914, and that all the territories Japan has stolen from the Chinese, such as Manchuria, Formosa, and the Pescadores, shall be restored to the Republic of China.

In July and August 1945, leaders from the United States, the Soviet Union, and the United Kingdom met in Potsdam to plan postwar peace. On 26 July 1945, U.S. President Harry Truman, together with Churchill, and Chiang issued the Potsdam Declaration, which outlined the terms of unconditional surrender for Japan.

With the support of the United States and other allies, the Republic of China (ROC) government officially celebrated Taiwan's return to China on 25 October 1945. That date became a public holiday called Retrocession Day in the ROC. The ROC government continued to observe this holiday after 1949 when it moved to Taiwan and until 2000, when President Chen Shui-bian from the pro-Taiwan independence DPP came to power and abolished the holiday.

Right after World War II, the United States tried to mediate between Chiang's nationalist government and Mao Zedong's

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communist forces. The mediation failed, and the Chinese civil war resumed. Chiang's nationalist forces were losing, and the United States was not going to intervene militarily to stop the communist victory. In 1948-1949, Chiang's ROC government and about two million troops and followers retreated to Taiwan, carrying with them the nation's revenue and artifacts. On 1 October 1949, Mao proclaimed the founding of the PRC. Mao was ready to send People's Liberation Army troops across the Taiwan Strait to "liberate" Taiwan and end the civil war. The U.S. government, tired of the corrupt Chiang regime, was prepared to let the PRC forces proceed and take Taiwan.

The Korean War that broke out on 25 June 1950 changed America's strategic calculation. Worried about the "domino effect" of communist takeovers across Asia, Truman sent the U.S. Seventh Fleet to the Taiwan Strait, essentially blocking the PRC attempt to incorporate Taiwan.

From 1949 to 1971, Beijing and Taipei engaged in fierce competition for international recognition of which of the two represented all of China on the international stage. The United States continued to support the ROC in Taiwan during that period. The global tide turned in 1971, when the United Nations General Assembly passed Resolution 2758 that recognized the representatives of the government of the PRC as the "only lawful representatives of China" and that the PRC is one of the five permanent members of the UN Security Council. The same document also decided to "expel forthwith the representatives of Chiang Kai-shek from the place which they unlawfully occupy at the United Nations and in all the organizations related to it."

The United States shifted its position too. Mired in a costly war in Indochina, the United States felt the need and saw an opportunity in the late 1960s to improve relations with the PRC and form a united front against their common enemy the Soviet Union as the two communist countries openly split. Washington's rapprochement with Beijing was a geostrategic and geo-economic decision. In July 1971, U.S. National Security Advisor Henry Kissinger took a se-

cret trip to China, paving the way for Nixon's historic visit to China. In February 1972 during Nixon's China trip, the two countries issued the Shanghai Communiqué, in which the United States "acknowledges" that "all Chinese on either side of the Taiwan Strait maintain there is but one China" and the United States does not challenge that position. This is the origin of the "one China" policy.

In the December 1978 U.S.-PRC joint communiqué, the two countries agreed to officially establish diplomatic relations on 1 January 1979, with Washington reaffirming its acknowledgement of "one China." The formulation was as follows: "The United States of America recognizes the Government of the People's Republic of China as the sole legal Government of China. Within this context, the people of the United States will maintain cultural, commercial, and other unofficial relations with the people of Taiwan."

Many members of the U.S. Congress were furious at the Carter Administration for breaking diplomatic relations with the ROC in Taiwan and recognizing the PRC in Beijing instead. To preserve U.S. relations with Taiwan, its Congress passed the

Taiwan Relations Act (TRA), and President Jimmy Carter signed it into law in April 1979. The TRA stipulates that the United States will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to “enable Taiwan to maintain a sufficient self-defense capability.”

In the 1982 U.S.-PRC joint communiqué, the U.S. government, understanding the Chinese policy of striving for a peaceful resolution of the Taiwan question, stated that “it does not seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that it intends gradually to reduce its sale of arms to Taiwan, leading, over a period of time, to a final resolution.” The United States also reiterated that “it has no intention of infringing on Chinese sovereignty and territorial integrity, or interfering in China’s internal affairs, or pursuing a policy of ‘two Chinas’ or ‘one China, one Taiwan.’”

“One China”

Clearly, “one China” has been critical in the Beijing-Washington-Taipei relationship, both before and after 1979, when the United States switched diplomatic recognition from Taipei to Beijing. From 1949 to 1971, the ROC in Taiwan continued to represent all of China in international organizations including the United Nations, while the PRC was excluded from much of the international system. During this period, both Chiang and Mao emphasized “one China” and each insisted that their government was the only legitimate government representing all of China, including the Chinese mainland and Taiwan. In 1971, when the PRC was admitted into the UN as the representative of China, replacing the ROC, the United States flirted with the idea of two seats for China, but this was shot down by both Beijing and Taipei since it would create “two Chinas.”

The PRC considers the three joint communiqués between Beijing and Washington—the 1972 Shanghai Communiqué, the 1978 Communiqué establishing diplomatic ties, and the 1982 Communiqué on Arms Sale to

Taiwan—as the foundation of U.S.-China relations. Based on Beijing’s “one China principle,” despite the current political separation of Taiwan and mainland China, China’s sovereignty and territorial integrity remain unchanged. Beijing pursues peaceful reunification with Taiwan under “one China” but has not ruled out the use of force if necessary.

The TRA has guided America’s “unofficial” relations with Taiwan since 1979. The TRA makes it clear that “the United States decision to establish diplomatic relations with the People’s Republic of China rests upon the expectation that the future of Taiwan will be determined by peaceful means.” Meanwhile, the United States has followed a policy of “strategic ambiguity” with regard to whether it will come to Taiwan’s defense should a war break out across the Taiwan Strait. “Strategic ambiguity” has served as dual deterrence—keeping the PRC from taking Taiwan by force and preventing Taiwan from moving towards de jure independence.

In recent years, U.S. Congressional support for Taiwan has grown stronger, together with increasing hostility towards China. Some scholars and members of Congress have advocated “strategic clarity” to deter

Chinese military actions in the Taiwan Strait.

Members of Congress such as Rep. Claudia Tenney (R-NY) are publicly calling for the United States to revisit its “one China” policy and for boosting Taiwan’s defense. In November 2021, Sen. Josh Hawley (R-MO) and Sen. James Risch (R-ID) introduced the Arm Taiwan Act and the Taiwan Deterrence Act, respectively, at the Senate Foreign Relations Committee, proposing to provide billions of U.S. dollars as aid or loans for Taiwan’s defense. The Taiwan Policy Act of 2022, co-sponsored by Sen. Bob Menendez (D-NJ) and Sen. Lindsey Graham (R-SC), would further upgrade U.S.-Taiwan relations.

In 1982, when the United States and the PRC issued their third joint communiqué on reducing U.S. arms sales to Taiwan, the Reagan Administration offered Six Assurances to Taiwan privately, stating that the United States:

- Has not agreed to set a date for ending arms sales to Taiwan.
- Has not agreed to consult with the PRC on arms sales to Taiwan.

- Will not play a mediation role between Taipei and Beijing.
- Has not agreed to revise the Taiwan Relations Act.
- Has not altered its position regarding sovereignty over Taiwan.
- Will not exert pressure on Taiwan to enter into negotiations with the PRC.

Obviously, the three joint communiqués, the TRA, and the Six Assurances are contradictory in many aspects. It appears that Washington has different commitments to Beijing and Taipei.

For a long time, the United States has based its “one China” policy on the TRA and the three U.S.-PRC joint

communiqués. More recently, as U.S.-Taiwan relations have been strengthened, Washington has publicly added the previously private Six Assurances to the equation when defining its “one China” policy. The Biden Administration has explicitly stated that Washington’s “one China policy” is different from Beijing’s “one China principle” and is guided by the TRA, the Three Communiqués, and the Six Assurances. Nevertheless,

Taiwan’s status under Washington’s “one China policy” has remained ambiguous.

Taiwan continued to follow “one China” from 1949 to the 1990s under the rule of the Chinese Nationalist Party (Kuomintang or KMT). In 1990 the ROC government in Taiwan set up the National Unification Council to promote integration between mainland China and Taiwan. Officials from the two sides met in Hong Kong in 1992, out of which emerged the term “1992 Consensus”—whereby both sides agree there is only one

China, but their interpretation of “one China” could be different. However, in 1999, then ROC President Lee Teng-hui proposed during an interview with a German radio

station that relations across the Taiwan Strait were “special state-to-state relations,” departing from “one China.”

Conflicting Interests

The PRC insists that despite the separation of Taiwan and mainland China, which was caused by the Chinese civil war, there

is only one China, including the mainland and Taiwan. Beijing has also stated that Taiwan must be reunified with the mainland, preferably by peaceful means, but it does not rule out the use of force.

Taiwan’s position has evolved over the decades. Both Chiang Kai-shek and his son and successor Chiang Ching-kuo reiterated “one China” and even dreamed of “recovering” the mainland someday. After Chiang Ching-kuo died in 1988, the KMT under Lee Teng-hui’s leadership continued to follow “one China” and sought to apply the ROC Constitution in managing relations across the Taiwan Strait. The National Unification Council that was set up in 1990 outlined a three-step process for national unification. However, Lee’s “two states” proposition in 1999 violated the ROC Constitution, ratified in 1946 when the ROC still ruled all of China. Article 4 of the Constitution says that “the territory of the Republic of China according to its existing national boundaries shall not be altered except by resolution of the National Assembly.” Unless the ROC Constitution is revised, it remains a “one China” constitution.

Taiwan completed its democratic transition in the 1990s. The pro-independence DPP, which was formed in 1986,

came to power in 2000 and was returned to office in 2016. President Chen Shui-bian from the DPP abrogated the National Unification Council in 2006. The DPP and current president Tsai Ing-wen claim that Taiwan is already an independent state, and the ROC (Taiwan) and the PRC (China) should not be subordinate to each other. The KMT, now in opposition, continues to adhere to the one China-based “1992 Consensus.”

It is important to note that the KMT continues to call the other side of the Taiwan Strait “Chinese mainland” or “Mainland China,” while the DPP simply calls it “China” or “the other side.” Such quibbling over semantics may seem petty to an outsider, but in the Chinese context, such references have political connotations. Simply put, the KMT still considers the other side of the Taiwan Strait as part of “one China” based on the ROC Constitution, but the DPP considers the other side as a neighbor and a different country.

Decades of political transformations in Taiwan have resulted in a new Taiwanese identity. Most people in Taiwan today, including many who came to Taiwan from the mainland in the 1940s and their descendants, identify themselves as Taiwanese, not Chinese, or as both

Taiwanese and Chinese. Among the young generation in Taiwan, most share the DPP's position and view Taiwan as an independent country and believe that its giant (and threatening) neighbor China intends to absorb it forcefully.

The United States has opposed unilateral change to the status quo, but the U.S. interpretation of what constitutes the status quo is vague and confusing. For example, U.S. officials consider the PRC's aggressive military activities around Taiwan as a challenge to the status quo. Beijing has argued that such military moves are in response to the DPP government's refusal to follow "one China." U.S. officials, however, do not consider the DPP government's abandoning of "one China" and the "1992 Consensus" as changing the status quo. Indeed, one may ask whether the United States itself has changed the status quo by unilaterally adding the "Six Assurances" to its definition of "one China" policy in handling the Taiwan issue.

The delicate status quo in the Taiwan Strait was shaken when

the United States and the PRC established diplomatic relations in 1979, yet it has been possible to maintain peace for the most part. The status quo, however, remains fragile as Beijing, Taipei, and Washington each have conflicting interests and goals; and all have attempted to change it in their own interests.

Beijing fears that Taiwan is slipping away from China. While it prefers peaceful unification, Beijing has vowed to crush Taiwan independence at all costs. But the more pressure the PRC ex-

The status quo remains fragile as Beijing, Taipei, and Washington each have conflicting interests and goals. All have attempted to change it in their own interests.

erts on Taiwan, the more resentful the Taiwanese become, and the less likely unification will take place voluntarily. For example, Beijing continues to block Taiwan's participation in the World Health Organization as a way to punish the DPP government, but this has alienated many Taiwanese who bridle at Beijing's intimidation. Beijing's behavior has ironically consolidated support for the DPP in Taiwan. How to curb Taiwan independence without hurting and alienating the Taiwanese public is a real dilemma for Beijing.

The DPP government has categorically rejected "one China" as something that Beijing seeks to impose on Taiwan. It has stated that the two sides should engage in a meaningful dialogue based on parity and without "one China" as the precondition. However, by claiming that Taiwan is already independent, or that Taiwan and China are not subordinate to each other, the DPP government is imposing its own precondition—one that Beijing cannot accept.

The United States will help Taiwan maintain "a sufficient self-defense capability" based on the TRA. But the TRA is not a defense treaty, and the United States is not obligated to defend Taiwan. How can the United States support Taiwan's democracy without encouraging Taiwanese independence, which could drag the United State into a war with China? How can the United States protect Taiwan's people and way of life without turning Taiwan into a chess piece in the U.S.-China power game? Such serious questions are not publicly discussed and debated in the United

Serious questions at the heart of the current impasse in U.S.-China-Taiwan relations are not publicly discussed and debated in America.

States. But they are at the heart of the current impasse in U.S.-China-Taiwan relations.

The U.S. government has stated that it does not support Taiwan independence and does not follow a policy of "one China, one Taiwan" or "two Chinas." Meanwhile, U.S. officials routinely pledge to deepen relations with Taiwan and support Taiwan at a time of growing political, security, and economic conflict between the United States and China.

The U.S. government insists it has not changed its commitment to "one China," but it has significantly upgraded relations with Taiwan and embarked on a matrix of policies that have led to increasing conflict with China since the Trump Administration. In addition, the U.S. Congress passed a few new bills to boost U.S.-Taiwan relations, which President Donald Trump signed into law, including the 2018 Taiwan Travel Act and the 2019 Taiwan Allies International Protection and Enhancement Initiative (TAIPEI) Act.

The Biden Administration is implementing its Free and Open

Indo-Pacific (FOIP) strategy in earnest by strengthening existing security arrangements in the region such as the QUAD and Five Eyes, and forming new ones such as AUKUS.

It is actively supporting Taiwan's participation in the UN system, which it asserts is consistent with the "one China policy." In December 2021, Biden signed into law the National Defense Authorization Act (NDAA) for Fiscal Year 2022, which significantly buttresses U.S. military ties with Taiwan. Section 1252 of the NDAA calls for "strengthening the United States partnership with Taiwan;" Section 1246 calls for joint military exercises between U.S. and Taiwanese forces, increased consultation between senior U.S. and Taiwanese military officials, and enhanced linkages ("interoperability") between U.S. and Taiwanese maritime surveillance and air-defense systems; and Section 1249 calls for a briefing on possible cooperation between the American and Taiwanese National Guards.

It is worth noting that as an unresolved issue from the Chinese civil war and the Cold War, Taiwan's security has regional repercussions.

While the focus has been on diplomatic and security dimensions in discussing the Taiwan issue, cross-strait relations have a crucial economic component as well.

Countries in the region, particularly Japan, view growing tensions in the Taiwan Strait with grave concern. As the former colonizer of Taiwan and a neighboring country, Japan has a special attachment to the island. Due to their common worries about a rising China, the Japanese and Taiwanese today view each other very favorably and consider each other both security and economic partners.

Japan and China have sovereignty disputes over a group of Japanese-controlled islets in the East China Sea, known as the Senkaku in Japanese and the Diaoyu in Chinese. But in recent years, defense hawks in Japan have focused more intently on rising tensions over Taiwan. In fact, in December 2021 Japan's cabinet approved the country's biggest increase in military spending in decades, as Japanese officials expressed growing concerns about the possibility of being pulled into a conflict over Taiwan.

Other regional efforts to maintain stability and to deter Chinese aggressiveness all have Taiwan in mind, such as the formation of a new nuclear cooperation pact

AUKUS between the United States, Australia and the United Kingdom, and the introduction and implementation of the FOIP vision, which was first proposed by Japan and has been formalized by the United States and others as part of their overall Asia strategy. Clearly, how China handles the Taiwan issue will affect its relations with other countries in the region.

Economic Cooperation

While the focus has been on diplomatic and security dimensions in discussing the Taiwan issue, cross-strait relations have a crucial economic component as well. Indeed, economic interdependence could serve as a brake on deteriorating political ties so that war across the strait becomes less likely.

In December 1987, Taiwan lifted the 38-year ban on travel to mainland China for those with close relatives there. Taiwanese businesses also started to invest in the mainland in tandem with China's "reform and opening up" policy. Between 1991 and the end of March 2020, there were 44,056 cases of approved Taiwanese investments in China, valued at a total of \$188.5 billion, according to Taiwan's official statistics. Direct flights between the two

sides started in December 2008, which greatly expanded trade, investment, tourism, education, and other exchanges. In 2019, travelers from mainland China made 2.68 million visits to Taiwan.

The two sides signed 23 economic cooperation agreements during Ma Ying-jeou's presidency (2008-2016). Most significant among the accords was the Cross-Straits Economic Cooperation Framework Agreement (ECFA), which was concluded in June 2010 and aimed to institutionalize trade and economic relations between the two sides. Both Taiwan and China also aspire to be integrated into the regional economy, as evidenced by their respective applications in 2021 to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which includes Japan, Australia, Canada, Mexico, Singapore, and six other countries that seek to form one of the world's leading free trade zones. The United States pulled out of the original Trans-Pacific Partnership (TPP) under the Trump Administration and is also absent from another regional trade group—the Regional Comprehensive Economic Partnership (RCEP), which currently includes China, Japan, South Korea, Australia, New Zealand, and the 10 ASEAN states.

Despite political and military malaise in the Taiwan Strait, economic relations including investment, technological development, and trade, as well as tourism between the two sides, have flourished since the early 1990s. Taiwan's exports to the mainland and Hong Kong totaled \$151.45 billion in 2020, the highest ever. The figure showed a 14.6 percent increase over that of 2019 and accounted for 43.9 percent of Taiwan's total exports in 2020. In other words, despite high tensions in the Taiwan Strait and the DPP government's efforts to diversify trade and expand economic ties with countries in Southeast Asia and South Asia, cross-strait economic relations have strengthened.

Some scholars have argued that, together with Western investments, Taiwanese investment on the mainland transformed Chinese business practices, helped elevate Chinese industry, especially electronics, and played a key role in China's emergence as the world leader in trade today—rising from virtually no trade with the West a few decades ago. Taiwanese businesses on the mainland have also contributed to Chinese consumer behavior, philanthropy, religion, popular culture, and law.

A major reason the PRC's post-Mao leader, Deng Xiaoping, set up four special economic zones (SEZs) in the late 1970s and early 1980s was their proximity to Taiwan and Southeast Asia. In particular, Xiamen in Fujian province just across the strait and Shenzhen adjacent to Hong Kong quickly became top destinations of investments from Taiwan. The fact that Fujian and Taiwan share cultural, historical, and linguistic links has facilitated dynamic economic and societal exchanges between the two. Taiwanese investment in the mainland also expanded to other regions, notably the Yangtze River Delta, with Shanghai as its hub. Exact estimates vary, but as many as 1.2 million Taiwanese, or 5 percent of Taiwan's population, are reckoned to live in mainland China.

Taiwan-invested businesses have not only created millions of mainland jobs; they have also become a critical part of the global supply chain. Many well-known Taiwan enterprises are overwhelmingly dependent on China for labor and market (both the mainland market and foreign markets through China). For example, Foxconn, a giant Taiwanese contract manufacturer of electronics for Apple and other gadget-makers, employs one million workers in China—more than

any other private enterprise in the country. Indeed, many “Made in China” products are manufactured or assembled in Taiwanese-invested businesses on the mainland before they are sold around the world.

Without doubt, Taiwan has helped to turn China into a manufacturing power, the factory of the world, and the world's leading trading nation.

Nothing Is Inevitable

The cross-strait dispute remains an unresolved matter left over from the unfinished Chinese civil war. From an historical perspective, though the two sides have been separated since 1949, both Taiwan and mainland Chinese remain part of the Chinese territory. Today, political transformations in Taiwan—including Taiwan's democratization—challenge this historical narrative. Developments in China and growing U.S.-China rivalry also threaten the delicate status quo across the Taiwan Strait.

As Washington continues to pay mere lip service to “one China,” and as Beijing appears more willing to use force to resolve cross-strait differences, the foundation of U.S.-China relations is cracking.

Taiwan has changed fundamentally since its democratization in the 1980s. The DPP is projected to stay in power in the near future. Not only is it the largest political party in Taiwan, but it has won the support of

the young generation. The DPP has become more sophisticated in pursuing its agenda regarding Taiwan's political identity. It has dominated narratives about Taiwan's status and has framed the cross-Taiwan Strait dispute simply as “democracy vs. autocracy,” which easily appeals to a global, particularly Western, audience—especially after the Russia invasion of Ukraine in February 2022. However, this formulation ignores the history and complexity of the Taiwan issue, which hinges on the cross-strait relationship as well as the U.S.-China relationship.

The U.S. government has sent out perplexing messages regarding Taiwan. Washington continues to assert that it is committed to its “one China” policy, but America's “one China” policy seems to be gradually evolving into a de

facto “one China, one Taiwan” policy. The result is that the once collegial and multifaceted U.S.-China relationship is becoming antagonistic, threatening not only stability across the Taiwan Strait but also world peace. American efforts to upgrade relations with Taiwan have raised Beijing’s worries about the United States abandoning its “one China” commitment and increased the possibility of war across the Taiwan Strait and beyond. Both the Trump and Biden administrations have expedited this process. As Washington continues to pay mere lip service to “one China,” and as Beijing appears more willing to use force to resolve cross-strait differences, the foundation of U.S.-China relations is cracking.

Nothing is inevitable about the future of the Washington-Beijing-Taipei relationship. Crisis management of this difficult issue requires patience, wisdom, and recognition of history as well as political and economic reality. Peace is the common denominator that can assure the future of all three parties. That will require, however, that all refrain from taking unilateral actions that destabilize the Taiwan Strait. Stability and peace in the Taiwan Strait behoove Washington, Beijing, and Taipei to

re-establish confidence and avoid further damaging the status quo.

If U.S.-China tensions are to be eased and proactive security, economic, and environmental cooperation is to be advanced, it is important that Washington reaffirm its commitment to “one China” and make clear that the United States does not support Taiwan independence or a “one China, one Taiwan” policy. U.S. encouragement of cross-strait economic, social, and cultural interactions, and, when the time is ripe, political dialogue, could ease both cross-strait conflict and U.S.-China conflict while contributing to regional peace, prosperity, and security.

Reciprocal Chinese policies emphasizing peaceful unification and winning the hearts and minds of people in Taiwan through exchanges and economic integration could advance these goals too. Unification across the strait could then rest on an equal footing for the two sides and the promotion of mutual interests.

Taiwan could contribute to these goals by defending its democracy and human rights while keeping the prospect of a future “one China” open as an option, however dim the immediate

prospects. It is imprudent to claim that Taiwan and China are already two different countries, and irresponsible to confront Chinese nationalism in the name of democracy—a course that promotes anti-China policies and sentiments and builds cross-strait conflict.

Only when all three parties take the potential military conflict seriously and provide appropriate reassurances will they be able to restore and maintain peace and stability in the Taiwan Strait, leading to an eventual peaceful resolution of cross-strait differences. **BD**

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The Lynchpin of the Middle Corridor

The Merits of Greater Strategic Interaction with Baku

Anthony Kim

The Caspian Sea, which lies at the heart of the Eurasian land mass, is a uniquely critical connector linking Asia and Europe. The greater region forming around the world's largest inland sea matters more than ever as a geostrategic security and economic crossroads.

For Washington and Brussels, the Caspian region is a distinctive place where a multitude of challenges and opportunities almost constantly and completely converge. On the one hand, the region is susceptible to be affected by many of the foreign policy complications the West faces: Russia, China, and Iran. On the other hand, the region

presents ample yet not fully tapped economic opportunities for the U.S. and its many allies in Europe. A well-functioning transportation route through the Caspian region would give the whole of Europe as well as the U.S. resilient and diversified supply chains. Also notable is that China in particular has recognized the economic importance of the greater Caspian region and intended to incorporate the region into its own strategic trade and investment engagement by taking its domestic industrial capacity abroad as part of the wider Belt and Road Initiative (BRI) of geo-industrialization through state-led economic development interventions.

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In this greater and ever-evolving geostrategic context, it is no fantasy when leaders invoke the ancient Silk Roads in arguing for new road, rail, and port infrastructure to realize the region's

potential as a strategic junction for trade from East to West. Hence a noticeable increase in the use of the term "Silk Road region" in some quarters to describe this part of the world.

Particularly in today's evolving geopolitical and economic reality triggered by Russia's invasion of Ukraine, the Caspian region has gained greater relevance whilst acquiring renewed significance. More specifically, one of the geostrategic consequences of Putin's ongoing assault against Ukraine and its broader implications for the global economy has been the enhanced impetus for ensuring the pragmatic and strategic utility of the "Middle Corridor" (also more formally known as the Trans-Caspian International Transport Route, or TITR) for the Caspian region and beyond as a viable commercial transport route alternative to the long-established northern pathway through Russia.

For Washington and Brussels, the Caspian region is a distinctive place where a multitude of challenges and opportunities almost constantly and completely converge.

China, which has been eager to expand its economic networks, had hoped to dominate economically the utilization of the Middle Corridor as part of an expanding BRI. But at least some of the

countries in the region (and beyond) have grown increasingly uneasy about participating in it. They have viewed China as leaving many of its BRI promises unfulfilled. And they have also become more concerned that Beijing's BRI engagement comes with too many geopolitical strings attached and can lead to debt traps.

By and large, China has invested in a number of infrastructure projects in Central Asia within the framework of BRI. Most of China's activity has taken place on the eastern shore of the Caspian. Major port, pipeline, and infrastructure projects on the Caspian's western shore have been done without much, if any, direct Chinese involvement.

Making the Middle Corridor work properly is not an easy task: it will take considerable degrees of time, financial means, and political commitment. With many economic and political challenges

lingering around, by no means, the cross-country transportation route could become the cheapest option any time soon. Nonetheless, in an increasingly raucous world where diversifying supply chains reduce risk and has become more desirable, the route could become not only fully viable but, more importantly, truly cost-effective.

To that end, what is increasingly unambiguous is that the forward-thinking mindset and proactive role of Azerbaijan, an important U.S. partner for a number of reasons, has become more relevant to advancing the Middle Corridor to a next operational level. Azerbaijan is a regional economic leader in the South Caucasus and an important economic actor in the greater Caspian region. In addition, Baku is the most important metropolis on the Caspian Sea. The city is home to the Caspian's largest port and has been positioning itself successfully as an increasingly capable transportation hub for goods traveled between Europe and Asia.

This is one of the many reasons why it is in the strategic interest of the United States and the European

Union to stay practically engaged with Azerbaijan. From a broader perspective, the U.S. and the EU need an anchor of engagement and influence in the Caspian region. Azerbaijan is a nation that will continue to look to the West while maintaining its unique role in the region. That certainly makes this Caspian Sea nation a strategic, elevated partner for which Washington and Brussels to pursue a pragmatic relationship, based on prudent mutual interests.

The context is clear: Azerbaijan is the largest country of the South Caucasus in terms of territory and population, followed by Georgia and Armenia; since the collapse of the Soviet Union, the three countries in that region have followed their own distinct strategic paths, both in domestic and international terms.

Despite the geography that binds all three countries together, their distinct foreign policy experiences and political circumstances have rendered their geostrategic postures to reflect their particular economic, security, and political positions. While Tbilisi tries to maintain strong ties with the European Union, aspiring to

It is in the strategic interest of the United States and the European Union to stay practically engaged with Azerbaijan.

join Euro-Atlantic institutions and to lessen Russian influence over its territories and separatist regions, the geopolitical chessboard of the South Caucasus has made Yerevan strengthen its military and economic ties with Russia. Baku, while still maintaining a neutral and independent foreign policy path in general, has been trying to be a more practical partner to the EU and cultivate more strategic and broader relations with the United States at the same time.

Equally important is the fact that Azerbaijan has been developing closer practical partnerships with countries in Central Asia, particularly Kazakhstan and Uzbekistan, while continuing to deepen strategic cooperation with Türkiye in assisting the extension of Ankara's economic and political relations there, particularly after the transformation of the Cooperation Council of the Turkic-Speaking States (Turkic Council) into the Organization of Turkic States (OTS) at its November 2021 summit.

Elevated Strategic Utility

It was quite notable that in June 2022 Azerbaijan's president Ilham Aliyev made an important and successful diplomatic visit to Uzbekistan, with nearly two dozen

cooperation documents signed, notably in the fields of trade, transport, and logistics. For the last two decades, Azerbaijan has been working on increasing the connectivity capacity of the Caucasus by building, with Georgia and Türkiye, solid infrastructure like the Baku-Tbilisi-Kars railway, which could be also used by Uzbekistan. Tashkent has been actively exploring a westward transit route that encompasses Uzbekistan, Turkmenistan, Azerbaijan, Georgia, and Türkiye.

Underlining Azerbaijan's practical plans for the development of transport and logistical infrastructure in the greater Caspian region and beyond, Aliyev also pointed out, during his 24 August 2022 meeting with his Kazakh counterpart Kassym-Jomart Tokayev that

timely measures have been taken both in Kazakhstan and Azerbaijan to create this infrastructure. Now there is talk about linking the cargo flow between our countries and increasing its volume, thereby increasing the transit potential of our countries. Relevant bodies have been actively cooperating in this direction for some time now. In my opinion, the Middle Corridor has great prospects and, of course, Kazakhstan and Azerbaijan have a very important role in the implementation of this project.

Indeed, the necessity for a more focused and expedited pursuit of furthering the operationalization of the Middle Corridor has gained greater attention and traction. Various indications point

Various indications point to the greater potential utility and application of the Middle Corridor as a chief land-based transit route between Asia and Europe via the Caspian region.

to the greater potential utility and application of the Middle Corridor as a chief land-based transit route between Asia and Europe via the Caspian region.

Uzbekistan and Kazakhstan are the most forward-leaning countries in Central Asia. Each in their own way see the development of the Middle Corridor as a strategic advantage and as an opportunity to expand their respective roles in energy, logistics, and manufacturing. Azerbaijan has long recognized the corridor's strategic importance and prioritized regional cooperation.

A critical aspect of the changing geopolitical landscape, precipitated by the effects of Russia's ongoing invasion of Ukraine, will be how to ensure connectivity across the Eurasian landmass. The northern route through Russia, which has served

for decades as a major corridor between Europe and Asia (particularly China) has become less appealing in light of layers of tightening sanctions imposed by the West and its allies on Moscow.

While raising regional tensions, Russia's protracted war in Ukraine has also exposed the reality that—win, lose, or draw—it will take Russia years to rearm and upgrade before it could contemplate further significant expansion and influence in the post-Soviet space, be it politically or economically or both.

This outcome of the evolving geopolitical circumstance has injected a revitalized momentum for making the Middle Corridor emerge or re-emerge as an alternative transcontinental trade route. Light has again been shed on the necessity of diversifying trade routes or creating alternatives in global trade, especially in transportation between Asia and Europe.

As a matter of fact, even a brief glance at the map unequivocally shows the unique geographical

linkages that the Middle Corridor presents as a strategic way of securing a viable cross-continental commercial route. Running across the vital regions and facilitating container and commodity transport, the corridor is the shortest route that connects and puts together East and West.

The global demand for transport amid supply chain disruptions has made the Middle Corridor more desirable as an alternative means to get some goods to market. As a result, the route will likely continue to develop. Global trade is too important to be put at risk by being tied to a small number of routes. Given the fact that the cost and time are of great importance in transportation, the possibilities of the Middle Corridor, which are improving day by day, should be indeed taken into more serious and practical account.

The Middle Corridor is a set of three interconnected transport routes that was formed in 2014 via a partnership between Kazakhstan, Azerbaijan, and Georgia, but eventually grew to include Ukraine, Romania, Türkiye, and Poland. Each route of the Middle Corridor is multimodal, mixing rail with ferry transfers across the Caspian and Black seas. All three routes go

to Azerbaijan from China via Kazakhstan before splintering off and finding their own ways to Europe—one going via Georgia to Romania, another going from Georgia to Ukraine, and a third, which this essay focuses on, goes from Baku to Europe via Türkiye.

In March 2022, Azerbaijan, Kazakhstan, and Georgia made an announcement creating a joint venture to develop the Trans-Caspian International Transport Route. The three countries intend to build this transportation route, whose potential is estimated at 10 million metric tons or 200,000 containers per year. Also notable is that the three states plan to establish uniform tariffs for domestic shippers whilst improving and simplifying the work of carriers in the corridor.

A month after the March 2022 announcement, the three countries in question (i.e., Azerbaijan, Georgia, and Kazakhstan) were joined by Türkiye in signing a quadripartite declaration on the Trans-Caspian East-West Corridor. This notable document underscored the importance of pursuing the Middle Corridor and increasing its transit potential as well as strengthening cooperation among the parties. Furthermore, the quadripartite

declaration noted the significance of the Baku-Tbilisi-Kars railway line in the development of competitive transport between Europe and Asia, as well as the importance of completing construction work to increase the railway's capacity. The declaration also emphasized the critical investment need for infrastructure to enhance the quality of transportation operations along this route.

At a June 2022 meeting held in Baku, a working group comprising Azerbaijan, Kazakhstan, and Türkiye was established on the Middle Corridor (at the suggestion of Türkiye), with a protocol signed for increasing the capacity and efficiency of the transport route. Turkish Transport and Infrastructure Minister Adil Karaismailoglu highlighted that the "effective functioning of the Middle Corridor is important for the integration of Azerbaijan, Kazakhstan, and the Caspian Region into global trade. Taking into account the fact that we are at the center of the Asian-European foreign trade networks in our region, we aim to be a regional base in logistics."

Baku has taken an increasingly central role in the geopolitical equation of the Middle Corridor and represents this transcontinental route's nexus and vector.

Undoubtedly, Türkiye is an important player. However, the real prize was and remains Azerbaijan. Baku has taken an increasingly central role in the geopolitical equation of the Middle Corridor and represents this transcontinental route's nexus and vector. Azerbaijan's key geographical location, coupled with its well-developed logistics infrastructure and state-of-the-art port and air cargo facilities, is crucial to the success of this emerging opportunity for transiting goods and services between Europe and Asia.

In following through all of these critical and timely agendas for advancing the Middle Corridor, the vital role Azerbaijan can and will play in operationalizing and promoting the viable transcontinental trade route is likely to become more apparent than ever.

As a willing and capable driver of the Middle Corridor, Azerbaijan has been long focusing on its own infrastructure development of a well-functioning transportation route. Facilitated by ongoing efforts to streamline relevant reg-

ulatory and other measures, the forward-looking construction of Azerbaijan's transit infrastructure has made the operationalization of the Middle Corridor more feasible.

More specifically, in terms of connecting and enabling the corridor at a critical geographical juncture, Azerbaijan is quite well-positioned: it has established all the necessary infrastructure, such as railways, highways, and the Port of Baku itself. Indeed, although a number of ports in the region have great cargo-processing capacity, Azerbaijan's flagship Port of Baku stands out. The modern port facility has become an increasingly important strategic gateway of the Middle Corridor, advancing Azerbaijan's transit potential through digitalization and expansion of the international cooperation.

Indeed, Baku's strategic thinking and its facilitatory role has become an indispensable element

of making the Middle Corridor work and warrants greater encouragement from broader key stakeholders of the corridor for a number of reasons.

More Engagement Is Merited

America's engagement with Azerbaijan has become more necessary, with 2022 marking the thirtieth anniversary of the establishment of diplomatic relations between the two nations. From Washington's foreign policy perspective, the strategic importance of the country is undeniable. Not only is Azerbaijan the only country in the world that borders both Russia and Iran (and Türkiye), it also proactively seeks to broaden its relations with the West as a balancing factor. At the same time, Azerbaijan has been and will continue to be an independent and sovereign power in the vital part of the world.

its relations with the West as a balancing factor. At the same time, Azerbaijan has been and will continue to be an independent and sovereign power in the vital part of the world.

As highlighted in his message to celebrate Azerbaijan's National Day on 28 May 2022, U.S. Secretary of State Antony Blinken unequivocally noted that,

this year, we are celebrating the thirtieth anniversary of diplomatic relations between the United States and Azerbaijan. [...] The United States is proud to continue to expand our relationship not only through strong economic linkages, but also through our people-to-people ties. [...] We are committed to promoting a peaceful, democratic, and prosperous future for Azerbaijan and the South Caucasus region, and we stand ready to help by engaging bilaterally and with like-minded partners, including to help the region find a long-term comprehensive peace. During this challenging period of global uncertainty, the United States once more reaffirms its commitment to supporting Azerbaijan's independence and sovereignty, as well as the rights and freedoms of the Azerbaijani people.

Indeed, over the past three decades, since Azerbaijan's independence from the Soviet Union, the U.S.-Azerbaijan relationship has grown comprehensively in advancing energy security in Europe, combating transnational threats,

and boosting bilateral trade and investment, among other policy priorities.

More relevantly to the current geopolitical setting, Azerbaijan's vast hydrocarbons and other natural resources have been also enabling the Caspian Sea nation to serve as a significant alternative to Russia for oil and gas. That in turn has helped enhance the energy security of the European Union and, by extension, the security of the United States.

Indeed, it is in the clear, pragmatic interest of the United States and the European Union to prioritize and advance relations with Baku as the critical trade, energy, and economic link between the east and west of the Eurasian landmass. The Middle Corridor offers an opportunity to further elevate this relationship of growing strategic importance in terms of its structure, impetus, and path forward.

Azerbaijan's recently completed Southern Gas Corridor has further brought vital energy resources from the Caspian region to the European market. This project had proceeded despite regional challenges, as well as opposition from Germany and Russian efforts to thwart the initiative by funding environmental

and political groups to bring challenges against it. The final leg of the system was put into force, in part thanks to U.S. urging of Italy.

In a welcome development on 18 July 2022 that will help the EU reduce its reliance on Russian energy, the European Commission signed a deal with Azerbaijan to double imports of natural gas by 2027. During her visit to Baku for the important announcement, EU Commission President Ursula von der Leyen highlighted that, "today, with this new Memorandum of Understanding, we are opening a new chapter in our energy cooperation with Azerbaijan, a key partner in our efforts to move away from Russian fossil fuels."

Expressing a strong appreciation for the humanitarian assistance that Azerbaijan has been providing to Ukraine, EU High Representative for Foreign Affairs and Security Policy Josep Borrell underscored that, "in the current difficult geopolitical context, it is important to strengthen the dialogue among partners, as we are. I appreciated, today, the open and constructive exchanges that we have had. Azerbaijan is an important partner

Greater and more vibrant economic interaction amongst the Middle Corridor states and beyond is essential.

for the European Union and our cooperation is intensifying."

The EU has expressed its interest in the Middle Corridor, too. During the 18 July 2022 meeting, von der Leyen also noted that in a recognition of the importance of Baku as a connecting hub between the Caspian region and beyond, "the Economic and Investment Plan has the potential to mobilize up to EUR 2 billion in additional investments. It is already at work, supporting round about 25,000 Azerbaijani small and medium companies, and making the Port of Baku a sustainable transport hub."

Azerbaijan is and will continue to be a country of geopolitical importance, with its relevance to the EU and the United States elevated, particularly in the context of securing alternative energy sources as well as transport route to Russia.

In that strategic context, more than ever, continuing to adopt greater reform measures and advance economic freedom is critical to Azerbaijan. Over the past decades, the country has succeeded in reducing its poverty rate and

directed revenues from its oil and gas production to develop more modern and much-needed infrastructure.

According to the Heritage Foundation's annual Index of Economic Freedom, which measures important policy areas of the rule of law, fiscal health, regulatory efficiency, and market openness, Azerbaijan has been on a notably upward trend of economic freedom since the country was first included in the index in 1996, with its overall score consistently above the world average over the past decade.

Azerbaijan has made meaningful progress in liberalizing its economy. In 1996, Azerbaijan was regarded as a repressed economy. Since then, however, the country has measurably advanced its economic freedom, with its overall rating improving markedly in contrast to many other countries in the region and beyond.

Undoubtedly, Azerbaijan has been and will continue to be a country of geopolitical importance and economic competition. More than ever, continuing to adopt reform measures and advance economic freedom in a time of uncertainty is critical to Azerbaijan.

Regulatory Efficiency and Market Openness Matter

Greater and more vibrant economic interaction amongst the Middle Corridor states and beyond is essential. In fact, more than ever, trade and investment issues meld foreign policy and economic policy. There are many areas of potential cooperation in the greater Caspian region, but without vibrant commercial links and practical entrepreneurial interactions, economic cooperation, and engagement among the countries in the region cannot flourish.

Building a network of vibrant, functioning markets, underpinned by regulatory efficiency and market openness, is the key to fostering the spirit of constructive partnership among the countries that share economic bonds. Central to that task of enhancing economic freedom in the region must be committed economic statecraft that creates a more inviting playing field for private investors and companies.

Market openness is a critical pillar of economic freedom. In an increasingly integrated global market, countries with more open markets stand to benefit from the free exchange of commerce and thereby enjoy greater economic

prosperity. This multidimensional relationship is well-documented in the Index of Economic Freedom. Countries with greater market openness—measured by trade freedom, investment freedom, and financial freedom—are more prosperous than are those with less economic freedom. More specifically, consumers and producers who live in countries with low barriers to trade and investment are better off than those who live in countries with high barriers. Reducing those barriers remains a proven recipe for prosperity.

Given the clear relationship between market openness and economic dynamism, the overarching objective of any meaningful strategic economic statecraft related to ensuring the success of the Middle Corridor in the greater Caspian region must be to facilitate the expansion of open trade and investment environments that provide the best chance of translating opportunity into prosperity. This is because the success of the Middle Corridor will depend not solely on infrastructure upgrades, but also on institutional developments that will necessitate policies that will advance economic freedom.

In realizing the Middle Corridor's full potential, it is critical that governments and others in the region

make highly visible steps to attract international business attention. Competitive terms and conditions are essential along with an eye to building long-term business arrangements. Those in the region developing the Middle Corridor need to ensure that the route is efficient and capable, and just as if not more secure and faster than what they have been using to move around goods.

On this critical dimension, the ongoing infrastructure development seem to evolve largely in a vacuum in which the greater institutional capacity building is confined to reactionary policy stemming from the markets and market demands outside the region. More proactively adopting policies that further enhance capable connectivity based on efficiency and competitiveness will support development on both economic and institutional capacity fronts. Greater growth and broader-based development would in turn contribute both to ensuring an elevated level of resilience and stability.

Needless to say, Washington and Brussels cannot provide countries in the region with the political will that they need to transform their economies according to greater market principles and transparency. However, by getting

more directly and practically involved in critical policy dialogues through greater and more candid willingness, the West can ensure that its constructive engagement is taken into account. Washington and Brussels can also engage at the technical and practical level in a way that enables countries to advance their economic development. Fundamentally, America's and Europe's economic relationship with the region will be exercised best through the private sector: the catalyst for real and meaningful economic transformation.

As with other aspects of the greater Caspian region's development, governments' dialogue with business and adopting a more cooperative approach with each other not only makes sense but continue to be essential to realizing what each of these governments hope to achieve. In current geopolitical circumstances, it is disadvantageous for countries in the region to project a divided image to the world. Collaborative efforts to solve differences and

establish better communication channels to avoid last-minute surprises during high-profile events would demonstrate the region can be a reliable and predictable partner for other countries and companies.

It is notable that despite the current challenges in fully utilizing the Middle Corridor, a good number of countries and companies have begun to direct their attention to optimizing the corridor for future transit. In the short term, growing cooperation among the Middle Corridor countries and companies, particularly in the Caspian and Central Asia region, will help modernize railways, ports,

Fundamentally, America's and Europe's economic relationship with the region will be exercised best through the private sector: the catalyst for real and meaningful economic transformation.

and other relevant soft infrastructure, which will result in enhancing the corridor's capacity, sustainability, and efficiency for more dynamic trade. Consequently, these improvements would enable more cargo

volumes to be routed from the Northern Corridor to the Middle Corridor.

In other words, although the Middle Corridor will not likely

provide a comprehensive, ready-made alternative to the Northern Corridor in the near future, optimization efforts collectively made by key stakeholder of the Middle Corridor will increase the alternative route's potential to competitively offset losses from the Northern Corridor and reduce reliance on the Russian route in long term.

It is important to remember that at the end of the day, however, its attractiveness to business is what is going to determine the level of success that the Middle Corridor achieves.

The Path Forward

The greater Caspian region will continue to be a critical theater for regional and global powers well into the future. The desire to present both an alternative energy source and trade route is unambiguously strong and clear in the greater Caspian region.

Toward achieving those constructive and transformative objectives, Azerbaijan deserves strategic and practical attention from U.S. and EU policymakers.

It is worth repeating that, as Azerbaijan moves forward, it is in the clear, pragmatic interest of Brussels and Washington to prioritize relations with Baku. An important thread of this line of thinking has been developed by those writing about Azerbaijan as a "keystone state" in the pages of *Baku Dialogues* and elsewhere and will not be repeated here. A good place to start remains the journal's Editorial Statement, which can be found on its website.

Indeed, more can and should be done as Azerbaijan moves forward. Washington and Brussels can support this important and reliable partner in the Caspian Sea region by widening and deepening the frank, open, and forward-looking dialogue between the two countries on issues of mutual concern.

The Caspian region has been, is, and will continue to be an area of geopolitical importance and competition. If the U.S. and the EU are to have a grand strategy to deal with a resurgent Russia and an emboldened Iran whilst at the same time working in concert to improve the energy and

trade security of the European continent, policymakers in Washington and Brussels cannot ignore the Caspian region and, more particularly, the vital role Azerbaijan has been and will be playing in the region.

Grasping and capitalizing on all opportunities to further deepen practical trade and investment relations through the Middle Corridor is in the mutual interests of many countries in Europe and Asia that will be connected through the corridor.

Key stakeholders of the Middle Corridor—particularly in the greater Caspian region—must remain steadfast in their determination to ensure that the evolving strategic partnership grows stronger as they move forward together.

To that strategic end, Azerbaijan is the lynchpin of connecting the elements for the success of the Middle Corridor. Washington and Brussels should welcome that and seize the opportunity to further advance it. **BD**

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The Rising Significance of the Middle Corridor

Vusal Guliyev

The Russo-Ukrainian war has affected global container traffic flows more profoundly than any other recent crisis. A series of West-led sanctions and export restrictions imposed on Moscow has forced logistics companies to avoid shipping consignments via Russia's Northern Corridor. At the same time, the disruption of operations through the Trans-Siberian transit line has opened up new avenues for wide-ranging cooperation along the emerging Trans-Eurasian transport and trade corridors.

The current geopolitical situation in Eastern Europe gives an additional impetus to what countries like Türkiye officially call the Trans-Caspian East-West-Middle Corridor Initiative as well as to a set of containerized rail freight transport networks that traverse

Central Asia, the South Caucasus, and Anatolia whilst circumventing Russian territory. This alternative multimodal cross-regional path—widely known as the Trans-Caspian International Transport Route (TITR)—could help ease current logistics woes and begin a new chapter in terms of interconnectivity across the Euro-Asian transportation networks, as global freight flows struggle to pick up speed in the wake of heavy economic sanctions on Kremlin.

The major actors of the region—particularly Azerbaijan, Türkiye, and Kazakhstan—have striven lately to foster solid commercial and economic ties within the wider framework of the Middle Corridor, thereby aiming to attract more transit and foreign trade cargo to this supply route. Under the stated initiative, a series of important

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intergovernmental deals have already been inked to enhance the capacity of the Trans-Caspian route in order to stimulate the container flows from Chinese provinces to European countries and vice versa. The multinational consortiums that facilitate multilateral institutional development among involved states appear to strongly contribute to the long-term potential and sustainability of the Middle Corridor's development pathway.

The idea of redirecting the containerized cargo flows away from the northern route to the southerly direction is not a new notion at all; in fact, it predates the onset of the conflict over Ukraine by a couple of decades. Thanks to substantive financial support and extensive technical assistance

provided by the EU-led Transport Corridor Europe Caucasus Asia (TRACECA) program (established in 1993), leading regional actors have constantly devoted significant attention to the establishment of alternative overland commercial connections. This has led to the development of functional, integrated freight railway networks between Europe and Asia beyond the territory of the Russian Federation.

In light of the Russian invasion of Ukraine, transnational cooperation in the transportation and logistics sectors has become more important than ever. Indeed, prior to the war, attempts by Azerbaijan, Türkiye, and Kazakhstan at staking a place in the ambitious, China-led Belt and Road Initiative (BRI) has allowed the Middle Corridor to increasingly gain momentum, giving it the potential for more collaborative initiatives. Even though relatively little progress has been achieved in the harmonization and simplification of customs documentation and procedures via the aforementioned

The Russo-Ukrainian war has affected global container traffic flows more profoundly than any other recent crisis.

initiatives, the optimization of this multimodal transit corridor as a viable passageway has become one of the top foreign policy priorities for all relevant actors in light of Russia's in-

creasing isolation due to the imposition of the West-led sanctions and export restrictions regime.

However, despite a set of strategic opportunities and some positive developments, major stakeholders of this connectivity and logistics channel have an urgent task before them: to devise comprehensive strategies to effectively overcome political, economic, technical,

financial, and security challenges at both domestic and international levels.

Baku's Role

Azerbaijan has persistently focused on developing the trade potential of the Trans-Caspian route by constructing sophisticated logistics and transport facilities such as railway lines, highways, and seaports in the wake of massive development efforts both domestically and internationally. In the context of the restoration of the historic Silk Road, the immense development of trade and transportation links—particularly rail and maritime connections that promote intercontinental trade along the east-west dimension—is a key component of Baku's long-term socio-economic development strategy.

Needless to say, the Azerbaijani government proactively seeks to diversify its economy in order to minimize the country's heavy reliance on income generated by its hydrocarbon industry. It is doing

this by concentrating on increasing the country's transit capacity in managing trans-Eurasian rail shipments.

Over the past couple of years, Baku has been looking for areas of cooperation in a manner that could improve the interconnectivity of the country to catalyze its non-hydrocarbon sector development. Based on multilateral treaties, various transportation and logistics

The idea of redirecting the containerized cargo flows away from the northern route to the southerly direction is not a new notion at all; in fact, it predates the onset of the conflict over Ukraine by a couple of decades.

projects across the country have previously been technically and financially supported by numerous international financial institutions (IFI), such as the Asian Development Bank (ADB), The World Bank, the European Bank for Reconstruction and Development (EBRD), and the Asian Infrastructure Investment Bank (AIIB). Beyond these IFIs, the \$40 billion Silk Road Fund—a Chinese financial institution dedicated to providing financing to infrastructure projects in the countries located along BRI's economic corridors—has lately indicated its intention to invest primarily in the transportation sector across Azerbaijan.

That being said, the Azerbaijani government had already commenced developing nationwide infrastructure projects even before receiving international attention. Indeed, the accommodation of growing transit traffic from various markets needs large-scale advanced facilities. Consequently, the state leadership utilized multilateral transport projects involving more foreign countries and attracting investments.

Notably, the Baku-Tbilisi-Kars railway (BTK) and the Port of Baku, located on the Caspian Sea coast (also referred as the Port of Alat or the Baku International Sea Trade Port), can be presented as an indication of transportation and logistics infrastructure development in the region.

In collaboration with Türkiye and Georgia, the long-awaited BTK became operational in 2017, thereby establishing a new transit linkage along the Silk Road region's Middle Corridor via Azerbaijan. This region-wide line is designed to carry an initial annual volume of 6.5 million tons and one million passengers, setting a long-term target of 17 million tons of freight and three million passengers annually in the next stage of its operation. Stretching over 800 kilometers, the intra-regional project is intended

to further integrate the region's countries and open up new direct, land-based transit channels between the EU and China.

Another prominent project is the Port of Baku, inaugurated in 2016 and located at the western end of the trans-Caspian segment of the TITR, having an annual capacity of 15 million tons of cargo, including up to 100,000 containers per year. When fully completed, it will have an annual throughput capacity to process up to 25 million tons of general cargo and 1 million containers in total.

To achieve the expansion of transit opportunities, Baku has made tremendous efforts to transform the Port of Baku into a multi-purpose international seaport in the wider Caspian basin by building proper supportive facilities to enlarge container handling ability and establishing a free trade zone next to it in order to facilitate operations for individual importers, exporters, and freight forwarders. The first roll-on/roll-off (ro-ro) cargo terminal was put in service in 2018. Apart from that, the Port of Baku's authorities have already reached a consensus with the executives of transportation agencies from Kazakhstan and Türkiye to jointly develop its transshipment terminal facilities and enhance the cargo storage capacity

of the largest and most promising seaport in the Caspian Sea, as part of the cooperation efforts undertaken within the context of the Middle Corridor.

In collaboration with partner countries, the Port of Baku also plans to launch new logistics bases for conducting multiple operations simultaneously. For instance, the construction of parking lots for trucks (TIR park) together with containerization facilities, as well as new terminals for accumulating bulk cargo and warehouses for handling mineral fertilizer, will be completed by the end of 2022.

All in all, Azerbaijan hopes to increase the strategic significance of the Port of Baku in the world of international shipping through an immense, government-backed modernization and development strategy.

The Alat Free Economic Zone (AFEZ), currently under development, is another case in point. The establishment of AFEZ is projected to create an investor-friendly business environment to largely meet the needs and requirements of overseas firms based on international standards and practices. The construction of critical infrastructure that will contribute to the optimization of this

economic zone's management and operations is in full swing.

However, Azerbaijan is not the only transit state initiating transportation and logistics projects in the Caspian basin that intends to attract international cargo shipments. While the Caspian Sea is becoming more containerized, other Caspian littoral states like Russia (the ports of Makhachkala, Astrakhan, Olya, and Lagan), Kazakhstan (the ports of Kuryk and Aktau), and Turkmenistan (Turkmenbashi International Seaport) are energetically working on either constructing new transportation ports or upgrading existing terminal facilities to improve the transshipment capacity. As a result, several Chinese and Iranian companies have already indicated an interest in investing in Caspian seaports.

There is a further promising intra-regional transit infrastructure project on the horizon: the Zangezur Corridor, which came to light as a consequence of the terms that ended the Second Karabakh War. This overland linkage is a part of a package of transport projects that is meant to uninterruptedly reconnect mainland Azerbaijan to its decades-long isolated Nakhchivan exclave and thence on to Türkiye by traversing the Syunik province in southern Armenia.

The concrete idea of unblocking the previously terminated Soviet-era rail lines by implementing the Zangezur Corridor initiative dates back to late 2020. As a condition of the 10 November 2020 agreement, all economic and transport links in the region are to be restored. Despite some skepticism about the realization of this plan due to Yerevan's ambiguous position on opening it up, the realization of the Zangezur Corridor would create competitive advantages for interconnectivity across the Middle Corridor. Furthermore, considering its potential economic significance within the regional political configuration, the development of such a new trade and communications link, and its subsequent integration into mainstream global trade networks, would greatly contribute to the formation of a more peaceful regional security environment in the postwar period.

In addition to strategic investments in its land and sea-based robust physical infrastructure, Azerbaijan has been continuously investing in digital infrastructure and emerging technologies to enhance the variety of

Along with hard infrastructure, the digitalization and automation of the entire transport route is key for the sustainable implementation of the Middle Corridor.

logistics services, upgrade domestic communication infrastructure, eliminate the digital barriers to cross-border data flows, and develop better measures of the digital economy and trade. By embracing all aspects of digitalization, Azerbaijan intends to accelerate the process of transforming itself into a transnational digital hub along the Asia-European telecommunication corridor.

Along with hard infrastructure, the digitalization and automation of the entire transport route is key for the sustainable implementation of the Middle Corridor. The widespread diffusion of adequate technologies that are designed to integrate multiple services to automate tasks and workflows throughout that trade route can highly contribute to building more connected, optimized, synchronized, secure, and digitized border crossings and customs ecosystems. In this regard, in 2019, Azerbaijan's State Customs Committee reached an agreement with Chinese telecommunications giant Huawei over the modernization and automation of

its entire customs system through the implementation of a “single window” system. In addition, on 22 July 2022 Azerbaijan officially launched a unified center for transit freight management designed to simplify and digitalize border crossing procedures and transit operations through the application of a “single dispatch” method. All this is part and parcel of Baku’s extensive efforts to optimize the Middle Corridor.

The aforementioned projects are expected to translate into a knowledge-based and internationally competitive economy as well as boost transregional trade, investment, and cultural interactivity. These will undoubtedly have implications for the overall development of the region. In this respect, Azerbaijan and several other regional countries are already engaged constructively under Middle Corridor deals that tend to firmly stimulate regional market connectivity and commercial cooperation.

Considering the significance of transport projects, the construction of multiple large-scale logistics and transit facilities along the corridor should help usher in a new era of transregional transportation and close the gap in market connectivity.

Moreover, Baku has been planning to integrate all its freight transportation projects with the Belt and Road Initiative. Following BRI’s launch in 2013, both bilateral cooperation and regional integration processes between China and Azerbaijan have accelerated dramatically. Specifically, several official visits by President Ilham Aliyev to Beijing have turned out to be quite productive, resulting in several high-profile follow up meetings.

Most importantly, besides cementing friendly political and commercial ties, the parties have agreed to put their extensive efforts into systematically developing BRI’s inland routes by signing a Memorandum of Understanding on the Economic Belt of the Silk Road in 2015. This, in turn, resulted in the signing of several crucially important documents between the two countries’ various ministries setting up broad terms for transnational cooperation in numerous fields during the Second Belt and Road International Forum held in Beijing in 2019. During this event, a document to create an Asia-Europe telecommunications corridor within the framework of the Azerbaijan Digital Hub program was also signed between AzerTelecom and China Telecom. Its aim is to maximize opportunities to foster cooperation and coordina-

tion in dealing with cross-border internet traffic as well as to develop a digital telecommunications corridor between the continents.

Hence, Baku’s multilateral transportation policy focuses extensively on expanding multinational cooperation in the transportation and logistics spheres, opening new long-term opportunities for the development of the Trans-Caspian route in the immediate future.

Integration, Construction, Optimization

Over the past decade, regional actors (i.e., Azerbaijan, Türkiye, Georgia, Kazakhstan, and Ukraine) have been actively involved in the process of developing and becoming key political and economic actors in the formation of an alternative land-based connections between China and the EU. Accordingly, in November 2013, the railway authorities of Azerbaijan, Georgia, and Kazakhstan signed a document establishing a Coordination Committee for the development of TITR. Stretching from China to Europe, TITR is a 6,500-kilometer-long transport and trade route comprising intermodal transit and logistics networks that are

expected to facilitate cross-continental container traffic from east to west.

Three years later, the initiators of this project came to a consensus on establishing the International Association of the Trans-Caspian International Transport Route in Baku, offering an economically viable alternative passage for the global commercial network. Several months later, Azerbaijan, Kazakhstan, Georgia, and Ukraine consented to implement a competitive tariff policy for cargo shipping to reduce freight costs and increase the number of rail services for international logistics companies shipping via this transport channel by signing a quadrilateral declaration. The multinational consortiums brought together shipping companies from the aforementioned transit states in order to make transportation cheaper, easier, and faster via the Trans-Caspian route by improving freight forwarding services. Türkiye’s decision to align itself with TITR in 2018 was hailed as a prominent milestone in the implementation of the Middle Corridor.

The state leaderships of the foregoing countries are still playing significant roles in supporting multimodal initiatives through multi-party agreements to

unlock TITR's transit and trade potential. A further opportunity arose for them in early 2022, owing to the consequences of the Russian invasion of Ukraine—namely,

Following the disruption of supply chains due to the onset of the West-led sanctions and export restrictions regime against Russia, senior representatives of TITR members conducted a number of high-level meetings aimed at leading the way to promote further cooperation in the transit sector along the Trans-Caspian route. As a result, numerous international deals have been signed regarding increased cooperation in the context of Asia-Europe connectivity, ranging from transportation and logistics to high-tech development and physical investment.

For instance, on 10 March 2022, senior officials from Azerbaijan and Kazakhstan announced the establishment of a joint venture to intensify cargo flows along the Trans-Caspian Route under the long-term development strategy of the Middle Corridor. Two days later, Azerbaijan, Kazakhstan, and Georgia reached a similar agreement to boost the capacity and enhance the accuracy of TITR by bolstering the development of an integrated technological solution for the smooth transportation process

through this supply route. In other words, this deal is meant to automate logistics services and facilitate effective border crossings, thus ensuring the more productive management of transit operations. Later that month, a quadrilateral declaration on the Trans-Caspian East-West Middle Corridor was inked by Georgia, Azerbaijan, Türkiye, and Kazakhstan to strengthen their shared transit potential and stimulate their integration into the global transport system, ensuring stable growth in transit cargo flows along the given path.

Furthermore, a recent major agreement covering all aspects of technical improvements to the Port of Baku was signed with the Albayrak Group of Türkiye on 15 July 2022. The document sets to substantially improve the management and operational capabilities of the seaport to achieve efficient planning and control of cargo loading and unloading processes.

Similarly, on 12 April 2022, Kazakhstan Railways JSC and Azerbaijan Railways CJSC signed a bilateral document on cooperation in the field of logistics at a meeting in Baku, where the parties also conducted brief discussions on the systematic development of TITR through synchronized joint operations.

To this can be added the results of a recent meeting involving the Azerbaijani, Georgian, and Turkish ministers of transport, which took place in Tbilisi on 23 August 2022. There, talks took place on the formulation of a single tariff policy for the BTK and the further development of the Middle Corridor. The ministers also discussed an initial plan for launching a regular container block train between the Georgian Black Sea ports of Poti and Batumi and the Port of Baku on the basis of a smooth schedules-coordination plan and tariffs unification process.

All this recent activity is a positive reflection of the Middle Corridor countries' well-structured foreign policy decisions towards fostering joint strategic initiatives, sustaining the diplomatic and institutional mechanisms whilst paving the way for increased cooperation across the broader region.

Being one of the main initiators of the interconnectivity projects, Türkiye has been on the lookout for more cooperation with peripheral nations to fully exploit TITR's export and transit potential as well as to develop eastward export outlets. As part of the revitalization of the historic Silk Road within its Caravanserai project that it introduced in 2008, Ankara has

been trying to facilitate multilateral cooperation in transportation and trade spheres along the Middle Corridor.

Indeed, experiencing a debt and currency crisis with serious economic and social repercussions has prompted Türkiye to encourage the deepening of friendly ties in order to eliminate potential barriers, bureaucratic hurdles, and capacity limitations that are hindering communication between regional states. On 27 June 2022, at the initiative of Ankara, the foreign ministers and transport ministers of Türkiye, Azerbaijan, and Kazakhstan agreed to forge long-term trilateral cooperation over the development of such a route by signing a protocol to establish an intergovernmental working group in Baku. In addition to key agenda items, the importance of the implementation of the Zangezur Corridor was also pointedly underlined during this tripartite ministerial meeting.

The resulting Baku Declaration is projected to play a pivotal role in consolidating stronger diplomatic ties among these three major Turkic countries and therefore help cultivate intra-regional economic bonds for the foreseeable future. Most importantly, on 11 May 2022, due to increased international demand for the

Middle Corridor, representatives of the leading logistic agencies of Azerbaijan, Türkiye, Kazakhstan, and Georgia gathered together in Ankara to provide adequate measures for maintaining close coordination and mutual communication within the scope of the Middle Corridor, exploring further possibilities for cooperation in the transportation sector. The quadrilateral meeting resulted in the initiation of a formal action plan for enhancing the competitiveness of this route in comparison with alternative trade corridors.

In fact, the growing involvement of Türkiye in the development of the Middle Corridor comes amid the context of increasingly friendly relations with the Asian countries under Ankara's Asia Anew Initiative. By launching this multidimensional initiative, Ankara aims to diversify its diplomatic ties by coordinating institutional mechanisms to further promote the development of political, commercial, cultural, and educational bonds on a larger scale.

In addition to the Asia Anew Initiative, the Turkic-speaking countries maintain high-level relations under the roof of the Organization of Turkic States (OTS). Ankara has been active in

securing Middle Corridor-related agreements with the relevant Turkic states through the OTS.

For instance, the transport ministers of OTS member states reached an agreement to sign a "Common Cooperation Protocol," and they also established a Coordination Council to deliver practical solutions for problems that may arise between these countries in the field of transportation and logistics. Another example is the sister ports agreement made between the ports of Baku (Azerbaijan), Aktau (Kazakhstan), and Samsun (Türkiye), which is designed to encourage more trade and business opportunities between them. This tripartite deal includes putting in place a set of policies that would enable them to share with each other best practices and the latest industry developments on port planning and management.

Signing an agreement on what was termed "international combined freight transportation" within the OTS framework was also discussed during its summit held in Istanbul in November 2021. The resulting Istanbul Declaration qualified this agreement as an important step toward providing crucial measures for the simplification

of administrative procedures and, in turn, the optimization of transport operations across the TITR.

Along with peripheral countries, Türkiye has cemented ties with Beijing as well. An important document in this context was signed in November 2015 during the G20 Summit in Antalya, titled "Memorandum of Understanding on Aligning the Belt and Road Initiative and the Middle Corridor Initiative."

All these initiatives envisage setting out a roadmap for stronger ties and creating favorable conditions to advance the macro-economic interests of the states located along the Middle Corridor, in both the short and long run. Aside from pursuing dynamic foreign policy and soft power initiatives, Türkiye is also increasingly consolidating its pivotal role in terms of constructing multi-purpose transportation infrastructure projects across the country.

In that sense, the intercontinental suspension bridges built over important waterways such as the Yavuz Sultan Selim Bridge in Istanbul (2016), the Osmangazi Bridge in Izmit (2016), the Dardanelles Bridge in Çanakkale (2022), and the Marmaray and Eurasia subsea tunnels, constructed underneath

the strategically important juncture of the Bosphorus strait in 2013 and 2016, respectively, are testaments to Ankara's extensive efforts and ambitions to revive the ancient Silk Road.

A thorough modernization plan of the existing domestic railway system is also considered one of the core elements of Ankara's development strategy, which targets the strengthening of its transportation and logistics sectors countrywide. To that end, negotiations have already been conducted with Siemens since 2018, with investments reportedly amounting to around \$40 billion. Beyond that, the expansion of nationwide high-speed rail lines in Türkiye, relying heavily on Chinese infrastructure loans, has been coming to the table from time to time, making relatively little progress due to disagreement over the terms of the contract. Therefore, the Turkish government is also focusing on the enhancement of domestic coastal ports like Filyos (Black Sea), Çandarlı (Aegean Sea), and Mersin (Mediterranean Sea) in order to unlock the maritime portion of the Middle Corridor towards European seaports.

All in all, the active engagement of Ankara is crucial for the realization of the Middle Corridor, given Türkiye's geostrategic importance along the Trans-Caspian route.

Since the beginning of the Russo-Ukrainian war, avoiding transport shipping through sanctions-battered Russia and prioritizing the development of the Trans-Caspian route has been a particular concern for Kazakhstan, as well. The world's largest landlocked country—with large proven hydrocarbon resources that are mainly exported to the EU, China, Russia, and Türkiye—has traditionally transported these and other commodities via its northern neighbor.

Following the adoption of the West-led sanctions and export restrictions regime against Russia, Astana took immediate steps toward increasing the potential of the Trans-Caspian route to safely deliver its crude oil and grain shipments to the global market. For its crude exports, Kazakhstan has looked to access the Baku-Tbilisi-Ceyhan pipeline (BTC), an international energy project that carries crude oil from Caspian oilfields across Azerbaijan, Georgia, and Türkiye to the Mediterranean coastal ports. It accelerated its plans in reaction to the suspension of operations in the Russian Black Sea port of Novorossiysk, which is regularly used to export Kazakh oil to European markets via the Caspian Pipeline Consortium

(CPC), where Russian state-owned company Transneft holds the biggest share.

As a consequence of changing dynamics, the past few months have seen an upsurge in the development of relationships involving Astana, Baku, and Ankara. Two examples suffice for present purposes. A two-day official visit of incumbent Kazakh president Kassym-Jomart Tokayev to Ankara in mid-May 2022 helped consolidate bilateral cooperative relations, allowing the parties to strengthen their transport and transit partnership and paving the way towards making better use of the potential of the Trans-Caspian International Transport Route. Also, while holding a phone call with the President of the European Council Charles Michel a few months ago, Tokayev called on the EU to pursue common strategic goals by forging cooperation over developing alternative transcontinental trade corridors, including TITR.

Astana's attempts have also yielded fruitful results with respect to building friendly ties and securing agreements with the major Western logistics firms that operate along the east-west dimension. Given the steady rise in demand, on 16 March 2022, the Finnish logistics company

Nurminen Logistics consented to closely cooperate with Kazakhstan Railways by inking a document on realizing the rapid commercialization of the TITR. Under this new deal, the parties successfully conducted initial tests by launching rail wagons that traversed Kazakhstan, Azerbaijan, and Georgia before reaching Central Europe between April and June 2022. In September 2022, a revamped commercial rail service was launched, thereby intensifying solid cooperation on the Sino-European route.

Against this backdrop, the Austrian-backed international transport and logistics company Gebrüder Weiss organizes is also considering an expansion of the number of transport links to keep pace with skyrocketing demand along the Middle Corridor by prioritizing its Almaty Center as a main regional hub to handle cross-border cargo traffic efficiently. Moreover, the Danish shipping company Maersk already started developing its own Trans-Caspian logistics route in collaboration with its regional partners back in March 2022, while its first departure from China took place one month later. Other international shipping companies that offer integrated container logistics and supply chain services are presently raising the prospect of developing supply

routes across the Middle Corridor, hoping to increase their revenues from east-west cargo shipments.

The deepening of bilateral ties between Kazakhstan and Azerbaijan is another positive trend that is closely related to the further improvement of the Middle Corridor. In this regard, Tokayev's recent state visit to Baku, undertaken at the invitation of his Azerbaijani counterpart Aliyev on 24 August 2022, illustrates the former's concerted attempts to expand bilateral cooperation with its main western neighbor: Azerbaijan occupies a unique geostrategic position for Kazakhstan's westward exports, in light of the growing value of the TITR. During this presidential visit, particular agreements were signed in the fields of transportation, energy, trade, railway, aerospace, and digital development. This was done within the framework of the "Comprehensive Program on the Development of Cooperation between the Republic of Azerbaijan and the Republic of Kazakhstan for 2022-2026," which the two presidents signed during Tokayev's state visit to Baku.

Strategically, Astana's zeal in facilitating communications and building friendly ties with the directly concerned states of the

Middle Corridor is based on the policy that longstanding multilateral alliances might be key for unlocking regional trade opportunities and transport connectivity of the Greater Caspian region. Constructing large-scale, land-based traffic networks that are intended to facilitate container and commodity transport from east to west throughout the implementation of the “Nurly Zhol State Infrastructure Development Program for 2020-2025” is also a remarkable reflection of Kazakhstan’s political elites toward introducing well-developed alternative transit gateways.

In short, the leaders of the region’s leading states have clearly grasped that the focal point of the Middle Corridor is the reinforcement of the development of competitive supply channels through close intergovernmental collaboration and commitment.

Apart from the intensified efforts of regional players, China has likewise shown growing interest to reinforce the

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capacity of alternative overland transit corridors. This predates any recent geopolitical tumults by several decades: the initial agreement between Baku and Beijing concerning interconnectivity was signed in the early 2000s, outlining plans to closely collaborate in the field of transportation.

Aliyev and his then-Chinese counterpart, Hu Jintao, reached a bilateral agreement for rail network development during the former’s first state visit to China in 2005. Another notable deal was a memorandum of cooperation signed between the International Association of the Trans-Caspian International Transport Route, China Communications and Transportation Association, and the Azerbaijan Caspian Shipping CJSC on 14 June 2017. Later that year, during the Twelfth China International Logistics and Transportation Fair, China’s Shenzhen Logistics and Supply Chain Management Association and the International Association of Trans-Caspian International Transport Route also inked a

memorandum of understanding to foster commercial and economic cooperation to prioritize and facilitate the flow of cargos transported via TITR.

In addition to the aforementioned documents, Azerbaijan Railways’ bilateral agreement on container transportation with China’s Xi’an Continental Bridge International Logistics Company, which came into force in 2019, is anticipated to create a smoother operational environment along TITR within the framework of BRI. As noted earlier, Baku’s decision to manifest active support for Beijing’s BRI plans was seen as a significant commitment in the direction of deepening bilateral political and economic bonds, which in turn would improve the possibility of China’s potential involvement in developing the Trans-Caspian route within BRI’s China-Central Asia-West Asia Economic Corridor (one of BRI’s six economic and transportation corridors).

Aside from such mutually-beneficial commercial deals, China’s substantive financial allocations are commonly found in transportation infrastructure projects constructed along this cross-regional path. These projects are also in line with Beijing’s decade-long business and transport diversification policies.

For instance, China has, thus far, provided funding of around \$70 million for the Port of Baku and delivered technical equipment worth about \$2 million. Additionally, major Chinese international seaports such as those located in Guangzhou and Lianyungang, as well as China’s multinational conglomerate COSCO Shipping, separately inked documents in 2018 with the Port of Baku for expanding international cooperation. Moreover, up to 30 of its employees have already participated in government-sponsored professional development programs by being involved in technical training and courses during study trips of various lengths in China.

Hence, in light of BRI deals, commercial partnerships and political ties involving China and Azerbaijan have been elevated to historically unprecedented levels. As Baku still believes it has more leeway to do deals with the Chinese, the scale of collaborative strategic initiatives is henceforth likely to grow exponentially. This is expected to significantly increase the levels of trade turnover along the Middle Corridor in the coming years. Rising Sino-Azerbaijani relations will foster longstanding technical partnerships and constitute the core of transnational cooperation platforms as part of a broader assis-

tance and investment strategy that China offers within the framework of BRI.

Similarly, the adaptation of TITR to new geo-economic realities has become a first-tier topic in EU policymaking circles. Historically, Brussels has been one of the main promoters of alternative intercontinental transit channels. It has thus embarked on various regional integration programs as a means to realize market integration and economic cooperation on its terms. Negotiations over the establishment of this new multimodal corridor date back to the early 1990s. After the dissolution of the Soviet Union in 1991, the EU-backed TRACECA (Transport Corridor Europe Caucasus Asia Program)—an international transport program involving the EU and 12 member states of the Eastern European, Caucasus, and Central Asian regions—laid the initial institutional and infrastructural foundation for this network of alternative transport arteries that were designed at the

onset to bypass entirely Russian territory for international freight transportation.

Seeing the feasibility of such intermodal transportation routes, the EU allocated funds and delivered financial incentives for upgrading logistics distribution channels across the Middle Corridor. With TITR emerging as a reliable transit passageway across the Silk Road region, the EU's continued engagement in the development of the corridor is vitally important to effectively tie international cargo shipments into EU transportation flows through this corridor.

Policymakers from the EU and its member states now attach great importance to the further development of their relations with their counterparts from Middle Corridor countries, demonstrating a common will to cooperate in the fields of transportation and logistics. In this respect, EU Commission President Ursula von der Leyen, speaking in Baku on 18 July 2022, stressed the im-

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portance of the Port of Baku as a logistic and transit hub connecting the littoral states of the Caspian Sea.

The further prospects of this alternative overland trade route were also the main subject of discussion on transport cooperation that was conducted in Brussels on 15 June 2022 between high-ranking officials of the EU's Committee on Transport and Tourism (TRAN), Kazakhstan Railways JSC, and the International Association of the Trans-Caspian International Transport Route. The attendance of representatives of prominent international organizations and financial institutions (UN, OSCE, EIB, EBRD, EBRD, OSJD, TMTM, TRACECA, WCO, and others) as well as EU railway associations (Community of European Railway and Infrastructure Companies, Railfreight, and FERRMED) at this meeting thus came

as no surprise, since the multilateral international organizations dealing with transport issues have been eyeing to heighten cooperation with non-EU partners in the transportation field across the TITR for years.

It thus appears that, in the context of greater geopolitical uncertainties, Brussels in alignment with its partners is keen to gradually and in an orderly manner push forward the development of an economically sustainable Middle Corridor, particularly within the broader framework of the EU Global Gateway strategy.

Unlocking the Potential of the Middle Corridor

For all the states involved—Azerbaijan, Türkiye, Georgia, Kazakhstan, China, plus the EU—the Middle Corridor offers an alternative intermodal transit route that eliminates Russia's monopoly over east-west trade. As relations between the West and Russia continue to sour, global demand for the Middle Corridor will rise dramatically, further feeding into other major inter-

national players' urgency to switch transit dependence away from Moscow.

The reorientation of trade and energy routes in order to bypass Russian territories has consistently

The Middle Corridor is the shortest, cheapest, easiest, and most reliable option for China's trade with Europe in the wake of current geopolitical uncertainties.

been the dominant discourse in both Brussels and Beijing over past several decades. The Middle Corridor is the shortest, cheapest, easiest, and most reliable option for China's trade with Europe in the wake of current geopolitical uncertainties. Consequently, this year has seen a huge volume of freight shipping traversing throughout this trade corridor. For example, a total of 266,300 tons of cargo were transshipped along this route in the first three months of 2022, an increase of over 120 percent compared with the first three months of 2021. Although the Middle Corridor only transports 5 percent of the overall rail cargo traded between China and the EU, there is growing optimism that this transit route might move up to 10 percent of that volume in the near to medium term. Cargo transshipment through TITR is anticipated to grow sixfold in 2022 compared to 2021.

However, despite the core participating states of the Middle Corridor—i.e., Azerbaijan, Türkiye, Kazakhstan, and Georgia—energetically displaying joint efforts to solve supply chain

disruptions between Europe and China, there are still numerous difficulties and interrelated hurdles that need to be addressed. Undoubtedly, the Middle Corridor is a strong alternative to other transportation corridors in terms of security, cost, distance, and duration, but freight transportation through this route is, for now, logistically much more complex compared with Russian routes. It requires complex multimodal solutions that involve road, rail, and maritime transport simultaneously. Thus, the development of integrated logistics products and services along this supply route is crucial to enhancing competitiveness. After all, this corridor covers a vast distance and involves several countries: the simplification and streamlining of documentation through higher connectivity will help in raising compliance levels and lead to sustainably transporting growing volumes of cargo in the coming years.

Compared to its rivals, the Middle Corridor is not a single inland traffic link: containers traveling via this multimodal channel need to cross the borders of up to six

Considerable amounts of new investments in physical and digital infrastructure will have to be made before bottlenecks can be overcome and market needs can be met.

countries and cross two seas (the Caspian Sea and then either the Bosphorus or the Black Sea), which involves slow and costly vessel services. Utilizing multiple modes of transportation increases the complexity of loading and unloading processes that might cause delays in the passage of consignments.

Despite TITR's major stakeholders having persistently campaigned for this route, the sustainable integration of the Middle Corridor with the global trade network depends on multiple factors and include financial, technical, and geographical challenges. Considerable amounts of new investments in physical and digital infrastructure will have to be made before bottlenecks can be overcome and market needs can be met. Going forward, the littoral states of the Caspian Sea (particularly Azerbaijan and Kazakhstan) still require substantial investment to be able to develop optimally their coastal ports for ensuring smooth cargo flows.

Moreover, the lack of infrastructure development at the Georgian and Turkish Black Sea ports poses considerable obstacles. Besides the question of investment, the successful implementation of the Trans-Caspian route will also depend on the future political commitment of

regional actors. Essentially, friendly bilateral relations among involved states are very relevant to the success of this complicated supply channel. From this perspective, all parties will need to work more collaboratively and continuously in order to achieve the construction of an integrated, cohesive, and efficient intermodal transit corridor.

The adoption of advanced cross-border collaboration mechanisms, through improved cooperation among the major regional rail freight providers, is a critical process to resolve logistics and trade barriers, thereby achieving host countries' trade facilitation goals. Moreover, the harmonization of tariffs along the corridor, heightened transparency of customs services, and the simplification and harmonization of regulatory and customs procedures for transit containers are vital to enable further practical measures to be taken for TITR's further implementation. Therefore, applying an effective tariff policy and reducing the price of integrated services is the key to improving the effectiveness of carriages for foreign cargo forwarders. Indeed, all these require a connected international network and stronger institutional cooperation among the countries and stakeholders involved. Finally, the countries located along the route have to further increase

intergovernmental working groups and platforms for enhancing coordination among numerous state institutions within the Middle Corridor framework.

Nevertheless, since the onset of the Russo-Ukrainian War in February 2022, the initiators of the Trans-Caspian route have maintained a positive posture for developing this politically reliable and economically viable transportation and trade corridor. Being located at the intersection of the Asian and European continents, the host economies of the Middle Corridor endeavor to position themselves strategically at the center of east-west trade by exerting maximum efforts to ensure the full implementation of flagship transregional transportation projects.

Policymakers are becoming increasingly aware that they can boost the Middle Corridor's role

as a crucial passageway across the Eurasian land bridge by implementing long-term incentive programs driven by wide-ranging consensus and political cooperation. However, addressing the problems outlined above requires a joint effort from the leadership of the host nations of the corridor. Thereafter, it remains to be seen whether the Middle Corridor will be able to become a functional alternative to the Northern Corridor in the long run.

Even with its current shortcomings and limitations, however, the Middle Corridor has the potential to serve as an optimal linkage for the Sino-EU rail connections. While the volume of cargo transported through the Middle Corridor is growing every year, the development of the capacity and the optimization of rail cargo traffic is likely to remain a significant concern for all involved states in the years ahead. **BD**

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Strategic Opportunity for the Middle Corridor?

Selçuk Çolakoğlu

Connectivity initiatives across the Eurasian landmass have been on global and regional agendas since the dissolution of the Soviet Union, with the newly independent countries of the Silk Road region prioritizing efforts to reach international markets so as to strengthen their strategic independence from Moscow. Amongst the numerous Silk Road connectivity initiatives, the Middle Corridor has the aim of building an efficient East-West corridor involving countries located between the European Union and China (except for Russia).

This essay analyses the pros and cons of the Middle Corridor project from the perspective of some of the countries most concerned, starting with Türkiye. It also examines how the COVID-19 pandemic and the 2022 Russia-Ukraine war have af-

ected the implementation of this initiative.

Ankara's Middle Corridor

Starting from its eastern end point, the Middle Corridor crosses from China into Kazakhstan before reaching the Caspian port of Aktau or Turkmenistan's port of Turkmenbashi. Using a sea connection, the Middle Corridor reaches the Azerbaijani multimodal port of Alat. It then passes through the Southern Caucasus before reaching Türkiye and then Europe.

The Middle Corridor has several advantages. It brings a complementary route to the Northern (Russian) and Southern (Iranian) corridors with significant market potential, due to the sizeable population around it. It provides a connection between the North-

South Corridor and East-West Corridor and will provide a feasible connection to Europe through the Aktau/Turkmenbashi-Baku/Alat-Tbilisi-Kars-Marmaray (Istanbul) link. In addition, there is a plan for a line that will cross from Türkiye to Azerbaijan's Nakhichevan exclave.

There are also four main existing routes for highway transportation between Asia and Europe through Türkiye: the Türkiye-Iran-Turkmenistan-Uzbekistan-Tajikistan-Kyrgyzstan route; the Türkiye-Georgia-Azerbaijan-Caspian Sea-Turkmenistan/Kazakhstan route; the Türkiye-Georgia-Russia-Kazakhstan route; and the Türkiye-Iran-Pakistan route.

This strategic project, formally known as the Trans-Caspian East-West-Middle Corridor Initiative, reflects Ankara's Silk Road perspective. Ankara's main objective in launching this initiative in the 2010s was to create a belt of prosperity in the region, to encourage people-to-people contacts, to re-

A prerequisite for the realization of the entire Middle Corridor Initiative is the Baku-Tbilisi-Kars railway and the subsequent modernization of all the railway systems in Türkiye to allow for high-speed freight transit.

inforce a sense of regional ownership, and to connect Europe to Asia, notably regions we call the South Caucasus, Central Asia, East Asia, and South Asia. The country's secondary objectives include expanding mar-

kets, creating economies of scale, and providing a significant contribution to the development of regional cooperation in Eurasia, or, as the editors of this journal prefer, the Silk Road region.

While representing Ankara's own version of a Silk Road initiative, the Middle Corridor is essentially based on the idea of establishing a region-wide railroad network. Its core aim is to extend the railway line that originates from Türkiye to Central Asia (Kazakhstan, Turkmenistan, and others) via the South Caucasus (Georgia and Azerbaijan). The Baku-Tbilisi-Kars railway (BTK), which became operational in October 2017, and the subsequent modernization of all the railway systems in Türkiye to allow for high-speed freight transit, is a prerequisite for the realization of the entire initiative.

Complementary Initiatives

China's Belt Road Initiative (BRI), introduced by Chinese President Xi Jinping in 2013, has resonated with both the overland and the maritime Silk Roads. BRI encompasses two major geographical expanses: the first follows the historical overland Silk Road through Central Asia, then onto Russia and eventually into Europe. The other passes through Iran and Türkiye to the south. China's overland Silk Road is called the Silk Road Economic Belt (SREB). BRI also includes the Twenty-first Century Maritime Silk Road (MSR), covering Southeast Asia, South Asia, East Africa, and Europe.

The BTK railway also has a connection to the Lapis Lazuli Corridor to increase connectivity between Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Türkiye. The Lapis Lazuli Agreement was signed on the margins of the Ministerial Conference of the Regional Economic Cooperation Conference on Afghanistan (RECCA) in November 2017 in Ashgabat. The corridor's opening ceremony took place in Herat, Afghanistan on 13 December 2018 and a test run involving nine heavy vehicles reached Türkiye in 15

days. China had been rather low key in this routing, as it upgrades routes built by the United States, with Turkish and other regional government assistance, to act as a supply chain for U.S. military actions in Afghanistan. However, the Taliban's takeover of the Afghan government in August 2021 has delayed Afghanistan's involvement in regional connectivity projects, including the Middle Corridor.

The International North South Transportation Corridor (INSTC) is a Russian-Iranian-Indian initiative, which covers the Caspian Sea region since 2000. Stretching 7,200 kilometers from St. Petersburg, Russia, through Eastern Europe to Iran's Chabahar Port and thence to India, the INSTC has grown to include India, Iran, Russia, Azerbaijan, Kazakhstan, Armenia, Belarus, Tajikistan, Kyrgyzstan, Oman, Syria, Türkiye, and Ukraine. Bulgaria recently joined as an observer. Additional corridors have been designed along the INSTC that move through landlocked Turkmenistan, Uzbekistan, Tajikistan, and Afghanistan. One particularly interesting INSTC rail link can be constructed into Kabul, which links easily to the Trans-Afghanistan Railway stretching from Uzbekistan to Pakistan, and which saw a major agreement signed in February 2021. Although

the INSTC has some overlap with the Middle Corridor, there now is an ambiguity for the further realization of the initiative because of two main reasons: the Taliban's takeover of Afghanistan and the Russia-Ukraine War.

Integrating Two Initiatives

The Middle Corridor and BRI are the two most promising initiatives covering the East-West corridor from China to Europe across the Silk Road region's landmass. Looking at the various initiatives that have been fleshed out to date as part of BRI and the Middle Corridor, three routes appear to be the most promising in terms of facilitating the trans-continental integration of railway networks.

The first route envisions connecting China to the Trans-Siberian Railway through Russia. However, this route would need to cover a huge distance (around 2,000 kilometers) to reach Türkiye, hence rendering it rather unattractive and reducing its status to that of a peripheral, time-consuming alternative. Moreover,

The Middle Corridor and BRI are the two most promising initiatives covering the East-West corridor from China to Europe across the Silk Road region's landmass.

harsh winter conditions and political problems between Russia and Georgia undermine the Northern Corridor's feasibility for Ankara as an alternative route to reach Central Asia, China, and East Asia. And then there is conflict over Ukraine and the West-led sanctions regime against Russia, which is a further argument against this route.

A second alternative would be using the Southern Corridor to establish a link between the Turkish and Chinese Silk Road initiatives. This route would connect the Trans-China Railway (TCR) to Kazakhstan. Under this scenario, the route would go through Kyrgyzstan, Uzbekistan, Turkmenistan, and Iran, before reaching Türkiye. China's initial BRI vision tends to use the Southern Corridor for main transportation and logistics links rather than the Southern Caucasus. If BRI uses the Southern Corridor, it means bypassing the

Middle Corridor. However, the reinstatement of U.S. sanctions on Iran in November 2018 under the Trump Administration has become an obstacle for China to use the Southern Corridor to realize

its regional integration vision. It remains unclear whether the Biden Administration will be able to restore the 2015 Iranian nuclear deal—the odds appear increasingly unlikely. If the nuclear deal is reinstated or at least there is a possible U.S.-Iran normalization, the Southern corridor may become attractive again for Chinese BRI investments to reach through West Asia or the Middle East.

However, Ankara does not want to completely rely on Moscow or Tehran when it comes to strategic transport corridors that would serve as its gateway to the entire Asian continent. As a matter of fact, both Iran and Russia have played inhibiting rather than facilitating roles as far as Ankara's opening to Central Asia in the post-Cold War period is concerned. For instance, in 2014, Iran and Türkiye were embroiled in a transit fee dispute. In 2015, after the downing of a Russian jet by the Turkish Armed Forces near the Syrian border, Turkish trucks faced additional hurdles due to intensified Russian customs checks.

Ankara does not want to completely rely on Moscow or Tehran when it comes to strategic transport corridors that would serve as its gateway to the entire Asian continent.

Yet a third alternative would be connecting BRI with the Middle Corridor through the Caspian Sea. The TCR can be integrated into Kazakhstan's railway network and from there extend to Azerbaijan through a trans-Caspian roll-on/roll-off (ro-ro) link. The BTK railway then connects this route to Türkiye. A link between BRI and the Middle Corridor would be shorter and less costly for Ankara than any alternative involving the Northern and Southern corridors. The Middle Corridor's connectivity to BRI helps Beijing's ambitions pertaining to the reinvigoration of the ancient Silk Road via an integrated railroad link between China and Middle Eastern and European markets through Central Asia and the South Caucasus.

Within this framework, an agreement on the establishment of the Trans-Caspian International Transport Route (TITR) was signed in April 2016 in Baku by the railway authorities of Azerbaijan, Georgia, and Kazakhstan. TITR is a project initiated to improve the transit potential and economic development

of the countries of the Caspian Sea region. This route runs from China through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, Turkey, and further to Europe. The Turkish railway authority (TCDD) and Ukraine's Ukrzaliznytsia joined TITR after 2018. China's Lianyungang and Poland's UTK are associate members of the TITR.

With Eastern Europe, the Caucasus and now Türkiye on board, Beijing is aiming for China-Europe trade to reach 300,000 shipping containers annually via the Trans-Caspian Route. A minimum of 15,000 shipping containers per year is the agreed target for China-Türkiye container traffic, with the cost of one container from Lianyungang to Istanbul by block train set at \$6,300.

In 2018, new freight services were launched, such as the lines linking Venlo in the Netherlands to Istanbul; Łódź in Poland to Istanbul; and Istanbul to Lianyungang. In April 2019, a regular feeder service from Lianyungang to Aktau in Kazakhstan, and from there to Baku, was established.

While the Middle Corridor is one of six official corridors of the BRI, neither Chinese finance nor Chinese companies have, so far, been involved sufficiently.

The first China Railway Express freight train traveled from China to Europe in November 2019 within 12 days through the BTK railway. The 820-meter-long train, containing 40 carriages, departed from the central Chinese city of Xian and traveled 11,500 km to Prague as part of BRI via Kazakhstan, Azerbaijan, Georgia, Türkiye, Bulgaria, Serbia, Hungary, and Slovakia. This was the symbolic realization of connectivity between BRI and the Middle Corridor—Beijing's gesture to Ankara. Another cargo train consisting of 43 cars from China headed to Istanbul in June 2020, passing through Kazakhstan, the Caspian Sea, Azerbaijan, and Georgia.

Constraints

While the Middle Corridor is one of six official corridors of the BRI, neither Chinese finance nor Chinese companies have, so far, been involved sufficiently. Beijing has also been largely absent from port developments around the Caspian Sea. A lack of infrastructure and multiple border crossings mean that the Middle Corridor cannot compete

with the Northern Corridor, which may be the shortest route between Europe and China—recent geopolitical constraints notwithstanding. Furthermore, the Middle Corridor involves crossing five borders and transiting one or two seas, depending on where the cargo is heading.

The Middle Corridor's bottleneck is the lack of an entire transport-oriented business ecosystem appearing in the Caspian and Black Sea countries, with major logistics and manufacturing parks popping up in places like Baku, Batumi, Anaklia, and Kars. The Middle Corridor so far remains a firmly regional initiative and faces serious obstacles to becoming the central China-Europe route. Furthermore, in terms of China's geopolitical and economic aims, the Black Sea and Caspian region is far less significant than Southeast Asia, South Asia, and the Middle East.

The main destination of the China-Europe Railway Express is Germany and its neighboring countries, if you start from the central and western cities of China; it has obvious advantages to take the New Eurasia Land Bridge (NELB) via the Northern Corridor. For example, from the central Chinese city Xian to Prague, there are two options. One takes the

Middle Corridor for a total distance of 12,251 kilometers, and the other takes the NELB via the Northern Corridor for a total distance of 9,623 km. The Northern Corridor is shorter than the Middle Corridor by around 2,628 km from Xian to Prague. In terms of transportation costs, the countries along the Northern Corridor have signed intergovernmental agreements with mature operations for years, thus their transportation costs are relatively fixed. These sorts of argument predate the onset of the conflict over Ukraine and the West-led sanctions regime against Russia. In the event that the sanctions remain in place (officially or unofficially), the Northern Corridor will not be able to be used—its economic advantages notwithstanding.

That being said, the Middle Corridor's freight is not so transparent, especially the cost of its extended section in Europe. The freight for the very section requires negotiation with various parties. Not only is timeliness affected, but also preferential transportation rates cannot be obtained in the negotiation because of the failure to achieve economies of scale, which directly affects the competitiveness of the Middle Corridor. The transportation time also reflects more the quality of various services and the suboptimal condition of infra-

structure in the entire transportation process, which includes all aspects of railway operation and inspection, quarantine, customs clearance, and so on.

The Northern Corridor is more advantageous in actual operation than the Middle Corridor, as it has more mature business activities, better technical conditions, and fewer countries involved. Taking the example of the China-Europe Railway Express running from Xian to Prague, it normally takes 12 days for the Northern Corridor, while 18 days for the Middle Corridor is the usual timeframe. But again, geopolitical conditions suggest strongly that the Middle Corridor will see more—perhaps much more—use than the Northern Corridor alternative.

The Pandemic and the Russia-Ukraine War

Two dramatic developments in the past three years have increased the desirability of the Middle Corridor route. First, the COVID-19 pandemic has increased the importance of local/close

supply chains since early 2020. The pandemic has revealed that personal protective equipment, medicines, and agricultural products are strategic and must be produced in-country (or as close as possible) to combat natural and health disasters properly.

Many developed countries transferred labor-intensive production to the countries in the Global South, including China, to maximize profits, but they may call some operations back. This seemingly applies particularly to pharmaceutical and health equipment production.

Western countries may consider more regional and diversified supply chains to mitigate China's dominance over the global supply chain. The countries of the Black Sea and Caspian Sea regions are now seen as potential production bases for the EU market instead of China.

As of 2021, when the international supply chain was not running smoothly, the main route of the Northern Corridor was severely congested. The freight volume of the China-Europe Railway Express grew rapidly in recent years and

Two dramatic developments in the past three years have increased the desirability of the Middle Corridor route.

the lines of the Northern Corridor experienced significant drops in transportation efficiency. The expansion of existing infrastructure in Germany, Poland, Russia, and others not only failed to solve current problems, but also aggravated the congestion of the lines.

The situation weakened the competitiveness of the Northern Corridor and created huge opportunities for the Middle Corridor. Although the transportation volume along the Middle Corridor increased significantly, it was used under-capacity because of serious transportation delays from China to Türkiye in 2021. The Middle Corridor has more potential roles to play as an East-West transit corridor in the post-pandemic period. And this brings us to the next development.

Second, the start of the Russia-Ukraine War is moving the Northern Corridor from its position as the main overland East-West corridor. This has been briefly discussed above and can now be fleshed out here. The West-led sanctions regime against Russia, coupled with Russian counter sanctions, have affected everything from energy resources and logistic supply to banking transactions and customs procedures. The closure of national airspaces

to each other's aircrafts is the extreme example of these dramatic sanctions.

After the war began, Western countries realized what should have been obvious: Moscow, too, can weaponize its geopolitical position and logistic networks. Strategic over-dependence on Russian energy, market, and logistics have created significant challenges to neighboring countries due to skyrocketing political tensions between the West and Russia. For example, in the first half of 2022 Moscow has twice temporarily shut down the Caspian Pipeline, which carries roughly 80 percent of Kazakhstan's oil exports by means of Russia to the Black Sea port of Novorossiysk.

After the imposition of the West-led sanctions regime, Kazakhstan's commerce route with Europe via the Northern Corridor became virtually inoperable, with insurers and importers cautious of cargo passing by means of Russia. That prompted Kazakhstan and other Central Asian countries to seek ways to diversify their commerce. The Iranian Southern Corridor was seen as an alternative, but ongoing U.S.-led sanctions against Iran keep Western countries away from involving themselves in any projects having to do with the

Southern Corridor. Moreover, the Southern Corridor lost one important ankle due to the Taliban's takeover of Afghanistan.

Even prior to the pandemic and the war, the countries of the Caspian Sea and Black Sea regions needed to develop their connectivity's with each other to reach international market. The opportunities now on offer should drive them to accelerate their efforts to build westward connectivity. This has now become even more vital for Azerbaijan, Georgia, and Central Asian countries, since many of the former Soviet republics belonging to the Silk Road region fear, to one extent or another, that they could be next.

Russia is feared, Türkiye is not. The latter has a favorable image in almost all former Soviet republics except Armenia. Ankara has the trust of Baku, Tbilisi, Kyiv, and Chişinău, delivering unconditional support to those countries' territorial integrity. For example, Türkiye did not give support to regional leader Aslan Abashidze during the 2004 Adjara crisis while the Adjara Autonomous Republic, historically dominated by the "Muslim Georgians" on the Turkish border, was seeking Ankara's support against Tbilisi. However, Russia declared a war on Georgia during

the 2008 South Ossetia crisis and then recognized self-declared independence of Abkhazia and South Ossetia.

Russia's unexpected (relatively) neutral stance during the Second Karabakh War reflects that Moscow wants to keep good relations with Baku, even at the expense of a rise in resentment of Yerevan. Thus, playing a fair peacemaker role in the wake of the 2020 war has now become particularly important for Russia, so as not to lose Azerbaijan to the West, like it has Georgia and Ukraine. Russia has deployed a peacekeeping force in a part of Karabakh and controls the Lachin corridor linking its peacekeeping zone with Armenia. More importantly, Armenia and Azerbaijan have agreed to enable the Border Guard Service of the FSB to exercise control over the transport of people, vehicles, and goods along a strip of American territory that lies between mainland Azerbaijan and its Nakhchivan exclave—this according to Article 9 of the 10 November 2020 document that ended the Second Karabakh War. Azerbaijan calls this the Zangezur Corridor.

Since the war came to an end, one thread of Baku's foreign policy has involved the intensification of relations with Moscow,

in large part to ensure the implementation of the 10 November 2020 agreement, including the operationalization of the Zangezur Corridor. Although this intensification has been somewhat relativized in recent months, Baku still sees Russia as respecting Azerbaijan's demands and restricting Armenia's maximalist claims.

It is not yet clear whether a comprehensive peace between Armenia and Azerbaijan will be agreed, which one way or another will deal with the connectivity issue. In the event this happens, peace between Ankara and Yerevan should follow quickly. And this would almost certainly result in the end of a three decade-old land blockade of Armenia by its two Turkic neighbors and, in turn, Armenia's integration into regional integration projects under the framework of the Middle Corridor.

The Middle Corridor is currently facing its best opportunity ever to take and hold a dominant position in connecting Europe and Asia. As a positive development, countries along the Middle Corridor, especially Azerbaijan and Türkiye, have

continued to promote the construction of transportation infrastructure and actively coordinate with other countries along the route to simplify transit procedures. For instance, the facilitation of the BTK railway among regional countries was on the agenda at the Extraordinary Virtual Summit of the Turkic Council on 10 April 2020 hosted by Azerbaijani President Ilham Aliyev. The leaders of Azerbaijan, Kazakhstan, Kyrgyzstan, Turkey, and Uzbekistan discussed the preservation of economic ties amid border closures in the beginning of the pandemic, especially the implementation of cargo transportation through transit lines for providing food and other products. The Organization of Turkic States (then called Turkic Council) has prioritized the improvement of transportation capacity and efficiency as well as the market competitiveness of the Middle Corridor.

After the start of Russia's invasion of Ukraine on 24 February 2022, South Caucasus and Central Asian countries increased their efforts to achieve further connectivity through the Middle Corridor project. For example, on

The Middle Corridor is currently facing its best opportunity ever to take and hold a dominant position in connecting Europe and Asia.

implementation of cargo transportation through transit lines for providing food and other products. The Organization of Turkic States (then called Turkic Council) has pri-

7 July 2022, Kazakhstan instructed Kazakh oil firms to develop new delivery routes apart from the existing Russian one. Kazakhstan also plays an important connecting role between Europe and Asia, and more than one million containers are transported through Azerbaijan and Georgia every year. Georgia has intensified its work with Azerbaijan, Kazakhstan, and Turkey to ensure the competitiveness and maximum utilization of the Middle Corridor. Furthermore, the EU's strategic energy cooperation with Azerbaijan has been enhanced in recent months with the signing of a historic document to double the amount of gas exported to the EU by 2027. This, too, should have a positive impact on the desirability of the Middle Corridor as well as on the EU's support for it. A similar argument could be made in the context of NATO.

As part of its global strategy to limit the spread of Chinese influence, the United States could see strategic advantage in encouraging the construction of a more integrated market involving the European Union and the countries

of the Black Sea and Caspian Sea regions, rather than such integration reaching all the way to China. This is another argument for further supporting the Middle Corridor.

The European Union has already made a similar determination, albeit for perhaps different reasons. The EU plans to invest as much as €2 billion as part of its plan to further extend its Trans-European

Both geopolitically and geo-economically, the Middle Corridor's main appeal is that it bypasses Russia. This is seen by both the West and China as a strategic advantage, given present circumstances.

Transport Network (TEN-T) to the Eastern Partnership countries, which include Azerbaijan and Georgia.

Both geopolitically and geo-economically, the Middle Corridor's main appeal is that it bypasses Russia.

This is seen by both the West and China as a strategic advantage, given present circumstances. Despite friendly and perhaps deepening Sino-Russian relations, Beijing has plans to build alternative connections into global trade networks. For years, Moscow and Beijing had a tacit division of labor in Central Asia, with Russia taking the lead in security matters while China took the lead in economic matters.

That is now changing in the aftermath of the onset of the conflict over Ukraine.

The Way Forward

Until recently, it would have been hard to argue convincingly that the Middle Corridor would be able to become a true alternative to the Northern Corridor. But, as discussed above, the COVID-19 pandemic and the Russia-Ukraine War drastically changed the situation in favor of the Middle Corridor. Overdependence on Russia—not just for hydrocarbon supplies but also for its role as a transport, connectivity, and logistics gateway—is now seen as a strategic vulnerability by the European Union and its member states. This is unlikely to change in the time ahead. Even though the Middle Corridor is both a less efficient and more costly alternative to the Northern Corridor, it is now the preferred route.

Beyond the EU and its member states, other external Western

actors like the United States, the UK, and NATO are likely to provide additional political and perhaps financial support to the Middle Corridor in the coming months, years, and perhaps decades. For its own reasons, China, too, will probably do the same, within the overall framework of BRI.

Russia, for its part, is likely to keep its primary focus on Ukraine. At least until the war ends and perhaps much longer, the Kremlin is unlikely to prioritize attempting to prevent Middle Corridor-related projects.

All this is excellent news for Ankara, which is the originator of the Middle Corridor, but also for the core states of the Silk Road region in the South Caucasus and Central Asia. A window of opportunity has opened wide for the Middle Corridor to become the main viable East-West transit hub. Nevertheless, there is still much road left to travel before its strategic potential can be fully realized. **BD**

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The Need for Regionalism in Central Asia

Omar Sadr and Akram Umarov

For a long time, Central Asia has been understood through the lenses of the “great game” and “great power politics.” With the shift in the U.S. strategic interests from counter-terrorism to great power competition, analysts believe that Central Asia will turn into a zone where the three major powers—the United States, China, and Russia—will find themselves with increasingly conflicting geopolitical interests. While all three are united today for a more stable Central Asia protected from radicalism, the divergence comes as each wants to supplant the other two as the primary partner of the region.

Central Asia is now entering a pivotal period of its independence and sustainable development. The geopolitical situation in the region demonstrates that it has considerable

problems to deal with in order to reach resilience. As the world is facing accelerating geopolitical clashes, the existing competition between major external actors in the region can easily turn into a very tough rivalry. None of the countries of Central Asia are interested in becoming a part of a new “Great Game.” The poor management of such potential rivalry between major powers might destabilize Central Asia.

On a practical note, as our colleague Jennifer Murtazashvili noted in May 2022, with the withdrawal of Americans from Afghanistan and the bloody engagement of Russians in Ukraine, China may find “a greater incentive to become more involved in security matters in the region in ways they had not been in the past.” Without a clear collective vision, there is

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a risk that Central Asia will face strategic uncertainty or that the region will gradually fall into the exclusive domain of one of the other great powers. As Russia has done in the past, China may dominate a less integrated Central Asia in the future by pursuing a strategy of dealing with each country separately.

The region is also surrounded by a range of regional powers that follow an ideological policy, such as Türkiye (Neo-Ottomanist ideals and pan-Turkism) and Iran (Shia-centric policy). Especially Türkiye has been demonstrating significant interest in the expansion of its influence and strategic presence in Central Asia for the past few years. In the time ahead, Ankara could substantially boost its role and activity in the region and turn into one of the leading external partners of Central Asia, which has diversified links with regional elites. This is also called a Eurasianist shift in Türkiye’s policy.

An exclusive security dependency on the revisionist great powers is what the Central Asians should avoid. The shortcomings of Russian military power in Ukraine provide a new opportunity

for Central Asians to rethink regionalism and collaboration to ensure a safe and free Central Asia. Regionalism as coordination will also prevent “divide and conquer” tactics by Russia and China. Otherwise, as a new version of the Cold War-era “iron curtain” between the West and Russia descends again upon the world, and in the event that China keeps strengthening quickly, the traditional balancing of Central Asian states between major external powers could become very complicated.

During a rivalry of such powers, their respective governments might insist on Central Asians having to make the choice to avoid any close cooperation with their adversaries. The current escalation of tensions between Russia and the West is thus likely to have considerable regional implications. Overcoming the consequences of this crisis depends largely on Central Asia’s readiness for greater regional coordination and mutual support in resisting any attempts to limit the sovereignty of the five states that make up its core. Tacitly accepting that Central Asia belongs within a single state’s sphere of influence, coupled with efforts to turn the region into

None of the countries of Central Asia are interested in becoming a part of a new “Great Game.”

a geopolitical object for great powers to play with, will not support the region's resilience and growth.

Shifting Circumstances

Understandably, the states of Central Asia have each adopted a multi-vector foreign policy. However, given the weakness of these countries compared to Russia and China, and their lack of a coordinated regional stance, has translated into them being tied to the regional security architecture created by Moscow and Beijing. Three Central Asian countries—Tajikistan, Kyrgyzstan, and Kazakhstan—are members of the Collective Security Treaty Organization (CSTO). Similarly, except for Turkmenistan, the rest of the Central Asian states are members of the Commonwealth of Independent States (CIS) and the Shanghai Cooperation Organization (SCO). Ashgabat is an associate member of the CIS and has been actively engaging within this format in recent years.

Moscow has obstructed any sort of initiative by Central Asian

nations toward fostering regionalism. Instead, it has highlighted Russia-led and Russia-owned processes like CSTO or CIS. For instance, Russian President Vladimir Putin once said that the threat emerging from Afghanistan “can only be overcome by a global effort with reliance on the United Nations and regional organizations: the Collective Security Treaty Organization, the Shanghai Cooperation Organization, and the CIS.” As a result, Central Asia has not been able to move toward

An exclusive security dependency on the revisionist great powers is what the Central Asians should avoid.

a form of regionalism from within. Possibly any attempts to foster regional integration in Central Asia are perceived in Moscow as an effort to reduce its dominant role in the region and to compete with existing regional organizations like SCO, CIS, and others that include Russia as a leading member state.

The CSTO was created to defend member states against a conventional military invasion, but this threat has remained irrelevant to Central Asian security. The Central Asian countries have disputes over resources and borders with each other, and, while some of them remained

unresolved and have even led to state-level military confrontation, the CSTO and other security architectures like the SCO have not presented solutions for them. Ironically, the September 2022 border skirmish between Tajikistan and Kyrgyzstan happened at a time when the presidents of both countries were attending the SCO summit in Samarkand.

Moreover, Russia's lack of success in its war in Ukraine should make Central Asia think twice before relying on Moscow for security. The CSTO is predominantly perceived in Central Asia as a sign of close bilateral military cooperation between Russia and other member-states. Actually, there is limited multilateral collaboration within the CSTO. January 2022 is the only time when CSTO collective forces were used. This took place in Kazakhstan in support of local law enforcement forces during large-scale unrest in the country—and it would

not have happened without the strong political will of Russia and its leadership to quickly deploy CSTO forces in Kazakhstan.

Even after more than three decades of independence, the Central Asian states have had a hard time reducing their dependency on Russia. There have been shifts in certain areas—trade relations are one example, where China is gradually replacing Russia as a primary trading partner. In terms of security—as exemplified by the Russia-led CSTO deployment in Kazakhstan in January 2022—Russia has remained the region's primary security guarantor.

Understandably, the states of Central Asia have each adopted a multi-vector foreign policy. However, given the weakness of these countries compared to Russia and China, and their lack of a coordinated regional stance, has translated into them being tied to the regional security architecture created by Moscow and Beijing.

If there is any major external threat to the sovereignty of the small Central Asian states, it would be the competing desire of major powers in the region—i.e., Russia and China—to increase their leverage. Most Central Asian countries consider the Russian invasion of Ukraine as a violation of the

latter's sovereignty and have withheld cooperation with Moscow in the conflict. The regional states are very concerned with Russia's revisionist approach to the former Soviet space. Therefore, unlike the Afghanistan occupation in the late 1970s, when Moscow was able to mobilize support from most of the Warsaw Pact countries, the CSTO members have refused to endorse Moscow's stance in the current conflict. Given the presence of ethnic-Russians (and Russian-speaking peoples) in Central Asia and an irredentist policy in Moscow, a Russian victory in Ukraine would present a real threat to these countries' sovereignty. The region can easily extrapolate on itself Putin's idea of "winning back Russian lands" and express a just agitation with the Russian war in Ukraine.

However, the Russian invasion of Ukraine, which revealed Moscow's military shortcomings, presents both new challenges and a new opportunity for Central Asian regionalism. As Moscow is stuck in the war with Ukraine and a massive sanctions

rivalry with the West, it might have limited resources to keep Central Asia in its sphere of influence. This gives the regional countries room for maneuver and supports their intention to advance more balanced cooperation with other major powers. Meanwhile, a weakened Russia has emboldened the agency of the Central Asian states to define their set of relationships on their own terms. The 2022 violent conflict between Tajikistan and Kyrgyzstan is a clear manifestation of the same.

The unity of Central Asia might serve as a core factor in dealing with external powers in a more coordinated way. At the same time, as Russia has been facing problems in its relations with the West, it is getting more sensitive to any warming of relations between the Central Asian and Western nations—especially any close partnership of the region in military and security affairs with the U.S. and its allies, which is considered to be a hostile action towards the interest of Moscow in Central Asia.

The Russian invasion of Ukraine, which revealed Moscow's military shortcomings, presents both new challenges and a new opportunity for Central Asian regionalism.

Formation of A Security Community?

Given the scenario outlined above, it is time for the Central Asians to take practical steps toward the formation of a security community. A security community, according to a 2009 book edited by Emanuel Adler and Michael Barnett, is a group of states—a community—that has mutual trust and forms a collective identity. It is not an alliance; rather it is a gradual transformation of social relations and, for that matter, identities of the state, as a result of which the members of the community adhere to the norm of peaceful resolution of conflicts and the relinquishing of violent means. This would be achieved through developing "dependable expectations of peaceful change."

Central Asia is far away from becoming a "security community." Nonetheless, there is a great potential if the region's countries take a wise and courageous decision. In order to form a security community, the following steps are required:

First, a set of precipitating conditions. The existence of a precipitating condition, which triggers the need for greater cooperation and interaction, is the first requirement for the formation of a security community. There is a good pile of evidence indicating that a series of endogenous and exogenous factors are increasingly transforming the pattern of relations between Central Asian countries. The spotlight of this transformation is a desire from within the region to increase intra-regional interactions and coordination whilst emphasizing the need for greater cooperation between the five states. It is too early to assume such interactions would really create mutual identification; however, they do provide space and context for further creation of new bonds.

To unify these countries towards the formation of a community, a common security threat would be the great power rivalry in the region. Other common threats that are usually less mentioned in Central Asians' official rhetoric include Russia's irredentist policy and the Islamic radicalism driven by groups like the Taliban, Daesh, and other regional terrorist

It is time for the Central Asians to take practical steps toward the formation of a security community.

outfits; an attempt by any external power to dominate in the region; pressing climate change issues; a rapid reduction in water resources and heightened desertification; and outdated technologies. The regional states usually securitize instability in Afghanistan, terrorism, drugs trafficking, and great power competition as major threats to Central Asian development.

The second requirement for the formation of a security community is the establishment of an organization to function as a mechanism to foster interaction among the members. Thus, Central Asians should restore the idea of a Central Asian regional organization. This will allow interaction and social learning amongst all the countries. A multi-vector policy will be effective once the Central Asian countries are tied together in a self-generated regional organization. To better operationalize the multi-vector policy, Central Asians can adopt what some scholars have taken to calling an “omni-enmeshment approach,” which is followed by the Southeast Asian states.

The second requirement for the formation of a security community is the establishment of an organization to function as a mechanism to foster interaction among the members.

While at the individual level Southeast Asian countries have established multiple strategic partnerships, at the regional level they have also tied themselves to the great powers through the Association of Southeast Asian Nations (ASEAN) regional forum (East Asia Summit), ASEAN Plus Three (APT), and dialogue partners. Central Asia could follow the same path. A Central Asian community “plus three” could include the three external great powers (i.e., the United States, Russia, and China). A Central Asian Regional Forum may include the mentioned three countries plus the three Caucasus states as well as Iran, Türkiye, Pakistan, and India.

Such a framework will not only increase the cost of any potential external military intervention, but it will also allow Central Asia to build a united policy towards many issues, including an increasing terrorist threat from Taliban-occupied Afghanistan. There is a significant lack of proper regional coordination of the response to existing and newly emerging regional challenges and threats from Kabul. The Central Asian nations still prefer

to act unilaterally or bilaterally in dealing with common issues. Afghanistan’s regime change in 2021 and the resulting challenges to regional security were not assessed and countered jointly as a unified region. There were some bilateral meetings and military exercises that did not develop into the establishment of region-wide collective reaction mechanisms.

Developing a framework for independent regional military cooperation not linked to any external power would strengthen Central Asian sovereign, identity, and resilience. Nascent steps towards improving collective cooperation taken in the past few years have not led to a tangible transformation in collective cooperation.

Since the proposal to hold regular regional summits by President Shavkat Mirziyoyev of Uzbekistan, four have taken place in, respectively, Kazakhstan, Uzbekistan, Turkmenistan, and Kyrgyzstan. However, the postponement of signing Kyrgyzstan’s proposed pact of friendship and cooperation at the last summit by Tajikistan and Turkmenistan in July 2022 has

highlighted the existence of mistrust and hurdles, which impedes the further advancement of multilateral cooperation in the region.

Two immediate steps are needed to address the aforementioned challenge by Central Asia. First, the five republics can start with a series of security dialogues to deliberate and improve mutual understanding about the common security challenges to the region. A public security dialogue would provide a better opportunity for policy analysis to identify what Adler and

Developing a framework for independent regional military cooperation not linked to any external power would strengthen Central Asian sovereign, identity, and resilience.

Barnett call the “dependable expectation of peaceful change” as well as mechanisms of conflict resolution. It would also function as track 1.5 and track 2 mechanisms between the five countries.

Second, these countries should develop a system of rules that would function as a mechanism of conflict resolution in the region. Such a mechanism does not exist at the moment.

Lastly, it is important that the region develop a shared identity and values. Currently, there is a multiplicity of terms and jargon to identify the region. For instance,

the term “central Eurasia” is defined by the Russian orientation for which Russian right-wing intellectuals, such as Alexander Dugin, have been the main exponents. Then there is the term “Greater Central Asia,” which was coined by S. Frederick Starr to drag and draw the region as a cultural zone that cuts across existing state boundaries. Thus, he considers China’s Xinjiang province, Russia’s Tatarstan, and the northern part of the Indian sub-continent as integral parts of the region. There is also the term suggested by the editors of *Baku Dialogues*: the “Silk Road region.” They argue that it is a “single geopolitical theater with multiple stages” and purposefully “define it loosely as comprising that part of the world that looks west past Anatolia to the warm seas beyond, north across the Caspian towards the Great Steppe, east to the peaks of the Altai and the arid sands of the Taklamakan, and south towards the Hindu Kush and the Indus valley, looping around down to the Persian Gulf and back up across the Fertile Crescent and onward to the Black Sea littoral.” Practically, a narrowly defined Central Asia would include the five “stans.” Afghanistan is also a part of Central Asia, but Taliban-ruled Afghanistan is not conducive to engaging in anything to do with regionalism. Unlike the previous government, the Taliban has not

yet declared its willingness to be an integral part of Central Asia.

To forge a common identity and develop a sense of mutual identification, the Central Asian states should also take certain measures to enhance a sense of trust amongst each other. This should be developed through a shared system of knowledge and belief, which in turn could be based on shared history and some understanding of a Turco-Tajik civilization.

The Western Gaze

One consequence of the American withdrawal from Afghanistan is that there is little chance the United States would engage Central Asia as a primary security partner through an exclusive strategic partnership. The United States also does not have a primary security or economic interest in the region. Every Central Asian state’s desire to attract U.S. attention during the ongoing turmoil in Europe will not give fruit, much as it has not in the past. More than one year after the Taliban takeover of Afghanistan, the West in particular is still facing enormous challenges in dealing with the new reality in Central Asia. The withdrawal of international military forces and the evacuation of only a small number

of the citizens of Afghanistan who previously collaborated with them considerably damaged the reputation of the United States and its Western allies. The chaos of the evacuation shocked untold millions of people around the world.

The U.S. Strategy for Central Asia 2019-2025 outlines connectivity between the five Central Asian countries and Afghanistan but ignores the critical need for regionalism. The Taliban regime is facing significant problems in implementing regional connectivity projects and still cannot not guarantee security for Central Asia. As recent incidents on the border of Afghanistan and other regional states have demonstrated, Central Asia’s reliance on the Taliban to stabilize northern Afghanistan is not realistic now. They possibly underestimate the Taliban’s radical religious ideology and their alliance with likeminded radical groups in the region. Central Asia’s connectivity with South Asia through Afghanistan could not be materialized quickly in a Taliban-led Afghanistan. In the meanwhile, the Biden Administration should encourage regionalism within Central Asia.

The West was ignorant of how regional countries could elaborate strategies on post-conflict reconstruction in Afghanistan. The future of Afghanistan cannot be considered and assembled without significant support from its neighbors. For various reasons, the United States avoided or minimized its cooperation with several regional countries on Afghanistan issues. States like Pakistan were mainly used as transit routes and to host U.S. and other Western military infrastructure essential for their military and civilian operations in Afghanistan. All major international gatherings that discussed Afghanistan took place in Europe, the United States, and Japan—nations that are very far from the region and have a limited understanding of local traditions, context, and history. The concerns and proposals of states next to Afghanistan were barely considered as policy options by the United States and its allies.

It is essential for the United States and the other relevant Western states to keep supporting and cooperating closely with Afghanistan’s neighbors.

Funding connectivity projects in Central Asia would invest in its security, independence, and resilience.

Despite regular exchanges between regional countries and the Western ones, there are still many gaps in mutual understanding. Promoting development and prosperity in the region requires improving connectivity. Western countries have already found ways to regularly send humanitarian support to Afghanistan without violating the sanctions they imposed against the Taliban. Therefore, funding connectivity projects in Central Asia would invest in its security, independence, and resilience.

At the same time, Central Asia is facing a new era of regional turbulence following a period of intra-regional rapprochement and improved relations. Regime change in Kyrgyzstan at the end of 2020, ongoing instability in Afghanistan after the Taliban's August 2021 return to power, tensions in Tajikistan's eastern Gorno-Badakhshan autonomous region, and the border conflict between Tajikistan and Kyrgyzstan bring

Declaring their neutrality while keeping balanced relations with all important external powers would provide the Central Asian states with independence and freedom in conducting their respective foreign policies.

strategic uncertainty to Central Asia's future development. Protests in Kazakhstan and Uzbekistan (in January and July 2022, respectively) again demonstrated that the region is not immune from such unexpected crisis situations. Underdeveloped economies, widespread poverty and unemployment, poor education systems, existing governance issues, and rising religious radicalization represent challenges for the region's stability and resilience.

The Biden Administration has framed the conflict in Ukraine as 'democracies versus autocracies.' But this framing does not enable an alliance between Central Asians and the West from taking hold—neither does the rhetoric that emerged from the December 2021 Summit for Democracy. Central Asian leaders will not ally with the United States if this sort of binary framework remains Washington's guiding principle. A better alternative would be the protection of what its proponents call a rule-based

international order versus (for lack of a better word) anarchy. As former colonized parts of the Russian Empire and the Soviet Union, Central Asian countries are very sensitive with regards to keeping their sovereignty.

Therefore, while trying not to irritate Moscow much, the Central Asian states have done their best to express support for Ukraine. In the past 30 years, they have each built their national identities around the concept of independence; and Central Asia will firmly support a world order ruled by international law, with the UN Charter at its core, and that at the same time acknowledges and encourages the sovereign development of small and medium size countries.

Furthermore, Central Asian countries should avoid becoming involved in international rivalries. Declaring their neutrality while keeping balanced relations with all important external powers

A better integrated Central Asia can best deal with great power politics and growing instability from Afghanistan. The region can only overcome these challenges through fostering regionalism—collaborating on the establishment of a security community.

would provide the Central Asian states with independence and freedom in conducting their respective foreign policies. At the same time, such a transparent position would exclude Central Asian countries from joining any military-political organizations led

by external actors. It is in the interest of all Central Asian countries to commit not to join military alliances and not to allow their territory to be used for attacks against any extra-regional country.

A better integrated Central Asia can best deal with great power politics and growing instability from Afghanistan. The region can only overcome these challenges through fostering regionalism—collaborating on the establishment of a security community. Advancing intra-regional cooperation without the involvement of external actors could serve Central Asia's unification and integrity. Considering the region's common history, culture, and identity, there is

substantial potential for the advancement of regional partnership. Creating new regional mechanisms and developing connectivity, trade, and humanitarian relations would greatly benefit Central Asia. A united region would also have a more powerful voice, capacity, and subjectivity in dealing with both intra-regional and external issues. On the contrary, a divided region torn apart by internal problems can be easily manipulated and exploited by external players.

Long-term security in an increasingly volatile region can only be achieved through an integrated twofold strategy. First, establishing a joint security framework and regional cooperation communities. Second, balancing great power rivalry through diversification of the region's relations with its adjacent

regions and emerging regional and global powers. This could result in the region's "transformation from being an object of great power rivalry to becoming a subject of international order," as Damjan Krnjević Mišković, the Co-Editor of *Baku Dialogues*, has put it.

Central Asia should make necessary lessons for its future development and conduct a proactive policy of diversifying both its foreign policy and economic cooperation. More active engagement with the neighboring states of the South Caucasus and South Asia, as well as Iran and China, may slightly mitigate Central Asia's existing difficulties. Therefore, current trends require strengthening cooperation in Central Asia and further regional integration to help form a united front. **BD**

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Beyond State-Centricity

The Changing Geopolitics of the Caspian Sea Region

Agha Bayramov

Over the past three decades, the Caspian Sea region has undergone remarkable changes: several new transnational energy pipelines have been constructed and new treaties have been signed—examples of the former include Baku-Tbilisi-Ceyhan (BTC) and the Southern Gas Corridor (SGC); of the latter, we can mention the Convention on the Legal Status of the Caspian Sea (2018). However, since 1990 almost any development or energy project has been described by most academics and analysts as a part of an ongoing rivalry between great powers. Drawing mainly from insights related to Great Game thinking that revolve around the balance of power, the perception of (in)security, and the attainment and maintenance of sovereignty and the influence of the state, those writing such texts have argued that the growing involvement

of the Western actors (the U.S. and the EU) and other powers (Türkiye and China) increases tension and rivalry in the region by pushing against Russia and offering alternative economic, geographical, and political choices for the littoral states.

This, in turn, has captured the imagination of the public, as is evidenced by the Caspian Sea being featured as a setting in the James Bond movie *The World Is Not Enough* (1999), which was partly filmed in the Azerbaijani capital Baku. In this film, Bond is assigned to the Caspian Sea region to help Electra, daughter of British billionaire Sir Robert King, achieve the family dream of constructing a 1,300-kilometer pipeline from Azerbaijan to the Mediterranean. In Baku, Electra shows Bond a map revealing how this proposed

pipeline would provide the West with an opportunity to import oil from the Caspian Sea region while circumventing existing Russian pipelines. Both Electra and Bond's superior at MI6 note that the Russians will do anything to stop the construction of this pipeline. In the movie, the bad guys are Russians and Arabic speaking characters, whereas Western, English-speaking good guys try to save the world—or at least certain parts of it—from these people. In this regard, the film briefly touches upon the geopolitical significance of infrastructure construction as well as Russia's perceived dominance of the region and its rivalry with Western actors, represented by the UK, in this part of the world.

In light of this, the relevant academic and analytic literature—most of it written by Westerners—has searched for answers to questions like: Who is the winner of the New Great Game? Can the West save the newly independent states' sovereignty from

This essay explains who are the key actors—besides states—that are involved in shaping the Caspian energy and environmental projects, and how both their preferences (political and economic) and influence networks affect the capacity, opportunity, and will of governments to cooperate.

Russia, Iran, and China—and if so, how? In what way can the Caspian's natural resources decrease the West's energy dependency on Russia? Why and how do Russia and Iran seek to reestablish their dominance over the Caspian Sea region? Such and similar questions conjure up the image of a desperate

place, full of rivalry and conflict. The resulting body of academic and analytic literature sees little room for intra-regional cooperation, intra-regional integration, and intra-regional exchange.

How the Caspian Sea region is seen by scholars and experts has consequences in terms of the expectations and perceived potential of the region as well as possible political action and suggestions for regional stability. However, it is worth asking whether what emerges from such writings is the full and true picture of the region and its recent history. Was the Caspian Sea region harmonious, conflict-free, and cooperative under the Soviet Union before

suddenly plunging into disarray with the dissolution of the Soviet Union? Is this a shift in reality or merely a shift of perception?

This essay explains who are the key actors—besides states—that are involved in shaping the Caspian energy and environmental projects, and how both their preferences (political and economic) and influence networks affect the capacity, opportunity, and will of governments (e.g., ministries, parliaments, presidents, etc.) to cooperate.

Geopolitical View

If one were only to consider the geopolitical literature, then one would assume that the Caspian Sea region is a hopeless place that is wholly preoccupied with geopolitics, rivalries, and competition between regional and great powers. One would also then assume that due to the rivalry between great powers, countries like Azerbaijan, Kazakhstan, and Turkmenistan have to choose to pledge allegiance to either Russia, China and Iran, or the West. Thus, one would come to the conclusion that intra-regional cooperation, intra-regional integration, and intra-regional exchange for joint gains are extremely rare. It would, in turn, lead one to conclude

that there is no hope for a bright future because the Caspian Sea region is rife with political tension, ready to blow up and be destroyed sooner or later.

The relevant literature does not explain why, when, and how technical challenges lead to unanticipated economic, political, and social consequences. Instead, these writings investigate every challenge exclusively along the lines of rivalries between great powers, and they do so from a (neo)realist perspective. In such texts, great powers are identified as the driving force behind every development and setback in the planning and construction phases of transnational infrastructure projects—be these political, economic, technical, social, or environmental. In the same vein, this category of academic and analytical literature expects transnational infrastructure projects like the BTC and the Southern Gas Corridor always to trigger rivalries or even wars in the region following their construction or even in their planning phase (as was predicted for the energy pipelines).

When addressing the impact of infrastructure projects on the region, the existing writings focus mainly on conflict between states and/or companies while neglecting the material power of

infrastructure. This is because, despite the diversity of the existent literature, scant research has explained how transnational infrastructure influences the interaction between different actors, or what kind of changes infrastructure brings and how, say, the BTC influenced the relationship between the Caspian littoral states after its construction—i.e., whether the BTC has led to cooperation or to enhanced regional rivalry since its construction. It is necessary to consider such and similar questions, for they address the problems that arise when trying to think about the importance of transnational infrastructure. However, the relevant literature moves on to other issues or projects without answering these questions.

Such works also neglect the increasing role of other actors, such as companies (e.g., BP and Lukoil), NGOs, and financial IGOs and banks by putting them into a state-centric analysis. In the 1990s, the classical geopolitical literature viewed the great powers as the only players in the Caspian Sea. Admittedly, since the turn of the

By using a purely state-centric model, it has become increasingly difficult to understand new developments, changes, disagreements, and conditions in the Caspian Sea region.

century, the newly independent states of the region have also been recognized as players in the New Great Game, due to their economic and political positions. Nevertheless, this advancement of the debate has not

moved further forward. By using a purely state-centric model, it has become increasingly difficult to understand new developments, changes, disagreements, and conditions in the Caspian Sea region.

To remedy this, I will continue developing the debate without emphasizing the geopolitical game. Until relatively recently, scant scholarly attention was paid to the significance of non-governmental actors as an explanatory paradigm to assist in understanding the geopolitics of the Caspian Sea region. For example, few bothered to inquire into the role of transnational energy cooperation within the Caspian littoral states. Or to ask how private actors promote or undermine strategies of regional cooperation. It is important to answer these and similar questions because transnational infrastructure projects involve other actors besides governments. To see the complete

picture, it is important to explain the role of these actors and their preferences.

One reason this has not been done is that state-centric academic and analytic works perceive attitudes as constant or fixed—irrespective of the potential positive outcomes of cooperation processes. Another is that the literature wears the same black glasses and assumes that everything is dark, which makes its authors miss any light and or different colors and hues.

This is not, however, the complete picture of the situation in the Caspian Sea region, because viewing the Caspian Sea first and foremost as a geopolitical battleground obscures important layers of a more complex reality. Because they describe every development from a black and white perspective, the authors of the geopolitical literature ignore the cooperation that takes place in areas such as environmental policy, energy politics, renewable energy, and the legal status of the Caspian Sea. In the early 1990s, it was understandable to work with uncertain assumptions or misleading perceptions because

Viewing the Caspian Sea first and foremost as a geopolitical battleground obscures important layers of a more complex reality.

of uncertainty in the region. It was difficult for (Western) scholars to gain access to the region in the 1990s. However, continuing to work with the same exaggerated and the oversimplified assumptions now, without detailed research or critical attitudes, would produce inaccurate results unnecessarily: the region is now open to the outside world and it is possible to work with more accurate information.

Overall, relying solely on the geopolitical paradigm to analyze the Caspian Sea region leaves several important questions unanswered. Therefore, the authors of this kind of literature miss several complex dynamics and processes that are taking place in the Caspian Sea region.

Network of Actors

Political agreement is only one condition for the realization of complex (infrastructure) projects. Thus, it is too simple to assume that just because the strategic rationale for a certain energy infrastructure project is strong, oil or gas will flow. Because

of the scope and complexities of challenges (technical, economic, and social), it can be argued that infrastructure projects are beyond the capacities of any single state to solve. Therefore, the BTC and the SGC projects have required the involvement and coordination of multiple actors, namely IGOs, NGOs, financial institutions, and transnational corporations (TNCs).

The reason for this is that, taken together, these non-state actors offer the required resources that most state actors lack: professional personnel, technology, organizational capacity, access to the world market, support from their home countries, and financial power. Because of this, there had to be a transnational energy company or consortium of transnational energy companies willing to commit to leading the BTC and the SGC projects. Such actors are likely to offer the required economic, technical, and political services because they are looking to make a profit, diversify their energy sources, and address human needs. These motives induce international technical and political cooperation because multiple actors have to pool their sources for the common goal, namely transporting gas through the BTC and the SGC projects.

In the context of BTC, a key category of actors in terms of coordination were the multinational oil companies, such as BP, SOCAR, Inpex, and Total. Between them, they were able to offer a number of the required resources to transport landlocked oil to international markets. The first important point that needs to be highlighted is the economic leverage that multinational energy companies have. For example, the BTC is owned and operated by a consortium of 11 international oil companies, being managed overall by BP.

By using their access to global donor networks, the consortium companies—particularly BP—facilitated relations between Azerbaijan and financial institutions: the World Bank, EBRD, ECGD, EXIM Bank, and the IFC. BP has played a key role in all phases of the BTC project since the 1990s. It is a strong and popular European energy company, and its involvement attracted other Western financial institutions and gave them more security and reliability.

Similarly, a key category of actors in the SGC project were multinational energy companies, such as BP, SNAM, Enagas, Lukoil, and Petronas. They offered a number of the required resources to transport landlocked natural gas to

European markets, as was the case with the BTC pipeline project. These resources include financial investment, political influence, security personnel and material, and advanced technology. Another important point that needs to be mentioned is the internal and external political power of BP, SNAM, Enagas, and SOCAR. These international energy companies have strong relationships with their home governments, who provide them with the ability to strongly influence the decisions of local governments.

Despite the heavy investment of BP and other energy companies, covering all of the costs for this massive project still required funding by international banks and financial IGOs like the World Bank, the IFC, the ECGD, and the EBRD. Ensuring sound coordination between them was decisive to securing sustainable funding and reducing attendant political risks. Although quite a number of TNCs and states were already involved, the realization of the SGC project required the involvement of more actors, as the currently involved TNCs and states could not cover all the cost of the project. To construct the 3,500-kilometer SGC pipeline, which crosses seven countries and represents a total investment of approximately \$40 billion, systematic

financial support from a number of financial institutions, such as the EBRD, ADB, BSTDB, ING Bank, and the World Bank, was necessary. Because of this, both companies and states used their strong lobbying and networking power to gain support from these financial institutions.

This means that the \$40 billion economic cost of the SGC project was divided among these companies. The strong financial contribution of the consortium companies increased the feasibility of the SGC project because these companies divided the economic risks. They also applied for loans from private and public lenders in order to finance the project. For example, according to Enagas's annual report for 2016, the company invested €84.8 million in the TAP project in the first half of 2017 (TAP, or Trans-Adriatic Pipeline, is the third and final leg of SGC whose terminus is in southern Italy). In the same vein, Lukoil received a \$1 billion credit from the EBRD to finance its participation in the SGC project.

The exploitation and transportation of natural gas from the Caspian Sea would never have been possible without advanced technology, which the states in this region lacked. This led the

consortium companies to revitalize the technical capacities of the states in this region by offering modern gas processing plants and fabrication facilities. They also supported local experts by offering several educational and capacity-building training programs. These and similar examples show that the companies that operate in the Caspian Sea region do many of the things traditionally, sometimes exclusively, associated with the state.

Environmental and Legal Conventions

Let us shift gears to another set of examples. According to relevant studies, the fluctuation of water levels, land degradation, depletion of biodiversity, and water pollution are important environmental issues in the Caspian Sea. To address these issues, the littoral states sought the help of a number of international organizations in the 1990s. By adopting the Almaty Declaration in 1994, the littoral states expressed their willingness to cooperate on environmental issues and sought financial and technical aid from outside actors like the Global Environmental Facility (GEF), UNEP, UNDP, and the World Bank.

To facilitate sustainable cooperation, the Caspian Environmental Program (CEP) was established as a regional umbrella program by the governments of the littoral states in 1998 with the support of the outside actors noted above as well as the EU's Technical Assistance to the Commonwealth of Independent States (TACIS) program. TACIS developed common regional and national measures to address ecological issues and promote environmental agreement among the Caspian littoral states. The similarity of problems faced by these states produced shared interests and incentives for seeking common solutions; and the CEP encouraged them to establish cooperation on other shared issues.

In 2003, the CEP was given more gravity as the Caspian Sea littoral states signed their first ecological and legally binding agreement, the Tehran Convention. This document serves as an overarching framework laying down the general requirements and the institutional mechanism for the protection of the marine environment of the Caspian Sea. The leaders of the five Caspian littoral states signed the Convention on the Legal Status of the Caspian Sea at the Fifth Caspian Summit in Aktau, Kazakhstan, on 12 August 2018. This third agreement was reached after 22 years of

negotiations and more than 50 meetings of the Ad Hoc Working Group. The other two agreements are the aforementioned Tehran Convention and the Agreement on Cooperation in the Field of Security in the Caspian Sea (2010).

The first important point that needs to be highlighted in this context is that UNEP, UNDP, GEF, and the World Bank made economic contributions to the governments because of the CEP. International organizations offered positive incentives (i.e., financial support) to the governments of these states on the condition that they accept and comply with their institutional requirements.

The takeaway is as follows: economic and technical leverage of international organizations can be used as a means of facilitating cooperation among different states. States are more likely to accept the norms and values of international organizations if they can receive economic and technical assistance in the form of grants, loans, credits, or access to other financial sources.

In the 1990s, it did not appear to be in the interest of all the littoral states to address shared environmental issues, because of the uncertain geopolitical situation and the political and economic

transitions they were undergoing. However, incentivized by the strong financial help offered by the aforementioned intergovernmental organizations, it was possible to start with solving the technical ecological problems impeding cooperation. More specifically, the economic assistance and benefits of participating in the CEP brought the governments to the bargaining table.

Additionally, thanks to their expertise, the World Bank, UNEP, UNDP, and GEF were able to assist the governments of the littoral states in improving their bureaucratic, technical, and policymaking skills, but also in establishing a new set of ecological norms and understandings—which was the point. They framed the common environmental issues as an apolitical opportunity for the Caspian littoral states' governments to work together. It seems at least plausible to argue that, at the time, the governments' main goal was not to address environmental issues per se, but to improve the interactive atmosphere and practice the habit of dialogue under an ostensibly apolitical umbrella.

One may argue that beside the littoral states themselves, it was these technocratic actors that initiated, facilitated, and funded the onset of

environmental cooperation among the governments of the Caspian littoral states. Using their technical, economic, and political leverage, these actors brought the littoral states together under the common umbrella of the CEP.

Renewable Energy Promoters

We can now come to a third set of issues. The realization of renewable energy projects also requires the involvement of private actors and intergovernmental institutions, as they offer a number of the required resources to realize and evaluate the projects at issue. These resources include financial investment, global networking, technical knowledge, and advanced technology.

Considering BP's critical economic and technical role in oil and natural gas projects, Azerbaijan has also been interested in securing BP's participation in auctions on providing the right to generate electricity on its territory through renewable energy sources. Azerbaijan has signed a memorandum of understanding on cooperation with nine international energy companies including BP (UK), Masdar (UAE), Avelar Solar

(Russia), Tekfen (Türkiye), Total Eren (France), Equinor (Norway), ACWA Power (Saudi Arabia), Mitsui & Co. (Japan), and Quadran International (France).

However, until recently SOCAR showed little interest in renewable energy. It does not appear that the company has formulated a clear and comprehensive renewable energy vision. For example, BP wants 50 gigawatts (GW) of renewables in its portfolio by 2030, up from just 2.5GW today. Contrastingly, it is not yet fully clear whether SOCAR is planning to transition from an oil and gas company to a broader-based energy company in the future.

One might argue that moving away from its traditional base is risky for SOCAR because of uncertainty in the speed of the transition in question. Nevertheless, a wait-and-watch strategy—i.e., the postponement of strategic investment decisions in renewables—can create a window of opportunity for competitors. There is a strong linkage between an oil company's proven reserves and its renewable energy strategies. Oil majors with less proven oil reserves to tap into seem to be moving into the renewable space faster, with the aim of developing more diverse and less volatile portfolios sooner. Those

companies with large pools of oil reserves—remarkably, this includes U.S. majors owning oil assets with especially low break-even points—are rather electing to pursue a strategy that involves embracing the renewable industry at a slower pace.

In addition, several international organizations are active in Azerbaijan's renewable energy sector, namely the Asian Development Bank (ADB), the International Energy Charter, the EBRD, the EU, and USAID. The EBRD helps Azerbaijan with developing renewable energy auctions to facilitate private investment in future renewable energy projects. Furthermore, the ADB has allocated financial and technical support for the development of floating solar panels on Boyuk Shor Lake in Baku. The project involves the creation of a 300-kilowatt solar panel network on the lake. The World Bank and Azerbaijan's Ministry of Energy have signed an agreement to increase the efficiency of small hydropower plants. Baku has also been cooperating with the International Renewable Energy Agency (IRENA) since 2009; and Azerbaijan has been a full member of the organization since 2014. In 2019, IRENA completed its Renewables Readiness Assessment (RRA) report for Azerbaijan.

However, development partners have so far contributed to the renewable energy sector mostly through technical assistance, with limited direct investment in renewable energy projects. Unlike oil and gas projects, the state budget remains the main financing source for the development of renewable energy in Azerbaijan. The main reasons for this are the current investment climate, the state monopoly of the power sector, and the fact that renewable energy legislation is not yet optimally investor friendly.

As noted above, renewable energy has many benefits for Azerbaijan, such as more diversified energy mix, less harmful greenhouse gas emissions, and job creation. However, it can be seen that the key actors promoting renewable energy in Azerbaijan are mainly Western based.

In implementing their renewable energy suggestions, Azerbaijan should ask: do these measures actually promote energy security or replicate existing technical, social, and legal problems? When are they useful and when are they counter-productive in terms of Azerbaijan's energy security?

The reason is simple: the existing measures are mainly designed to address energy importing

countries' needs, and therefore they should not simply be copy-pasted by energy exporting states like Azerbaijan.

Inclusive Playground

This essay has shown that BP, UNEP, UNDP, EBRD, GEF, AIIB, and the World Bank are the main players in the Caspian Sea region that offer technical, political, economic, social, and security assistance. They frame issues, help set agendas, and mobilize financial support. Although states are the leading actors in the Caspian Sea region, this essay has made the argument that these non-state and intergovernmental actors are indeed the drivers behind every project. More specifically, by using their leverage in international political and economic networks, these actors have contributed to transnational infrastructure projects (e.g., BTC and SGC); offered solutions for shared problems (e.g., environmental pollution);

and facilitated discussions that, in turn, created a habit of cooperation and dialogue among the governments of the Caspian littoral states.

It could thus be concluded that the collapse of the Soviet Union did not only lead to the independence of Azerbaijan, Kazakhstan, and Turkmenistan; it also facilitated the involvement and emergence of TNCs, NGOs, and IGOs in the Caspian Sea region.

If this is indeed the case, then it would follow that the Caspian Sea region is no longer the exclusive playground of states—either

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those in the region or external powers—but that serious non-state actors have also started playing significant roles. As such, those writing about cooperation in the Caspian Sea region should be mindful to place their findings in a broader, more complex analytical context. **BD**



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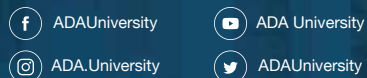


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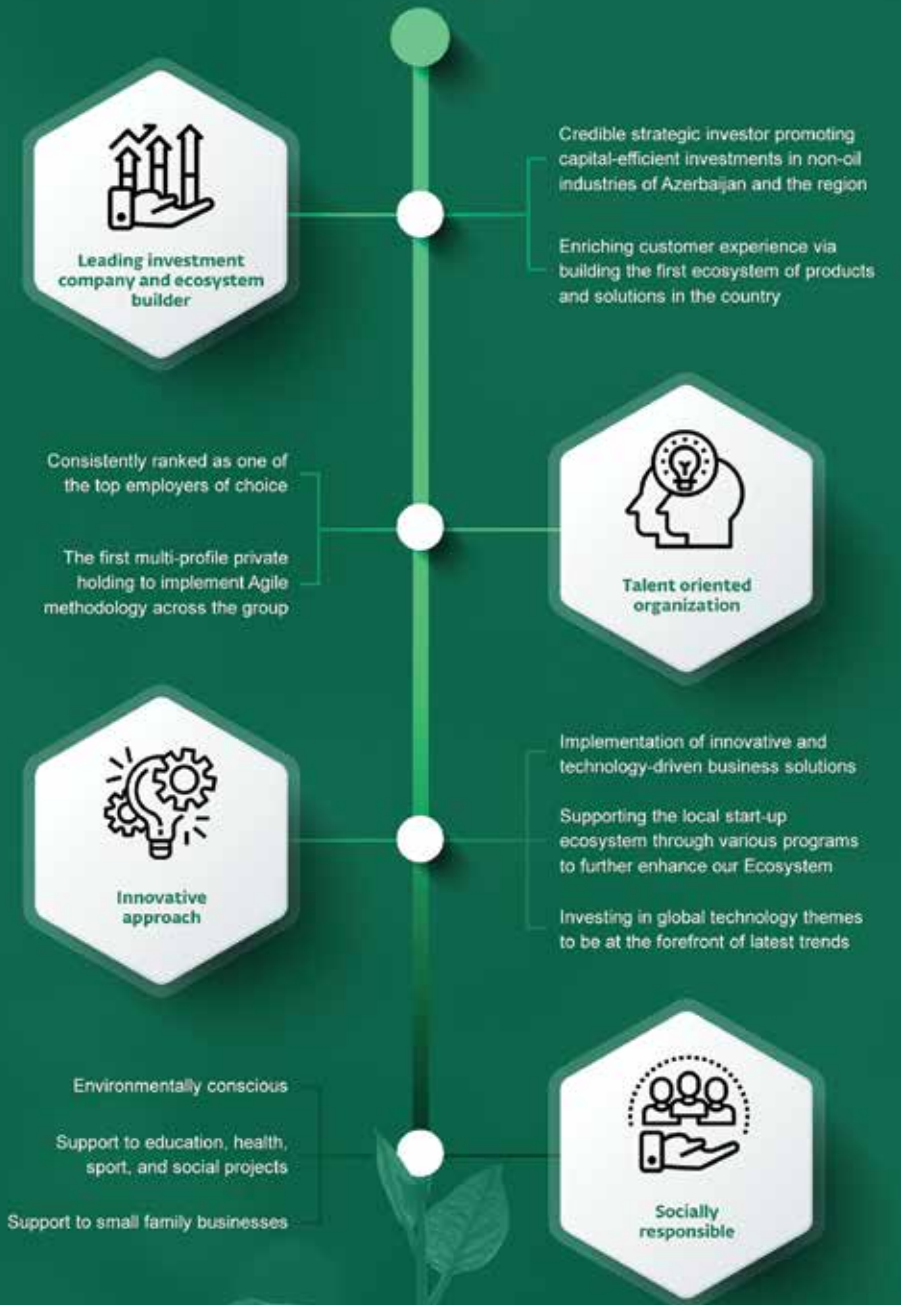
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Strategic Rail Connectivity

Time to Reconnect Iran and the South Caucasus

Vali Kaleji

The history of the railway connection between Iran and the Caucasus region goes back more than a century. This connection was the result of the development of the Tsarist Russian railway network in the Caucasus in the second half of the nineteenth century. The first section of the Trans-Caucasus Railway opened in 1865 from the Black Sea port city of Poti. The first railway line was laid in 1878 in the suburbs of Baku and opened in 1880. By the early 1880s, other major cities in the Caucasian part of the Russian Empire—e.g., Tbilisi and Batumi—were connected by rail. For example, the Kars-Gyumri-Tbilisi railway line was built in 1899.

The history of the introduction of railways in Iran took place during the reign of the Qajar dynasty and dates

back to the concession to build the Jolfa-Tabriz-Sufyan-Sharafkhaneh railway, signed with imperial Russia in 1912. Its construction was to be fully financed by Russian interests and the concession was supposed to run for 75 years (the Russian side also received numerous concessions for road construction in northern Iran and built nearly 800 kilometers of roads—Tehran-Anzali, Tabriz-Jolfa, and Qazvin-Hamadan—between 1893 and 1916). The length of the Tabriz-Jolfa railway was 146 kilometers and its construction was completed in 1916 in the midst of the First World War. The Sufyan-Sharafkhaneh railway, which was 53 kilometers long, was opened the same year. To connect the Iran-Russia railway network, an iron bridge was built over the Aras River between Jolfa and Nakhchivan in 1914.

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This railway line, which established a connection between Iran and the Caucasus region for the first time, was used by the Russians during World War I to transfer troops and military equipment. Writing in 1963, historian M.H. Baker contended that this line was essentially “an extension to Russia’s railways.” However, World War I did not allow the Russians to extend the railway

from Tabriz to Qazvin, which was very important in the context of the Anglo-Russian Convention of 1907. According to this treaty, Great Britain promised to stay out of northern Persia and Russia recognized southern Persia as part of the British sphere of influence. After the October Revolution, the new regime in Moscow transferred the ownership and rights of the Jolfa-Tabriz-Sufyan-Sharafkhaneh railway to the Iranian government.

During World War II, despite Iran’s declaration of neutrality, the Soviet Red Army from the north and the British and American armies from the south (Persian Gulf) occupied Iran in September 1941. The Soviet forces broke through the border and moved from Soviet Azerbaijan into Iranian

Azerbaijan. One of the main routes for the Soviet Red Army to enter Iran was the aforementioned metal railway bridge over Aras (during this military operation, three Iranian border guards lost their lives—an event that went

The history of the railway connection between Iran and the Caucasus region goes back more than a century.

on to acquire historical and symbolic significance for Iranians). Moreover, the Iranian railway network played a very important role in the rapid

transfer of Allied forces and equipment from southern Iran to the Soviet Union during World War II, because of which the Veresk railway bridge, constructed in 1934-1935 and located in northern Iran’s Mazandaran Province, is referred to as the Victory Bridge (*Pol-e Piroozi*).

Due to the military exigencies of World War II and the need for rapid transfer of men and material, the Soviet railway network in the Caucasus experienced further development. In 1941, the railway line was extended from Horadiz and Mincivan through Armenia, including a railway line extension to Kapan and from there to Julfa, located in the Nakhchivan exclave of Soviet Azerbaijan. Thus was Nakhchivan finally connected

with the rest of Soviet Azerbaijan by rail. Indeed, in 1941 the Soviet railway network was also extended southwards to Azerbaijan's Astara, located at the southern border with Iran and facing an identically named city in that country. Simultaneously, Iran's rail network also experienced expansion, and specifically Jolfa-Tabriz-Sufyan-Sharafkhaneh railway stretched from Tabriz to Tehran in 1958 with a length of 748 kilometers.

In general, during the Soviet era, the Tabriz-Jolfa railway route in Iran, which connected to the Julfa-Meghri-Zanglian-Baku line, and from there going on to Moscow, served as the main transit route for Iran's trade with the Soviet Union. It gradually came to play an increasingly significant role in Iran's trade transactions over time. Before the disintegration of the Soviet Union in 1991, about four million tons of goods were transported across this railroad on a yearly basis.

The Railway Cutoff

In 1990 and 1991, the volume of cargo exchanges through the Jolfa border crossing amounted to 2.69 and 2.37 million tons, respectively. This amounted to over 10 percent of Iran's imports. In the aftermath of the First Karabakh War, the former Nagorno-Karabakh Autonomous Oblast (NKAO) as well as the regions of Fuzuli, Jabrayil, and Zangilan, located near the Iranian

border, came under the control of Armenian forces. One of the many consequences of the Armenian seizure of sovereign Azerbaijani lands was the severing of the railway connection between Azerbaijan's Nakhchivan exclave and the rest of the country. More than 240 kilometers of railway lines came under the control of Armenian forces.

In these circumstances, the railway route in these areas was not only left unused, but it was also effectually destroyed. The new situation on the ground not only

One of the many consequences of the Armenian seizure of sovereign Azerbaijani lands was the severing of the railway connection between Azerbaijan's Nakhchivan exclave and the rest of the country. More than 240 kilometers of railway lines came under the control of Armenian forces.

cut off the railway connection between the Republic of Azerbaijan and Armenia, but also the railway connection between Iran and the Caucasus region after seventy years. Notwithstanding the terms that ended the Second Karabakh War, which inter alia provided for the unblocking of all "economic and transport connections in the region," including "transport connections between the western regions of the Republic of Azerbaijan and the Nakhchivan Autonomous Republic," the "unobstructed movement of persons, vehicles, and cargo in both directions"

has not yet taken place—nearly two years after the document was signed. The railway network still needs to be completely replaced. While Iran's railway connection with the Caucasus was cut and cross-border cargo exchanges dropped sharply, the northern railway lines from Armenia to Georgia and Azerbaijan to Russia have continued to operate as before.

This unfortunate situation has not changed after three decades, and, despite the high volume of

trade and travel, Iran does not have a direct rail connection with the Caucasus region. This has had a very negative impact on the volume and pace of trade with the Caucasus countries as well as with Russia, causing, inter alia, heavy traffic on both sides of the land borders, including the Astara-Astara (Iran-Azerbaijan) and Noruduz-Meghri (Iran-Armenia) border crossing points. Over the last two decades, Iran, Armenia, Azerbaijan, and Russia have each proposed bilateral or multilateral rail projects with a view to ameliorate and overcome the rail and transit gap.

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Regretfully, none have been fully completed. The most important efforts in this regard will be discussed below, as will be the main causes of the failure to bring them to fruition.

Rasht-Astara Railway

The International North-South Transport Corridor (INSTC) is a 7,200-kilometer-long multi-modal network of ship, rail, and road routes for moving freight between India, Iran, Afghanistan,

Azerbaijan, Russia, the Central Asian states, and the European continent. The route primarily involves moving freight from India, Iran, Azerbaijan, and Russia via ship, rail, and road. The objective of the Corridor is to increase trade connectivity between major metropolitan hubs like Mumbai, Moscow, Tehran, Baku, Bandar Abbas, Astrakhan, and Bandar Anzali. To realize this transit route, Russia, Iran, and India signed an agreement establishing the INSTC on 16 May 2002.

Within the framework of the Corridor, the first joint effort was made between Iran, Azerbaijan, and Russia to connect the Iranian railway network to the Caucasus region. The three parties signed an agreement on constructing the route in 2005, building on a Soviet extension of the railway southwards to Astara in Azerbaijan, at the southern border with Iran. As mentioned before, in 1941 the railway line was also extended southwards to Astara, located at the southern border of Azerbaijan with Iran. Therefore, in order to establish the rail contact, it was necessary to build a railway from Astara to Rasht and Qazvin in Iran.

Construction of the Rasht-Qazvin railway started in 2009 and took nearly a decade to complete.

The new railway network was officially inaugurated on 6 March 2019 by Iran's then-president, Hassan Rouhani, and Azerbaijan's then-minister of economy, Shahin Mustafayev. Officials from Pakistan and Iraq were also in attendance. However, to be made effective, the nascent Iran-Azerbaijan-Russia railway connection needs to be complemented with the 164-kilometer-long Rasht-Astara railway inside Iran itself. The lack of this railway connection has made it inevitable that freight trains at the Astara railway station on the Iranian side will be transferred to trucks, or vice versa. As is well-known, there is also a namesake city of Astara in the Republic of Azerbaijan.

The rail link between the 'two Astaras' was officially inaugurated in a ceremony held on 29 March 2018. Rouhani and Aliyev participated in the ceremony via a video link from the Iran-Azerbaijan Business Forum they were both attending in Baku. At present, more than 55 percent of Iranian goods are exported by land through the Astara border, yet the share of exports through the rail route is small. Needless to say, the completion of the Rasht-Astara railway project will increase Iran's export capacity to Russia by rail.

Construction of the Rasht-Astara railway has, unfortunately, faced serious problems, mainly due to financial constraints Iran has been facing in recent years, partly emanating from the unilateral sanctions regime imposed on Iran by the United States and some of its allies. According to an agreement between Iran and Azerbaijan made in early 2016, both sides pledged to provide \$500 million each to build the Rasht-Astara railway. In 2016, the International Bank of Azerbaijan signed a deal with Iran on the allocation of a \$500 million loan for this purpose.

However, the agreement failed to be implemented in practice due to the comprehensive U.S. sanctions on Iran's banking network. Given Iran's practical need for the construction and completion of the Rasht-Astara railway on the one hand, and Azerbaijan's decision not to expose itself to the effects of U.S. secondary sanctions by provide its share of the agreed investment on the other, Tehran turned to Moscow for support. In this regard, it was reported that during President Ebrahim Raisi's visit to Moscow in January

Should the Rasht-Astara railway be completed, the INSTC and the Middle Corridor could both end up benefit from the region-wide geopolitical reverberations caused by the Russo-Ukrainian war.

2022, the two sides finalized a previously agreed-upon \$5 billion credit line for the completion of several development projects in Iran. As noted by the Iranian Minister of Economy, Ehsan Khandouzi, the Rasht-Astara railway is one of the projects covered by the Russo-Iranian agreement.

In the latest development signifying growing regional prioritization for the Astara-Rasht-Qazvin railway and the INSTC more broadly, Rostam Qassemi, the Iranian Minister for Roads and Urban Development, visited Moscow on April 30, 2022. Following his talks with the Russian Transport Minister Vitaly Savelyev, the two officials signed a comprehensive agreement on cooperation in the field of transportation. As reported, both ministers emphasized the importance of establishing a railway connecting West Asia's north and south, notably stressing the need to complete the missing Rasht-Astara portion of the INSTC as soon as possible.

Despite the inevitably negative impact of the current West-led sanctions and export restrictions regime

against Russia, it is hoped that Moscow will be able to mobilize the financial resources needed for the completion of the Rasht-Astara railway. Should this be realized, the International North-South Transit Corridor and the Middle Corridor could both end up benefit from the region-wide geopolitical reverberations caused by the Russo-Ukrainian war.

Norduz-Meghri

The extensive railway system constructed during the Soviet period encompassed regions that later gained or re-gained independence. One such country was Armenia, which enjoyed modern rail access to Baku, Tbilisi, and Kars, as well as Russia and Iran. In the late 1980s, about 85 percent of imports to Soviet Armenia were shipped by rail, mostly from Russia and through mainland Azerbaijan and its Nakhchivan exclave.

However, this situation changed swiftly following the collapse of the Soviet Union. In the volatile years that ensued, Armenia lost rail access to Russia after the Abkhaz-Georgian War of 1992-1993. The Turkish blockade of Armenia, beginning in 1993, cut all direct access to Türkiye and its Mediterranean ports. However,

and perhaps most importantly, Armenia lost rail and highway access to both Iran and its own southern region during the First Karabakh War. These conditions did not change between 1993 and 2009, and no attempt was made to re-establish the rail connection between Iran and Armenia.

The actual need for rail access felt by Iran and Armenia led both countries to explore the possibility of establishing a railway connection between the two states. In 2009, Armenia and Iran signed an agreement to construct a Southern Armenia Railway that would connect Yerevan with the cities of Norduz and Meghri, located along their common border. This project was intended to connect the Iranian city of Marand in Iran's East Azerbaijan Province to the land border with Armenia in Norduz-Meghari, the length of which, according to initial calculations, is about 60 kilometers inside Iran. The length of the portion from Norduz-Meghari to the railway network in Yerevan is about 410 kilometers. Thus, the total length is understood to be 470 kilometers. The total cost of building this railway has been estimated at about \$ 3.5 billion. The mountainous terrain of Armenia, requiring the construction of 86 bridges and 60 tunnels, and a total

of 27 stations inside Armenia, has made the intended project quite expensive.

Thus far, and mainly due to Armenia's limited financial resources, the project has not been implemented. Armenia has tried to overcome the constraint through, *inter alia*, reaching in January 2013 an agreement with the Dubai-based investment fund Rasia FZE and South Caucasus Railway (SCR), a subsidiary of Russian Railways (RZD). The MoU covered the construction of both a 316-kilometer railway linking Gavar, 50 kilometers east of Yerevan near Lake Sevan, with the Iranian border near Meghri, and a 110-kilometer highway in its southern province of Syunik. The total cost of the two projects was estimated to be around \$3 billion—an astronomical sum given the realities of the Armenian economy. Thus, nothing happened: the agreement remained but paper.

After this unsuccessful attempt, Armenia tried to involve China in the project. In this regard, Armenia's then-president, Serzh Sargsyan, visited Beijing in early March 2015 and announced that the Iran-Armenia railway project was in line with China's Belt and Road Initiative (BRI). As a fol-

low-up measure, his prime minister, Hovik Abrahamyan, visited Beijing in September 2015 and once again called for the participation of the Chinese in the Iran-Armenia railway construction project.

The Armenian political efforts, however, failed to convince the Chinese side to respond positively to such overtures; the end result was the same as the previous effort. Subsequent Armenian efforts, including those by Prime Minister Nikol Pashinyan, undertaken after assuming office in May 2018, have also failed to attract foreign investment for the railway project.

This costly railway project also fell victim to the consequences of the outcome of the Second Karabakh War. The revival of the idea of building the Soviet-era railway route between Jolfa in Iran and Nakhchivan, and its reconnection to southern Armenia and Azerbaijan, practically marginalized the costly Norduz-Meghri railway project. The newly-proposed connection of the Armenian railway network to Iran via the Yerevan-Nakhchivan-Jolfa route seemed a more practicable and less costly project. However, the new conceived project is also subject to overcoming a political disagree-

ment between Baku and Yerevan over the interpretation of Article 9 of the 10 November 2020 tripartite statement that ended the war.

As partially noted above, the relevant portion of that document states the following: “All economic and transport links in the region shall be restored. The Republic of Armenia guarantees the safety of transport links between the western regions of the Republic of Azerbaijan and the Nakhchivan Autonomous Republic in order to organize an unimpeded movement of citizens, vehicles, and goods in both directions. Control over transport shall be exercised by the bodies of the Border Guard Service of the Federal Security Service (FSB) of Russia.”

Armenia’s reticence to the full implementation of Article 9, as interpreted by Azerbaijan, which has taken to calling the projected links the “Zangezur Corridor,” prevents any progress towards the construction of the Yerevan-Nakhchivan-Jolfa railway line.

Reviving Soviet-Era Railways

In the aftermath of the Second Karabakh War, a new opportunity has emerged for re-connecting Iran’s railway network to the Caucasus: that is, the revival of Soviet-era connections in Nakhchivan and along the southern borders of both Armenia and mainland Azerbaijan. The basis for this is contained in Article 9 of the 10 November 2020 tripartite statement that ended the war, which was cited above. While the three sides have been engaged in working out the exact details, Azerbaijan has been forging ahead with a new railway link to the Armenian border. The new route will relieve Baku of the ordeal of reaching its disconnected western exclave via an 840-kilometer detour around Armenia through Georgia and Türkiye.

It is of note that, since the 1990s, transit between mainland Azerbaijan and its Nakhchivan

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exclave has been possible only through Iran (700 kilometers) or through Georgia and Türkiye (1,200 kilometers). A proposed Aras Rail Link would instead cut transit distance to about 550 kilometers and provide a cost-effective transportation mode for bulky products and long-distance shipping. It would also support the economic development of Nakhchivan. For these reasons, the situation that emerged after the Second Karabakh War prompted Baku to ponder and pursue various projects for the revitalization and reconstruction of the railway network in the areas around the former NKAO, including the 110-kilometer long Horadiz-Aghband Railway between the Zangilan, Jabrayil and Fizuli districts—the foundation of which was laid by Aliyev in February 2021.

The revival of the Soviet-era railway network will provide Iran with two rail routes, both starting from Jolfa in East Azerbaijan Province in northwestern Iran and moving into Nakhchivan’s Julfa District. The first route (south-

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north) would then proceed to Yerevan and Tbilisi. The second route (west-east) would cross the southern borders of Armenia and Azerbaijan to Baku and from there proceed to Russia. Or, to put it another way, in Julfa, the railway route in question is divided into three parts: south to Jolfa in Iran, west and north to Yerevan, and east along Armenia’s southern border towards Azerbaijan.

No wonder that Tehran has been quick to show its support for the Nakhchivan railway connection. The Jolfa-Nakhchivan railway is a 105-year-old route. Its restoration represents both the easiest and cheapest way for Iran to access the Caucasus region since the collapse of the Soviet Union. “The re-opening of the Jolfa-Nakhchivan railway line is necessary for Iran’s access to neighboring countries and the Eurasian market,” former Iranian Foreign Minister Mohammad Javad Zarif said at an 18 February 2021 meeting with the governor of Iran’s largely Azerbaijani-speaking northwestern province of East Azerbaijan.

Along the same line of expressing Iranian interest, then Managing Director of Iran Railways, Saeed Rasouli, visited Yerevan on 29 May 2021 and announced that the completion of the western part of the corridor would connect Iran to the Black Sea and Russia via Jolfa, Nakhchivan, Armenia, and Georgia. He emphasized that reconstructing the Jolfa-Armenia railroad would pave the way for a Caspian-Black Sea Transit Corridor in the near future, and that a memorandum of understanding had been signed between Iran and Armenia so that the two countries could exchange tariff information to reach an executive plan to start the exchange of rail freight as soon as possible.

Rasouli and Iran's former Transport and Urban Development Minister Mohammad Eslami also visited Nakhchivan and Baku, where they emphasized that existing infrastructure can potentially join Nakhchivan to the rest of the Azerbaijan Republic, while the Tabriz-Nakhchivan railway could be revived and extended to Tbilisi. They also raised the possibility of constructing a railway from Nakhchivan to Kars in Türkiye.

In addition, reviving the Jolfa-Nakhchivan railway has attracted attention amongst those using social media in Iran,

with users stating that the railway could connect Iran not only to the three South Caucasus states, but also to Russia and the European continent. In this regard, former chief of Iran's railway Mohsen Pourseyyed Aqaei stated in March 2022 that "if Azerbaijan Republic and Armenia reach a lasting peace, there would be no need for an Iran-Armenia railway [i.e., the building of the aforementioned Norduz-Meghri rail route], as the part of the Iran-Azerbaijan railroad which was destroyed during the Karabakh conflicts could be reconstructed, connecting Iran to Armenia."

It should be noted that following the initial agreement between Iran and Azerbaijan on a Nakhchivan-Tabriz-Mashhad railroad project in February 2016, Iran opened a direct passenger train route between its northeastern city of Mashhad and Nakhchivan in December 2016—a practical measure to provide the landlocked Azerbaijani exclave with wide access to Iran's national rail network. The service was launched during a ceremony attended by the co-chair of the Tenth Iran-Azerbaijan Joint Economic Commission Mahmoud Vaezi, Iran's former Minister of IT and Communications,

and Azerbaijan's Minister of Economic Development Shahim Mustafayev. The train from Nakhchivan travels to Iran's northwestern city of Tabriz through Jolfa and thereon to Tehran and finally to Mashhad.

Raisi's government, which assumed office in August 2021, has continued the same positive approach to the idea of connecting the Iranian railway network to the Caucasus region, especially through the Jolfa-Nakhchivan route. As expounded by Raisi and senior Iranian officials, this is in fact a reflection of Tehran's emphasis on "Neighborhood Policy" and "Economic Diplomacy" as the two major priorities in Iran's current foreign policy. In this regard, Rostam Ghassemi, Minister of Roads and Urban Development and the co-chairman of the Azerbaijan-Iran State Commission on Economic, Trade, and Humanitarian Cooperation, underlined in the course of his visit to Nakhchivan in March 2022 the importance of re-opening of the Jolfa-Nakhchivan Railway. The fact that the issue keeps being raised and discussed between the senior officials of both countries points to the degree of its importance in both capitals.

Notwithstanding the expressed interest, especially on the part of Iran, political disagreements between the concerned countries in the region—most notably, differences in the interpretation of Article 9 of the 10 November 2020 tripartite statement that ended the Second Karabakh War, including Armenia's opposition to the Zangezur Corridor—have thus far prevented any meaningful progress in the revival of Soviet-era railway plans (the Aras Rail Link) and the re-opening of the Jolfa-Nakhchivan line.

It might be also of note that on 20 March 2021, Pashinyan stated that "reopening transit across Nakhchivan and Syunik would also benefit Armenia by providing a reliable railway and land communication with Russia and Iran." In this regard, the restoration of the Yeraskh-Julfa-Meghri-Horadiz railway is on the agenda of the Armenian government. Armenian Deputy Prime Minister Mher Grigoryan believes that "the construction of the 45-kilometer railway in the Meghri section will cost about \$200 million, and the construction will take about three years."

If this railway line is restored, it will not only connect Armenia and Azerbaijan. Armenia will also re-

ceive a railway connection with Russia and Iran, and Azerbaijan with its Nakhchivan exclave. At the same time, experts explain that the Yerashk-Julfa-Meghri-Horadiz railway is not considered as a route for exporting goods to Azerbaijan, but rather is seen as a transit road for exporting products to other countries. Either way, it would be quite beneficial for all relevant stakeholders.

A Bypass Agreement

Tehran's latest—fourth—attempt to connect its railways network to the Caucasus took place on 11 March 2022. The Republic of Azerbaijan and the Islamic Republic of Iran agreed to establish new railway, highway, communications, and energy supply lines connecting Azerbaijan's East Zangezur Economic Region to its exclave of Nakhchivan through Iranian territory.

The intended project will be 55 kilometers long, starting from the Azerbaijani village of Aghbend,

Aliyev's foreign policy adviser, Hikmet Hajiyev, indicated in March 2022 that "the new multimodal corridor [along Iran's side of the Aras River] will connect Azerbaijan, Iran, and Türkiye, and, as such, will change the transportation-communication picture of the region."

located in the Zangilan District. The village fell under the control of Armenian forces in October 1993, during the First Karabakh War, but was retaken by Azerbaijan in October 2020, in the course of the Second Karabakh War. Aghbend is located in the southwestern corner of the Zangilan District, close to the border with both Iran and Armenia. It is physically separated from Iran by the Aras River that forms the Azerbaijani-Iranian border there. In addition to this highway, Tehran and Baku plan to build two railway bridges and a road bridge over the Aras River. From that point on, the highway will pass through the Iranian province of East Azerbaijan and connect back across the border to the city of Ordubad, in southern Nakhchivan. For the highway to reach Ordubad, three more bridges (two rail, one road) will have to be constructed across a more westerly part of the Aras River.

From Baku's point of view, the construction of this trans-Iranian Aghbend-Ordubad connection is important for a

number of reasons. First, it will be a continuation of the Horadiz-Jabrayil-Zangilan-Aghbend highway that passes through the Fuzuli, Jabrayil, and Zangilan districts, physically linking these southern regions bordering the former NKAO to Nakhchivan and onward all the way to Türkiye. This transit link will be of significant economic importance for Azerbaijan, as it would help rebuild its southwestern territories following the destruction caused by the First and Second Karabakh Wars. Aliyev's foreign policy adviser, Hikmet Hajiyev, indicated in March 2022 that "the new multimodal corridor [along Iran's side of the Aras River] will connect Azerbaijan, Iran, and Türkiye, and, as such, will change the transportation-communication picture of the region."

Second, the agreement with Tehran will allow Baku to reestablish a rail link between mainland Azerbaijan and the Nakhchivan exclave for the first time since the First Karabakh War. Although the November 2020 tripartite agreement ending the Second Karabakh War raised expectations that the three-decades-long deadlock on regional transport redevelopment—especially railways—would be resolved, Armenian objections and considerations regarding the Zangezur Corridor have so far de-

flated hopes for quick progress. Given these circumstances, the Azerbaijani government seems to have reached the conclusion that a rail link to Nakhchivan via Iran could be a safe and viable alternative to rebuilding the Soviet-era railway across southern Armenia, which is an (as-yet unfulfilled) obligation of the tripartite statement that ended the Second Karabakh War.

Iran, in turn, has its own considerations and interests for allowing the construction of a highway and railway between Zangilan and Nakhchivan across its own territory. In the aftermath of the First Karabakh War, Iranian territory has been used as a transit route for buses and trucks between mainland Azerbaijan and Nakhchivan for the past three decades. Therefore, the construction and operationalization of the trans-Iranian Aghbend-Ordubad highway complements and strengthens the traditional route of the Republic of Azerbaijan's mainland to its Nakhchivan exclave through Iran.

Indeed, given that, first, the revival of the Soviet-era railway network across southern Armenia remains practically uncertain for the foreseeable future and, second, that the north-south Rasht-Astara railway inside Iran

remains to be completed, the mere construction of a railroad between Azerbaijan's mainland and Nakhchivan crossing Iranian territory appears to provide a feasible window of opportunity and notable benefits to both Baku and Tehran. While Baku would regain a higher-capacity overland link with its exclave, Iran's rail access to Azerbaijan would mean the establishment of a physical connection to the Russian Federation. This would make it possible for Iranian companies to take fuller advantage of the preferential trade agreement between the Islamic Republic and the Moscow-dominated Eurasian Economic Union (EAEU).

Necessary Rail Connections

With an area of 1,648,000 square kilometers, Iran ranks seventeenth in size among the countries of the world and second in the Middle East. Iran has fifteen neighbors; and its strategic location between landlocked countries in the north and east, the oil-rich Persian Gulf and the Caspian Sea regions, as well as its position between Asia and Europe, has historically created a unique economic and geopolitical advantage for the country.

It is clear how important a well-developed transportation network—especially the rail component—is to this vast and strategic geography. Currently, the length of the railway network in Iran is 14,270 kilometers, with an additional 10,000 kilometers of new rail routes being studied or implemented. While Iran's extensive rail network is connected with Central Asia, Afghanistan, Pakistan, and Türkiye, there are two main gaps in this field. First, the lack of rail connection with the South Caucasus region; second, the lack of rail connection with Iraq.

To solve these two gaps, the construction and completion of the aforementioned 164-kilometer Rasht-Astara rail line and a 32-kilometer railway between Basra (Iraq) and Shalamcheh (Iran) is very important. If these two railway routes are completed, Iran's railway network will be fully established with all its surrounding regions and countries.

Having discussed the previous and on-going efforts on the part of Iran towards reconnection with the railway network in the South Caucasus, we can now turn to the growing importance of such a liaison from the vantage point of relations with the EAEU. The EAEU-Iran Preferential Trade Agreement (PTA), signed on 17

May 2018 within the framework of the Astana Economic Forum came into effect on 27 October 2019, offers lower tariffs on 862 commodity types, of which 502 are Iranian exports to the EAEU.

The agreement has served as the catalyst to significantly increase trade volume between Iran and EAEU member states during its first year: between October 2019 and 2020, trade increased by more than 84 percent. However, the rapid spread of COVID-19 and the consequent border closures and health restrictions served to curb that growing trend. Originally slated to expire in October 2022, the parties agreed to extend the PTA's validity for three additional years or until negotiations on upgrading it to a fully-fledged free trade agreement (FTA) are completed—whichever comes first. In early October 2022, Russian Economic Development Minister Maxim Reshetnikov stated that he expects talks on an FTA will be successfully concluded “next year”—i.e., in 2023. The working assumption is that once upgraded, the number of items falling within

the scope of the agreement will rise to at least 8,000, which is expected to set off a massive increase in the volume of trade between Iran and the EAEU.

Considering the potential of fast-growing increase in the volume of trade between Iran and the EAEU, the question of rail communication becomes all the more important and urgent. In Central Asia, the Iran-Turkmenistan-Kazakhstan railway network (The Railway of East of the Caspian Sea) has solved this problem, which is not the case in the Caucasus. As already discussed,

the Rasht-Astara Railway needs to be constructed and completed as a matter of priority.

The practical difficulties arising from this missing link have already been addressed. Moreover, given the fact that Russia accounts for more than 80 percent of Iran's trade with the EAEU, the re-establishment of direct rail communication between Iran and Russia will serve to increase the volume of trade between the two countries, especially in parts of western and southern

The importance of re-connecting the Iranian railway network and the Caucasus region has acquired even higher significance and urgency in the context of the ongoing Russo-Ukrainian War.

Russia—particularly in the North Caucasian Federal District, the Volga Federal District, and the Southern Federal District.

INSTC and the Ukraine War

The importance of re-connecting the Iranian railway network and the Caucasus region has acquired even higher significance and urgency in the context of the ongoing Russo-Ukrainian War. The conflict has had a direct impact on the status of the various China-Central Asia-Russia-Europe transit corridors that traverse the Silk Road region. The Northern Corridor branch of China's Belt and Road Initiative (BRI), in particular, has faced serious challenges and limitations, forcing a halt to the so-called "New Eurasian Land Bridge" project that was supposed to link Russia, Ukraine, Poland, and Belarus with, ultimately, East Asia.

This has given new impetus to the deeply-felt need for the development of the so-called Middle Corridor—more formally known as the Trans-Caspian International Transport Route (TITR)—which starts from Southeast Asia and China, and, bypassing Russia,

runs through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and further on to the European mainland. Another budding option, particularly for the land-locked Central Asian region, is to build north-south linkages to Iran's overland transit network, which offers further connections to Türkiye, the Middle East, and Europe, as well as to Iranian seaports on the Persian Gulf and the Gulf of Oman.

As for Russia—now suffering a severe and tightening pressure due to the West-led sanctions and export restrictions regime imposed in the wake of its assault on Ukraine—the growing challenges it faces with maintaining west-east routes across its territory have also incentivized Moscow to focus more on trans-regional north-south routes to Central Asia and the South Caucasus and, from there, to Türkiye and Iran.

By strengthening these transit corridors, Moscow hopes to counter the tightening economic sanctions and transit restrictions it is currently facing. The pursuit of this strategic policy is expected to continue well into the foreseeable future. To this end, one of the most important prospects for Russia is to strengthen the land and rail routes that fall within the pur-

view of INSTC. To the east of the Caspian Sea, there exists a working railway route from Russia through Kazakhstan and Turkmenistan to Iran, which is not the case along the western shore of the Caspian. As previously discussed, in the South Caucasus region, the linked railway networks of Russia and Azerbaijan still lack a physical railway connection with Iran.

It is quite understandable that, under current circumstances, Moscow should exhibit a higher level of interest in, and attention to, the construction and completion of the Rasht-Astara railway. The completion of this project as a matter of priority for Russia, Iran, and Azerbaijan should therefore be seen as a new opportunity for each of the three countries from their particular vantage point.

Needless to say, given the history of efforts geared to the re-connection of the railway network with the Caucasus region, the new window of opportunity that has opened up should be viewed in Iran with particular interest. It is also important to note that the scope of tripartite cooperation between these three countries—once realized with regard to the completion and operationalization of the Rasht-Astara railway route—could hopefully be extended

to the revival of the Soviet-era railway route between Jolfa and Nakhchivan.

Armenia, which is both part of the INSTC as well as a member of the EAEU, can join the process of reviving the Soviet railway in the Aras rail link and re-opening of the Jolfa-Nakhchivan Railway. Such a venture would most probably receive the active support of Russia, Azerbaijan, Türkiye, and Iran—each for their own reasons. Reopening the Aras Rail Link could also serve to provide momentum to reopen the Gyumri-Kars railway, which would, in turn, facilitate trade between Armenia and Türkiye on the one hand, and between Nakhchivan and Türkiye on the other, hence providing an additional incentive for its reopening.

The reopening of the Gyumri-Kars railway, which would cut down on the transit cost of goods for Armenia, is of course conditional on the normalization of relations between Yerevan and Ankara, which the latter has made clear is itself contingent on the normalization of relations between Yerevan and Baku.

If successfully implemented, the Aras Rail Link would demonstrate that practical technical cooperation is feasible even between

post-conflicting parties, thus contributing to broader peacebuilding efforts in the South Caucasus and supporting regional stability and prosperity. Arguably, reviving Soviet-era railroads in the South Caucasus could help the region converge and play the same pacifying role for Armenia and Azerbaijan as the Coal and Steel Community played for post-war France and Germany in the 1950s.

Hopeful Perspective

Iran's railway connection with the Caucasus region has a history that goes back more than a century. The trajectory of the connection—the relationship, really—over this rather long period clearly shows the preponderance of a number of determining factors: first and foremost, politics in the proper sense of the word, and geopolitics, to be more specific. The very establishment of a railway network in Iran during the last decade of the nineteenth century was the result of the region's geopolitical exigencies at the time, as was its connection with the then existing networks in the region. As shown in the essay, the ups and downs in the liaison also point to the inevitable critical impact of the nature of politics of the countries concerned, as well as of the na-

ture of the relations between and among them.

The essay has also discussed and shown that the question of the revival of the railway route between Iran and the South Caucasus is bound to serve as a catalyst in strengthening the relationship between Iran and a host of countries of the region in quite a number of important fields. The revival of the railway connection should help expand the volume and level of trade, and, in fact, improve overall economic relations. It should also serve to assist the countries involved with their larger development processes, respectively. Moreover, it should serve to ease political tensions between and among countries in the region. Lastly, the reconnection of the railway network between Iran and the South Caucasus should, over time, contribute to the promotion of peace and stability within the region—the shadows of which have affected relations between the region and beyond.

Clearly, the revival of the railway network between Iran and the South Caucasus serves much larger political objectives—both at the level of countries, and more importantly, at the level of peoples and nations. To use a somewhat cliché term of our time, the reconnection of the railway network is a “win-win

game” for all the countries involved: Iran, Azerbaijan, Armenia, Russia, Türkiye, and Georgia.

This essay's examination of various efforts by Iran to realize the reconnection of the railway network with the Caucasus since the fall of the Soviet Union points a number of salient factors. The efforts have thus far failed to bear fruit, most notably due to a lack of necessary funds by the concerned parties—whether due to general economic hardship or such other factors as a lack of interest and political will, or emanating from inter-state tensions and conflicts in the region.

Under the currently not-so-promising vista for any positive movement towards unlocking the serious obstacles on the way to the actualization of the projects enumerated in this essay, I am of the considered view that practical access to the needed funds—i.e., a pure economic solution—may not be at hand in the short-term. Indeed, it is reasonable to assume that the economic difficulties of the

countries involved, including Iran, might persist in the short-term.

That being the case, an essentially *political* approach to the existing connectivity problems and bottlenecks might instead turn out to be a more viable option to pursue. For the countries in the region to look positively at the question of making serious investment efforts at the regional level—in getting projects off the ground that have a history of failure—it almost goes without saying that making decisions for such ventures would depend on serious political decisions at the highest possible levels. In other words, the question of green-lighting strategic connectivity projects finally boils down to a choice by national leaders to make the relevant political decisions on how to look at the state of relations with

The question of green-lighting strategic connectivity projects finally boils down to a choice by national leaders to make the relevant political decisions on how to look at the state of relations with other countries and players in this part of the Silk Road region.

other countries and players in this part of the Silk Road region.

As for Iran, notwithstanding the negative impact of the continuation of severe unilateral American sanctions on the Iranian economy—which I hope will be soon relieved

through the restoration of the Joint Comprehensive Plan of Action (JCPOA)—the Raisi Administration looks favorably to strengthening regional political relations as well as expanding economic relations with Iran's neighboring countries. This approach, once pursued in earnest, should also serve to ease tensions in series of bilateral relationships with countries in the surrounding area, and, in turn, create a more conducive ambiance for easier trade and economic ties—perhaps even political ones.

My last word concerns the rather peculiar circumstances in the greater region created by the continuation of the

Russo-Ukrainian War. As discussed in this essay, the exigencies arising from this unfortunate situation might—as a silver-lining to the storm clouds—serve to convince the countries in the region that closer trade and economic relations between and among them would certainly help each to better secure their national interests and longer-term security and development perspectives. A better future for all the region's states—and, in the final analysis, all the nations that live in this part of the world—depends, first and foremost, on lack of inter-state tension and conflict, and the establishment and perpetuation of peace and stability throughout the Silk Road region. **BD**

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The Caspian's New Energy Role

Major Diversification Source for Europe

Marika Karagianni

The European Union, and Europe more broadly, is currently facing another energy crisis—its third in row—in the wake of Russia's invasion of Ukraine in February 2022. The characteristics of the current crisis are, nevertheless, qualitatively different compared with the two previous ones (in 2006 and 2009), due to inherently different reasons animating them.

First, the route through the Ukrainian gas network has been partially replaced by the TurkStream pipeline. The first section of TurkStream, to Türkiye, was inaugurated in 2020 and the second, to Southeast

Europe, with Bulgaria as its entry point, in 2021. TurkStream has been extended to the Republic of North Macedonia, and further extensions to Serbia and Bosnia and Herzegovina are also foreseen. As a result, the old Trans-Balkan Gas Pipeline through Ukraine, Romania, and Bulgaria has been replaced by TurkStream.

Second, the likelihood of a total long-term disruption through Nord Stream 1, coupled with ongoing efforts for storage, has exacerbated the fears of a potentially severe economic crisis and the onset of a recession in the EU this winter. To replace the volumes of Russian

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gas in EU storage facilities, significant gas volumes will have to be procured—more than ever before—which will bear a substantial effect on gas prices in Europe.

Third, in 2006 and particularly in 2009, Gazprom cut off gas supplies through Ukraine due to pricing disputes with Naftogaz, which, in turn, prompted a discussion in Brussels on finding alternatives to Russia gas supply sources for the EU, and especially for the countries of Central and Southeast Europe. In the current juncture, Gazprom cut off entirely gas supplies through Nord Stream 1—Nord Stream 2 never became operational—evoking EU sanctions imposed due to Russia's invasion of Ukraine.

It is evident that the qualitative differences can be explained entirely by political reasons, since Russia, in essence, is blackmailing the European Union. There also appears to be a personal reason: the vindictive attitude of Russia's President Vladimir Putin towards the EU and its member states.

EU Energy Security

In the last two decades, the EU's excessive dependence on Russian gas was thoroughly discussed, as some countries, like Hungary, are almost utterly dependent on Gazprom for their domestic energy requirements. In Southern Europe, Portugal and Spain rely almost exclusively on LNG from North Africa, Italy depends on Russian gas for about 40 percent of its domestic consumption, whereas Greece has already diversified

its energy market by increasing the share of LNG from Algeria, on the basis of long-term contracts with Sonatrach, and from the U.S. in the spot market (in January 2009, when Bulgaria's supply of gas through the Trans-Balkan Gas Pipeline was cut, Athens sent natural gas to Sofia in a reverse flow along the pipeline). Italy and Greece also receive Azerbaijani gas from the Shah Deniz field in the Caspian Sea, as part of the Southern Gas Corridor (SGC). Poland, on the other hand, has diversified its energy mix by adding American LNG through the "Swinouszcie" terminal in the Baltic Sea, and Norwegian gas through

The geostrategic importance of Azerbaijan as a supply source for Europe has increased in light of current geopolitical developments in Ukraine.

the Baltic Pipeline that connects Poland and Denmark with Norway.

Through these three crises, the term ‘diversification’ was introduced into the EU’s energy vocabulary, with reference both to sources and routes, while the SGC program was proposed, with Southeast Europe placed at the epicenter of the EU’s new energy architecture. As a result, by dint of Decision No 1364/2006/EC, the EU officially established Natural Gas Route 3 (NG 3). Known as the Southern Gas Corridor within the framework of the EU’s new energy security strategy, the SGC would, for the first time, connect European markets with the Caspian Sea and the Middle East. The next step was the Third Energy Package, the new anti-monopoly legislative framework in the EU energy sector, in accordance with which all EU member states should have access to gas from at least three different supply sources, either directly or through other member states, via pipelines or LNG terminals.

In the north, Norway has announced it will boost its natural gas output in the coming months, keeping production higher than normal through the summer and delivering bigger volumes to the EU as another means to partially replace Russian quantities. Moreover,

Equinor announced it will allow the Oseberg field to increase gas exports by about 1 bcm/y, while the Heidrun field can also increase output by 0.4 bcm this year. Equinor has said that 1.4 bcm of gas is enough to satisfy gas demand from about 1.4 million homes in the EU for a year. “Troll,” the largest gas field in the North Sea, can also increase output in the event that other fields face outages, thus improving the overall robustness of supply. In 2021, Norway’s gas production amounted to 113 bcm, supplying close to one-quarter of the EU’s gas demands via an extensive subsea pipeline network linking it to terminals in Germany, France, and Belgium.

In addition to the existing network, the Baltic pipeline is a new supply corridor for the EU, namely for Poland, as, through Denmark, Norwegian gas from the above-mentioned fields will be channeled to Poland and neighboring countries, thus enhancing their energy security. It is expected that the pipeline will become operational in January 2023 and that the flow capacity will amount to 1.1 mcm/d, with a forecast to increase up to 5 bcm/y.

On 5 May 2022, Poland and the Baltic countries inaugurated a new gas interconnector intended to integrate their gas markets and thus

reduce dependence on Russian gas. The GIPL-Gas Interconnector between Poland and Lithuania is 508 kilometers in length and will eventually be able to transport, in both directions, approximately 2 bcm/y and, thanks to existing gas pipelines, also to connect Latvia, Estonia, and Finland.

For Lithuania, in particular, the opening of the interconnector represents a second source of gas supply (aside from Russia), with the country having had an LNG terminal in Klaipeda port since 2014. The three Baltic states announced in early April 2022 that they had stopped importing Russian gas, relying at this stage on their current gas reserves, which are stored underground. As far as Poland is concerned, and given the announcement of the EU plan to reduce Russian imports by two-thirds by the end of 2022, the commissioning of this pipeline is estimated to contribute significantly to strengthening the EU’s coveted energy independence. Thus, Poland will be able to shut down and thus disengage from all Russian flows without having to limit the quantities it supplies.

In the south, the countries of Southeast Europe have different degrees of dependence on Russian gas, as stated above, due mainly to geography and sea access.

The option of increasing the share of LNG in the EU’s energy mix, as well as strengthening bilateral energy cooperation with Azerbaijan, has been put on center stage, with the Caspian Sea being the first real alternative source for the countries of Southeast Europe. Bulgaria, in particular, is facing a serious problem in its energy supplies since Gazprom decided in April 2022 to completely cease its exports to Sofia in a sign of discontent with domestic political developments in Bulgaria.

SGC’s Resource Base

As far as Southeast Europe is concerned, the concept behind the establishment of the Southern Gas Corridor over the past decade has been to reduce gas dependence on Russia. Caspian oil and natural gas resources attracted international attention after the dissolution of the Soviet Union in 1991, when Western investments in the energy sectors of the newly independent littoral states became possible for the first time.

Three major field discoveries signaled an increase in the economic importance of the Caspian globally: Shah Deniz in Azerbaijan, Kashagan in Kazakhstan, and Galkynysh in Turkmenistan.

Kazakhstan's oil exports are headed primarily towards the United States through the Caspian Pipeline Consortium (CPS) route and the Novorossisk port in the Black Sea, while Kazakh gas exports supply mainly the vast Chinese market through the Central Asian Gas Pipeline. Turkmen gas exports supply neighboring countries in Central Asia, like Uzbekistan, and also China, on the basis of a long-term bilateral agreement. Turkmenistan could potentially supply Europe with gas in the future through the construction of the Trans Caspian Gas Pipeline (TCGP). Like the Trans Adriatic Pipeline (TAP)—the third and final leg of the Southern Gas Corridor—a part of TCGP would be a subsea pipeline. More analysis on Turkmenistan's potential will be provided below.

Azerbaijan seems far better placed from the point of view geography and available volumes to supply Southeast Europe with gas. In addition to Shah Deniz (1.3 tcm in place), the offshore gas discoveries of the last decade are bound to in-

crease production and exports to Europe in the next decade, given that foreign capital investment continues regardless of the fluctuations in global oil and gas prices. Fields like Umid (200 bcm and 40 million tons of condensate), Bebek (400 bcm and 80 million tons of condensate), Shafag-Asiman (300 bcm), and Nakhchivan (300 bcm in place) in the Azerbaijani

Apart from Azerbaijan, Turkmenistan has also been considered by the EU as an alternative source of gas.

offshore sector will require substantial foreign investment, if they are going to be in a position to feed an expanded Southern Gas Corridor and its future interconnectors in Southeast and Central Europe.

The most promising discovery, however, has been the Absheron offshore gas field, with estimated reserves of 350 bcm and 45 million tons of condensate. SOCAR, the state energy company of Azerbaijan, plans to combine production from Shah Deniz and Absheron in order to reach 40 bcm/y and increase gas exports to Europe after 2022, when the new gas infrastructure in Southeast Europe will be in place and operational. Already, discussions are taking place between Brussels

and Baku in order to expedite the increase of the handling capacity of TAP from 10 to 20 bcm/y as soon as possible.

Azerbaijan and the Shah Deniz field in particular have been identified by Brussels as the main resource base for the Southern Gas Corridor, and in particular for its second phase. The total length of SGC is 3,500 kilometers, which is divided into three sections: the South Caucasus Pipeline (SCP) from Baku to Erzurum in Türkiye, the Trans-Anatolian Pipeline (TANAP) crossing Turkish territory up to the Greek border at Kipoi-Evros, and TAP through Greece, Albania, and under the Adriatic Sea to Italy.

TAP's purchase contracts, signed between SOCAR and the gas trading companies of Greece (DEPA), Albania (Albgaz), and Italy (Snam Rete), provide for an initial volume of 10 bcm/y, with a provision to double the volume after 2025. Everyone understands that these volumes of Azerbaijani gas represent a minor diversification away from Russian gas for Europe, but it is a start.

On 17 March 2022, the consortium announced that the initial capacity of 10 bcm/y has been at-

tained, out of which 8.5 bcm have been delivered to Italy. According to the official statement,

TAP can double its capacity and expand in stages, up to 20 bcm within 45-65 months, as a result of requests to be received during the binding phase of a market test and the accumulated requests resulting in an economically viable outcome. The next binding phase is currently scheduled for July 2023. However, TAP can accelerate this timeline and launch the binding phase of the market test during 2022, provided that TAP receives interest for an earlier start in the ongoing public consultation.

The geostrategic importance of Azerbaijan as a supply source for Europe has increased in light of current geopolitical developments in Ukraine, and the next generation of Azerbaijani offshore fields are considered of vital importance as a first diversification source for the second phase of the Southern Gas Corridor and the future interconnections in Southeast Europe. The EU, in light of the potential complete disruption of Russian gas supplies, proceeded to sign a new Memorandum of Understanding (MoU) with Azerbaijan in Baku on 19 July 2022, whereby SGC capacity will double to reach 20 bcm/y by 2027—earlier than scheduled. Azerbaijan's president, Ilham

Aliyev, committed Baku to provide Europe with regular energy supplies, together with joint investments in offshore wind energy and transport of electricity produced by Renewable Energy Sources (RES).

Part from Azerbaijan, Turkmenistan has also been considered by the EU as an alternative source of gas. The EU strongly supports the TCGP project, for it would connect with an expanded Southern Gas Corridor and thus supply markets in Europe not only with Azerbaijani but also with Turkmen natural gas.

The project was first proposed in 1996 by the United States. In February 1999, the Turkmen government agreed with General Electric and Bechtel Group to conduct a feasibility study on the pipeline. In November 1999, at the OSCE Summit in Istanbul, Türkiye, Georgia, Azerbaijan, and Turkmenistan together with the United States signed a number of agreements concerning the construction of several pipeline projects, like the Baku-Tbilisi-Ceyhan (BTC) pipeline and also the TCGP. However, strong Russian and Iranian opposition as well as the major gas discovery of Shah Deniz in Azerbaijan have stalled the project until now. The second obstacle was related to the legal

status of the Caspian Sea, as Russia claimed that there can be no subsea pipelines in the Caspian Sea, unless all five littoral states give their consent or unless there is an agreement on the overall legal status. The signature of the Aqtau Convention, however, in August 2018, eliminated this obstacle. The projected capacity of TCGP would be 30 bcm/y, at an estimated construction cost of \$5 billion.

The construction of the TCGP is contingent on several conditions, such as the development of natural gas production to justify in commercial terms the construction and operation of the pipeline, the existence of sufficient demand, and interest by major companies in developing infrastructure to deliver the Turkmen gas to Europe. Moreover, the construction of the TCGP seems to run counter to the Turkmen internal energy market regulations, which provide that the natural gas produced in Turkmenistan must be processed within the country. In order to feed SGC with Turkmen gas, the most obvious option would be to inject gas from Turkmenistan's Block 1 to TCGP and then to Sangachal Terminal in Baku for processing, before it enters the pipeline. The problem, however, is that Turkmenistan has in the past insisted that natural gas from

Block 1 must be processed onshore in Turkmenbashi facilities and then enter TCGP. As a result, the conclusion of any agreement between Baku and Ashgabad requires Turkmenistan to change its domestic legal framework.

The old Soviet pipeline route from Turkmenistan through Russia to Europe is shorter than the route via the Caspian Sea, Azerbaijan, and Türkiye. Gazprom could either buy the natural gas at the Turkmen border at a premium or transit it to Europe on much more favorable terms than the Southern Gas Corridor. As a result, there is a risk that Russia could become a potential rival to the realization of the TCGP, despite the elimination of the legal objections after the signing of the Convention on the Legal Status of the Caspian Sea.

As far as oil is concerned, the current geopolitical situation exacerbated by the war in Ukraine and sanctions imposed on Russia has led Kazakhstan to find alternate routes to transport its oil to global markets. As of recently, Kazakhstan exported 80 percent of its oil through the CPC. For reasons having to do with geopolitics, Astana needs to diversify its transportation options, with Azerbaijan being the first and most obvious solution.

As CPC activities risk possible further suspensions in Russian ports, particularly in Novorossisk, in July 2022 Kazakh president Kassym-Jomart Tokayev instructed KazMunaiGaz to work out the best options for using the Trans-Caspian International Transport Route (TITR), also known as the Middle Corridor, to diversify supplies of Kazakh oil. Given the risk posed to Kazakhstan's economic security, it has become necessary to review the contract with Russia and divert at least 10 million tons of oil toward China, with Azerbaijan and the port of Baku being the second alternative to ship oil from the Kazakh port of Kuryk across the Caspian to Baku and on to the BTC pipeline through the Caucasus and into Türkiye. To that end, Tokayev visited Baku on 24 August 2022 and discussed this potential with Aliyev.

Gas Interconnectors

The second phase of the SGC foresees future TAP interconnections in Greece, with Bulgaria first through the 182-kilometer-long Interconnector Greece-Bulgaria (IGB), running from Komotini in Greece to Stara Zagora in Bulgaria. Construction work on the IGB began in late 2018, while its inauguration took place on 8

July 2022 in Komotini. The actual operation of the interconnector began in early October 2022.

SOCAR and Bulgargaz have already signed a gas purchase agreement for 3 bcm/y, with a potential expansion to 5 bcm/y in the years to come. The IGB connects with TAP in Komotini, while the project is being implemented by “International Company Greece Italy,” a joint venture company in which Bulgargaz and IGI Poseidon (Interconnector Greece-Italy) each own a 50 percent share.

The IGB is the first project to be realized within the Southern Gas Corridor framework, but also on the North-South axis, as further expansion to Romania, Serbia, and Hungary is foreseen, with Greece serving as the transit hub for increased amounts of Azerbaijani natural gas going to Southeast Europe. In this respect, several other interconnectors are mapped out for the region: Interconnector Bulgaria-Serbia (IBS), Interconnector Bulgaria-Romania (IBR), and, beyond that, Interconnector Romania-Hungary (IRH), which will be able to function in reverse flow, as well.

At the EU-Western Balkans Summit in Sofia in May 2018, Bulgaria and Serbia signed a Joint

Declaration on the construction of IBS, which is supposed to begin at Dimitrovgrad and end at the Serbian city of Niš, with the aim of connecting to TAP. The Serbian section of this pipeline has already been included on the EU’s list of Projects of Common Interest (PCIs), with €49.6 million already approved. Construction work started in February 2022, with the IBS scheduled to become operational in 2023. This will bring Azerbaijani gas to Serbia for the first time. Similar Joint Declarations have also been signed for IBR and IRH, and both are also included on the EU list of PCIs. As a result, all these projects will be realized by the regional energy companies together with co-financing from the EU and financing institutions, namely the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

Given the ongoing crisis with Russian gas supplies through Ukraine and the gas disruption to Bulgaria, on 5 May 2022 Sofia hosted a regional ministerial meeting with representatives of the EU Commission and eight governments from Southeast Europe. They discussed energy security, diversification of energy supply sources and routes, and the Green Transition. As an important development, a regional taskforce was

established, which will eventually lead to a greater level of autonomy from Russian gas. Also, an announcement was made that DEPA Commercial S.A. and Bulgargaz had agreed to proceed with joint gas purchases, in order to strengthen their bargaining power vis-à-vis third countries and utilize their gas infrastructure to the best interests of their markets and peoples. Particular emphasis on LNG infrastructure was attributed as another means to bypass Russian supplies, with the port of Alexandroupolis in northern Greece put in the epicenter of current and future plans for diversification through American or other LNG sources.

The second project to be realized within the Southern Gas Corridor framework is the Thessaloniki-Gevgelija interconnector, running between Greece and North Macedonia, a country that is almost entirely dependent on Russian gas. The 120-kilometer-long route will run from the TAP compression station in Nea Mesimvria, on the outskirts of Thessaloniki, to Gevgelija and Stip, while there is also a projected expansion of the interconnector to the disputed territory of Kosovo. In 2018, the state gas grid companies of the two countries, DESFA and Ner, signed a memorandum of understanding in Skopje on

promoting the construction of this gas interconnector.

At present, discussions are ongoing regarding the implementation of the market test and the issuing of the project’s Final Investment Decision, after which the actual construction of the pipeline can begin (either in late 2022 or early 2023). At this point, it is worth noting that no gas purchase agreement has yet been signed between North Macedonia and Azerbaijan, although the project has been included in the Southern Gas Corridor framework.

The LNG Dimension

The United States became a net natural gas exporter in 2017, with its LNG exports rising by 58 percent during the first half of 2018 (in comparison with the same period in 2017). According to preliminary data, U.S. LNG exports also increased by over 50 percent this compared with the previous year. The expected commissioning of more LNG terminals this year is bound to make the United States the world’s second largest LNG exporter, taking the place of Qatar.

The Sabine Pass LNG terminal was inaugurated in Louisiana in 2016. In 2020, Cheniere

commissioned for the first time the Corpus Christi LNG plant, while the Calcasieu Pass Train 6-10, also in Louisiana, came into operation in September 2022. Most of the LNG volumes are destined for Asian markets, primarily China, which is currently the first and largest customer of American LNG. In the short term, however, and in view of the war in Ukraine, the EU is one of the main destinations for American LNG exports, due both to its established LNG infrastructure and growing market demand, and to its goal of reducing dependence on Russian gas.

In light of the ongoing energy crisis and the EU's more coordinated efforts to distance further from Russian gas, the EU Commission expects American LNG imports to rise significantly, and is therefore promoting the construction of LNG terminals across the EU, from the Baltic to the Aegean.

The American LNG strategy for the EU seems to be oriented along the North-South axis in four key countries, all of them EU

and NATO member states: Poland, Lithuania, Croatia, and Greece. Lithuania and Poland have built LNG terminals in the Baltic Sea in recent years, with the goal of reducing their dependence on Russia, while in the South, the Revythoussa LNG terminal in Greece is one of the biggest in the Mediterranean. At present, this terminal primarily serves Algerian LNG on the basis of the long-term contract between DEPA and Sonatrach, but also receives spot LNG cargoes from the United States.

The ultimate aim of America's energy strategy towards the EU is for the United States to acquire a larger share in the EU energy mix by exporting LNG to key EU member states along the North-South axis. This will allow the American LNG to be re-gasified and gain access in this form to the grids of Central and Southeast Europe, supplying countries like North Macedonia and Hungary with non-Russian gas. For that reason, in addition to the Revythoussa terminal, a second LNG facility is cur-

The ultimate aim of America's energy strategy towards the EU is for the United States to acquire a larger share in the EU energy mix by exporting LNG to key EU member states along the North-South axis.

rently being touted for the port of Alexandroupolis, in northern Greece. Once built, the planned Floating Storage Re-gasification Unit (FSRU) will supply gas to the Greek, Bulgarian, Romanian, and Serbian markets, after the gasification of the LNG in Alexandroupolis.

The FSRU will be connected to TAP and three interconnectors (IGB, IBS, and IBR). It is worth noting that the Thessaloniki-Gevgelija Interconnector may also be connected with the FSRU, through TAP, allowing North Macedonia to be supplied not only with Azerbaijani gas but also with re-gasified American LNG. Construction work has been initiated in Alexandroupolis already, while the commercial operation of the FSRU is foreseen for late 2023. Furthermore, due to the disruption of gas supply to Bulgaria, it is expected that the FSRU will supply the Bulgarian market as well, in the framework of the EU solidarity principle.

What's Next?

Despite all these diversification efforts, it will be difficult for the EU to phase-out Russian gas entirely, despite disruptions of the flow on the Russian side towards Poland and Bulgaria. This assessment is driven also by the fact that companies based in the EU abided—in the end—with Putin presidential decree no. 172, whereby Moscow requested the opening of a second bank account in Gazprombank in order to proceed with payments in Russian rubles. It remains to be seen whether Putin will opt for a total phase-out of the European market, however it should be stressed that China and India cannot entirely substitute Gazprom's European customers—and Moscow is in urgent need of currency flows to its budget, due to the severity of the sanctions imposed by the EU and the United States.

As far as Southeast Europe is concerned, should all the above-mentioned SGC interconnectors

As far as Southeast Europe is concerned, should all the above-mentioned SGC interconnectors be realized, a new holistic gas distribution system will supply Azerbaijani gas, as well as LNG, to the whole Southeast Europe area, thus reducing Russian dominance.

be realized, a new holistic gas distribution system will supply Azerbaijani gas, as well as LNG, to the whole Southeast Europe area, thus reducing Russian dominance. In light of the above, it is evident that the EU is seeking to create a network of gas pipelines and inter-connectors across Southeast and Central Europe, with northern Greece serving as the main transit hub for Caspian natural gas and American LNG—and, poten-

tially, for other sources in the future like those from the Eastern Mediterranean. Finally, it appears that the prospects for LNG in Southeast Europe are far better than they were a few years ago. With all the new projects under development, LNG is clearly emerging as a serious alternative to Russian gas, alongside gas from Azerbaijan and perhaps points further east feeding into the Southern Gas Corridor. **BD**

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Will Armenia Accept the Peace Dividend on Offer?

Never Closer...But Close Enough?

Damjan Krnjević Mišković

This essay seeks to provide informed guidance to those wishing to assess the likelihood of Armenia accepting the peace dividend on offer by Azerbaijan in the time ahead. Its publication takes place two years after the start of the Second Karabakh War; one month after brief yet deadly military clashes along the as-yet undelimited state border between Armenia and Azerbaijan; and against the backdrop of three important high-level meetings in the first two weeks of October 2022, the cumulative outcome of which has been portrayed as effectually constituting the start of substantive negotiations on an omnibus peace treaty.

There was no expectation that a breakthrough would be the immediate result of these meetings—specifically, the 2 October 2022 meeting in Geneva between the foreign ministers of Armenia and Azerbaijan, the 5 October 2022 meeting in Prague between President Ilham Aliyev of Azerbaijan and Prime Minister Nikol Pashinyan of Armenia, and the 14 October 2022 meeting in Astana between the foreign ministers of Armenia and Azerbaijan. However, these and other recent meetings appear to have gone well enough. Both the statements and readouts that emerged from these meetings indicate that the parties

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are still very much in the midst of a complex peace process of difficult-to-forecast duration and outcome. An important reason is the fact that there are a lot of intricately moving parts: aspects of this overall endeavor are concurrently being *mediated* by the President of Russia, *facilitated* by the President of the European Council, and *supported* by the U.S. Secretary of State and the U.S. National Security Advisor (and, to some extent, the presidents of France and Türkiye as well as the EU High Representative for Foreign Affairs and Security Policy) and their respective staffs.

Success is not a foregone conclusion: a derailment is still possible, notwithstanding the fact that each of these foreign players portray themselves as honest brokers and both Baku and Yerevan seem to trust sufficiently their various approaches. Although Moscow and the Western actors do not trust each other's intentions, initiatives, and actions in almost all other geopolitical theaters, the preponderance of the evidence, as of this writing, indicates that, by and large, the main foreign players have not actively and certainly not decisively undermined each other's efforts in the Armenia-Azerbaijan theater. Perhaps some behind-the-scenes coordination is still taking place. What is more certain

is that peacemaking efforts have regained a sense of urgency, as indicated by the events subsequent to a tweet posted by the U.S. National Security Advisor at the conclusion of a meeting between his Armenian and Azerbaijani counterparts that he hosted at the White House on 28 September 2022 in which emphasis was placed on the importance of "pursuing time-bound and focused negotiations."

On 12 October 2022, Secretary of the Security Council of Armenia Armen Grigoryan stated on the country's state-run television network that "we should have a peace agreement by the end of the year." This unqualified expression of optimism could be interpreted as an answer of sorts to Aliyev's qualified statement to reporters in Prague on 6 October 2022: "in principle, I said some time ago that if Armenia is interested, the peace agreement could be signed by the end of the year." The statements of most other proponents and opponents alike have been both less explicit and less definitive—although they too concur that peace appears closer than it has in decades, raising hopes (or fears) that it is within reach. This is due to a number of factors. Two revolving around Armenia can be singled out at the onset. *First*, since war's end, Pashinyan seems to be

personally dedicated to ending the underlying territorial conflict with Azerbaijan. *Second*, the peace dividend for Armenia that would result from a comprehensive treaty with Azerbaijan would almost certainly be extended in short order to one with Türkiye; the achievement of the latter is assuredly dependent on that of the former—this is the message that has been conveyed by Ankara and is fully understood in Yerevan.

On this basis and others, we can assert that Pashinyan has made the following prudential determination on behalf of the citizens of Armenia: the sticker price of peace is worth paying. This, in turn, suggests that the prime minister has made a determined judgment that Armenia's sustainable political and economic future is predicated on rejecting a national allegiance to a halcyon past that fell to the way-side many centuries ago and has no realistic chance whatsoever of making a comeback. If the foregoing is accurate, what remains to be determined is *how* and *when* to make the payment.

Unviable Alternatives

Unfortunately, the evident advantages for Armenia of making peace with Azerbaijan and Türkiye remains unconvincing for some. Comparing these with a brief examination of what would be required to overturn the definitive result of the Second Karabakh War and the consequences deriving thereof is thus warranted.

Here then, is what, at a minimum, this sort of conceit would need to entail in practice. *First*, the sudden discovery of massive hydrocarbon deposits in Armenia or the country's rapid transformation into the Singapore of the Silk Road region. *Second*, the aptitude to safely and forever push Türkiye back out of the South Caucasus. *Third*, the ability to incentivize the 'international community'—or, more accurately, leading actors from the West—to engage in the region on the side of Armenia more seriously and one-sidedly than has ever before been the case. And *fourth*, the wherewithal to entice Russia to actively and exclusively support

Armenian revanchist success would be predicated on the instauration of novel geopolitical and geo-economic circumstances that Yerevan simply does not have the capability to engender, much less set in motion.

Armenia's maximalist position by any means necessary—up to and including a readiness to engage in an offensive military campaign against Azerbaijan (and almost certainly Türkiye) for the sake of land the Kremlin has consistently recognized as being Azerbaijan's sovereign territory—and in political and economic conditions that are, shall we say, suboptimal for the Kremlin. We cannot leave it unsaid that a necessary prerequisite to the successful instauration of these novel circumstances on the part of Armenia would be the wholesale political isolation, economic constriction, and martial disassembly of Azerbaijan taking place more or less synchronously with the above.

The bottom line is that Armenian revanchist success would be predicated on the instauration of novel geopolitical and geo-economic circumstances that Yerevan simply does not have the capability to engender, much less set in motion. Yet there are those who still champion Armenian maximalism and thus

Pashinyan evidently understands that it would be truly foolhardy for his country henceforth to advocate, much less pursue, policies that burden another generation of its citizens with the perpetuation of what amount to eschatological illusions and the realities of poverty and insecurity.

not only believe the opposite but champion its pursuit.

This is, of course, effectually impossible. But, we could hypothesize, not impossible per se. As a brief thought experiment, we could say that making all this possible would require the embrace of a belief in the sort of

divine intercession that so far has been limited primarily to the works and days of Moses and David: the founder and re-founder of a nation whose uniqueness is unbreakably tied to its covenantal status as 'am 'olam—the eternal nation. The logical progression of such a truly heretical position would, thus, require embracing a belief in the categorical substitution of Jerusalem by Etchmiadzin—or, even more radically, of Christ by Gregory—as the eschatological focal point of humanity. That would indubitably constitute the paradigmatic definition of both theological absurdity and ethnic hubris in the absence, of course, of a new divine revelation. A detailed consideration of such a hypothetical is evidently beyond the scope of this essay. To this can be added the obvious, namely that

there is no indication whatsoever that Pashinyan is inclined to embrace such or similar beliefs.

Unlike his opponents, Pashinyan evidently understands that it would be truly foolhardy for his country henceforth to advocate, much less pursue, policies that burden another generation of its citizens with the perpetuation of what amount to eschatological illusions and the realities of poverty and insecurity. As Gerald Libaridian so aptly phrased it in February 2021, “it takes a particular kind of impudence to prescribe again the cure to the disease that incapacitated the patient and brought him close to death.” (Statements made over a number of years by his former boss, Levon Ter-Petrosian, indicate that the former president, too, stands on the same side as Pashinyan of this crucial Armenian societal divide.)

But this sort of prudential reasoning has not sufficiently cleared the political deck in Yerevan—not to mention in competing centers of influence in the Armenian world. Regrettably, a central challenge remains Pashinyan’s seeming inability to bring under his full control the state’s “monopoly of the legitimate use of physical force”—the fundamental characteristic of a functional, sovereign state as de-

finied and laid out by Max Weber in his famous 1919 lecture *Politics as a Vocation*. Recent events suggest that elements of Armenia’s armed forces, police, and even security services may be operating beyond Pashinyan’s authority: he seems to lack sufficient political power to bring them fully to heel (although this may be in the process of changing). Furthermore, there is credible speculation that such and similar elements receive support from at least three categories of actors: *first*, some opposition party leaders, whose irredentism was decidedly rejected at the ballot box by the citizens of Armenia in June 2021; *second*, various well-funded and influential diaspora organizations (including ones that advocate violence) operating for the most part beyond the borders of Armenia with impunity; and *third*, perhaps even elements in foreign decision-making centers whose interests, as they themselves understand them, would be deleteriously affected by peace between Armenia, on the one hand, and Azerbaijan and Türkiye, on the other hand.

It is with this in mind that we can turn to an examination of some of the threads that the ongoing peace process is supposed to weave closer together within a framework of legal and political sempiternity.

Geopolitics

The territorial conflict over Karabakh came to an end on 10 November 2020 with the signing of a tripartite statement between the Prime Minister of Armenia, the President of Azerbaijan, and the President of Russia that concluded the Second Karabakh War. Through a sophisticated combination of strategic foresight, limited war objectives, operational artistry, active diplomacy, and impeccable geopolitical timing, Azerbaijan accomplished a feat that no other state anywhere in the world has been able to achieve since the end of the Cold War: the restoration of its territorial integrity executed effectually without the organized commission of grievous atrocities or similar defilements. And Baku did so, it must be added, against the diplomatic objections voiced by what is called by its proponents a “rules-based liberal international order.” Addressing the nation from liberated Shusha in August 2021, Ilham Aliyev de-

finied the country’s victory in the Second Karabakh War as being “unique in our history.”

In some Western decisionmaking and analytical circles, this war of restoration is still somehow portrayed as an aggressive act that intruded against the “rules-based liberal international order.” Fantastic interpretations have even been put

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forward that the war was somehow in violation of international law. Yet given that a number of binding UN Security Council resolutions and other such legally-binding documents—coupled with the official political position of every single sovereign state, including now Armenia it-

self (as indicated at least implicitly in Pashinyan’s various recent statements, including one reproduced below)—make it clear that the territories formerly occupied by Armenian forces are in fact sovereign Azerbaijani lands, it seems difficult to understand on what reasonable basis such claims continue to be made, much less taken seriously.

In truth, a sober, dispassionate examination of the circumstances that led to the Second Karabakh War as well as its outcome leads to the conclusion that there was nothing politically or legally (or, for that matter, morally) wrong with Azerbaijan's chosen course of action in 2020. The country acted well within its right of inherent self-defense under Article 51 of the UN Charter.

Now, of course, prior to the commencement of hostilities in the Second Karabakh War, Azerbaijan took pains to ensure the steady improvement of its military capabilities; and it worked diligently to lock in the strong, virtually unconditional support of Türkiye that made it harder for other geopolitical actors to exert undue pressure on Azerbaijan to stick to evidently fruitless negotiations or renew its subscription to sterile agendas set by others, and so on. Here, words spoken by Aliyev on 12 February 2019 can be cited:

I have always said that the force factor is coming to the fore in the world. Look at how international law is flagrantly violated in various parts of the world. Whereas earlier attempts were made to somehow conceal that, today they don't even see the need for that. Today, the 'might is

right' principle prevails in the world. This is a new reality. We must be ready for it. The world is changing, and we must be prepared for these changes. Fortunately, we have been building up our economic and military power for many years. We were somewhat preparing ourselves for the current situation and are now ready for it. Therefore, the force factor has always been and will remain on the agenda. We see this in the example of not only our conflict but also in many other conflicts around the world. Therefore, we will use various opportunities, and the restoration of the territorial integrity of Azerbaijan is our main goal. The people of Azerbaijan should know that this is the main task of every citizen and the main task of the state. We will continue our policy in this direction.

None of this takes away from the fact that emphasis needs to be placed on Yerevan's evident unwillingness, prior to the onset of the Second Karabakh War, to bring the occupation to an end peacefully, through good-faith negotiations. And it did not think Baku would respond decisively to what amounted to a war of attrition, in part because it overestimated the extent of its own external backing. This was obviously a failure of Armenian statecraft.

At the same time, it is not enough to point the finger solely at Armenia. The principal outside mediators to the conflict over Karabakh—the Co-Chairs of the OSCE Minsk Group (Russia, France, and the United States)—were also at fault: there was a formal negotiation process that had effectually produced no concrete results on the ground since the May 1994 ceasefire mediated by Russia, in the sense that the Armenian occupation had not come to an end, Azerbaijani refugees and internally displaced persons (IDPs) had been prevented from exercising their right of return, and so on. In other words, for nearly three decades, the Minsk Group led negotiations the objectives of which were clearly and unambiguously set down on paper. The foreign mediators gave themselves the responsibility of leading a defined process to achieve a defined result, and yet the conflict remained unresolved: prior to the onset of the Second Karabakh War, none of the Minsk Group's defined objectives had been achieved—not even close. Thus, their actions or inaction—whether by design or circumstance—resulted in the perpetuation of a status quo that was the opposite of the agreed objectives. And by 10 November 2020, the conflict over Karabakh was effectually resolved; to be sure, against the designs of Armenia and with no in-

volvement by the Minsk Group. But effectually resolved, nonetheless.

With the above in mind, the following question can be raised: how then, exactly, is a state acting militarily to retake its own sovereign territories committing an act deserving of opprobrium by the most vocal proponents of a "rules-based liberal international order"—namely the United States and its allied fellow-travelers? Or, to employ a more radical formulation: how exactly did Azerbaijan commit anything resembling an act of aggression by liberating its lands universally acknowledged by the proponents of such an order as having been occupied? The salience of such and similar questions has only grown in the wake of unambiguous statements by the very same proponents of that very same order in the context of the conflict over Ukraine.

To be clear: until the Second Karabakh War, Yerevan's official foreign policy posture was rooted in an assessment that as 'Artsakh' is to Armenia, so South Ossetia (or Abkhazia, or the Donbass—take your pick) is to Russia. In other words, geopolitics in the South Caucasus will remain primarily within the referential purview of the traditional suzerain, who will remain on the side of Armenia.

Armenia The national interest of Armenia consists in entrenching a posture of clientelism and supplication towards the sole arbiter that truly matters, which will engender it to demonstrate solidarity and support for a state dedicated to the expression of nearly unconditional loyalty. Thus, Yerevan must continue to rely on its great power ally to maintain the status quo of occupation while feverishly encouraging its diaspora to convince rival great powers that genuine outreach on the part of Armenia to each of them will be forthcoming shortly. This is evidently not the way it was put in any written form. But the point is that the above formulations are consistent with the discursive logic informing Yerevan's official foreign policy posture prior to the war.

This is to be contrasted with Baku's foreign policy posture before, during, and after the Second Karabakh War (as above, the same terminological caveat applies). It can be understood thusly: in continuing to reach out to the world, Azerbaijan will not allow itself to become dependent on any single line of access to the outside world. The country will strategically harness the fact that most of the world's great powers look at the South Caucasus and conclude that they have variously important national security

and economic interests. And it will take advantage of the fact that there is tension between those same great powers in terms of how they each define their respective interests in this part of the world by managing relations between them in such a way as to ensure that Azerbaijan becomes a subject of the international system instead of a mere object of great power rivalry. (This strategic takeaway can be translated into contemporary international relations terminology: careful bandwagoning, pragmatic balancing, strategic hedging, finding a balance of interests, predictability, and strategic patience.)

Statecraft

From such considerations, in the halls of power in Baku there emerged a bedrock principle of Azerbaijani statecraft: to formulate and execute a strategy that ensures it becomes sovereign and strong enough so that it—and it alone—may determine the time and manner of the restoration of its territorial integrity (given the fruitlessness of negotiations). Niccolò Machiavelli had written pretty much the same thing more succinctly more than five centuries ago: “one should never fall in the belief you can find someone to pick you up.” (NM, P. 24).

Accordingly, Azerbaijan's national strategy, conceived and executed first by Heydar Aliyev and then by Ilham Aliyev, may be formulated in accordance with Machiavellian terminology thusly: only by having recourse to “one's own arms” might “the state” become its own master in both peace and war; this requires the prudential execution of “virtue” (as opposed to the “profession of good”) and the opportunities provided by “fortune,” whose vicissitudes can best be “tamed” or even resisted by its “most excellent” prince (for the formulations in context, see NM, P. 6, 13, 15, and 25).

Machiavelli is particularly instructive here for two more reasons. First, because perhaps more than any political philosopher before or since, he understood that the sovereign part of “the state” is not the deliberative one, as in classical political philosophy, but rather the executive endowed with “great prudence” acting “decisively” and “alone” (again, references to the quoted formulations may be found, respectively, in NM, D. II:26, II:15, and I:2; see also D. I:9, III:6, and elsewhere). Second, because Machiavelli did not place much weight or trust on institutional designs intended to domesticate the executive power of the prince. This development came later, as

Harvey Mansfield has pointed out in *Taming the Prince* (1989): first in the works of Thomas Hobbes and then, more directly, in those produced by John Locke, Montesquieu, and the authors of the *Federalist Papers* collectively writing under the pseudonym Publius.

Be that as it may, no serious inquiry into the statecraft of Azerbaijan in the context of the Second Karabakh War—about how its leadership decided to fight a war of liberation, the preparations that took place, and the execution of these well-laid plans that brought about a victory that decisively changed the geopolitics of the Caucasus and perhaps beyond—can be complete without giving an account of the statesmanship of Ilham Aliyev, without whom the larger story of a nation's vindication would simply not have come about. A complete account of this statesmanship is beyond the ambition of this essay, but it is sufficient for present purposes to underline that one cannot speak of vindication without noting that Azerbaijan's statecraft is effectually predicated on a particularly sophisticated understanding of classical geopolitics, which we can define as consisting of more or less prudential exercises in acceptable exceptions by major powers conducive to the continued

operation of an international system. If a given international system precludes or disallows such exercises of acceptable exception—we can define these as a succession of power maneuvers understood in the context of the need to maintain equilibrium and legitimacy, operating according to a logic of restraint and proportioned reciprocity—it is either too rigid and hence ripe for renovation, or too amorphous and thus not really a system.

Furthermore, within such a conception of geopolitics, distinct regional orders can be established so long as they are anchored by what Giovanni Botero—a sixteenth century political and economic thinker and diplomat (who claimed to write in direct opposition to Machiavelli)—was the first to call in his 1589 book, titled *The Reason of State*, “middle powers,” which he defined as states that have “sufficient force and authority to stand on [their] own without the need of help from others” (Bot. *RS* I:2). In Botero’s telling, which is not so different

The story of Azerbaijan is one of leadership and success, foresight and perseverance, modernization and the consolidation of power. This is one thread of its transformation into a keystone state.

from that of his declared opponent, leaders of middle powers tend to be acutely aware of the dexterity required to maintain security and project influence in a prudent manner beyond their immediate borders; and because of that, middle powers are apt to have facility in properly managing their finances and promoting trade and connectivity with their neighbors and their neighbors’ neighbors.

Unquestionably, Azerbaijan is one such middle power—better described by the likes of Nikolas Gvosdev, Gregory Gleason, and others in the pages of *Baku Dialogues* and elsewhere as a “keystone state”: a trusted interlocutor, reliable intermediary, and “critical mediator” between “status quo powers and revisionists.” This integrative power is supplemented by the fact that “an effective keystone state can serve as a pressure-release valve in the international system, particularly as the transition to conditions of non-polarity continues, by acting as a buffer and reducing the potential for conflict between major power centers.”

The story of Azerbaijan that emerges on the basis of such an account is thus one of leadership and success, foresight and perseverance, and modernization and the consolidation of power. Certainly, it is also an Armenian story about tragedy, in the original Aristotelian understanding of the term—about how successive Armenian leaders committed geopolitical malpractice through a combination of strategic complacency, the blind ambition exhibited in the continued defense of maximalist goals, and both a fundamental misunderstanding and woeful underestimation of the country’s main adversary. This sort of thing falls within the realm of what Aristotle called the “lesson of tragedy”—the mistaken demand men make that their particular and thus partial understanding of justice must prevail in the world (Arist. *Poet.* 1453a8-23. Consult also 1455b25-ff and 1460b6-ff. Cf. 1460b22 and 1461b24).

Thus, for the Armenians, the outcome of the Second Karabakh War rightly understood constitutes the

passing of an illusion. But for the Azerbaijanis, quite simply, the outcome of the war represents an exoneration. The story of Azerbaijan that emerged from the Second Karabakh War is truly an extraordinary one: how in less than a generation’s time, Azerbaijan was transformed from a failing if not failed state so weak that it had no choice but to accept an armistice that effectually normalized the occupation of around 20 percent of its territory by a neighbor almost three times smaller and more than three times less populated, into a victorious, exonerated, and proud state that understands the classical distinction between justice and hubris.

Machiavelli, who is famous for not strictly maintaining the line between the two, is nonetheless particularly instructive here for a further reason. To get at this with a maximum of brevity, we can turn once more to a passage written by Harvey Mansfield, Machiavelli’s most thoughtful living exegetist. In a 2006 book dedicated to the subject, Mansfield defined “manliness” as “confidence and [the ability to]

For the Armenians, the outcome of the Second Karabakh War rightly understood constitutes the passing of an illusion. But for the Azerbaijanis, quite simply, the outcome of the war represents an exoneration.

command in a situation of risk” or “the assertion of meaning when meaning is at risk”—that is to say, the necessary retention of humanity combined with the possibility of excellence, understood as prudent or courageous or spirited action. An aim of that book on manliness, Mansfield suggested elsewhere, was to recapture the Greek notion of “spiritedness” (*thumos*) which the author defined as the “part of the soul that connects one’s own to the good. [...] It is first of all a wary reaction rather than eager forward movement, though it may attack if that is the best defense.”

Thinking through the implications of this notion of spiritedness helps to explain why politics properly understood can never simply be about self-interest, and why at the same it can never be simply about altruism. Spiritedness points to statesmanship, both the Machiavellian kind and a more ancient sort that goes back at least as far as the political writings of Aristotle and his teacher Plato. We could even say that spiritedness properly understood is the ancient virtue closest to Machiavelli’s understanding of “virtue,” in the sense that the effectual truth of either and thus both is shown in its effect or outcome as opposed to its intention or inherent excellence. Hence Machiavelli’s denigration, even

dismissal, of those “many” whose political science is predicated on having “imagined republics and principalities that have never been seen or known to exist in truth” (NM, P. 15).

Effectual Truth

To understand the outcome of the Second Karabakh War and the logic of peacemaking that has come in its stead requires at least a grasp, if not an understanding, of what Machiavelli called—in the same passage cited above—the “effectual truth.” Although he did not phrase it this way, we may reason that a necessary part of “effectual truth” as Machiavelli sees it is that history never ends, the future is uncertain, one’s friends are always imperfect, power politics never go away, and no political cause is ever truly just. From this we can derive an important Machiavellian lesson: consistently guarding against the temptation to push aside the moderating insubordination of the ways of the world ought not to be seen as either reactionary cynicism or treason; but rather as a commonsensical and healthy caution against championing for a world as it never could be and advocating the use of all means to get there. This is effectually what happened to the Armenians at the moment of the

onset of the Second Karabakh War: they managed to bluff themselves into a corner from which they could not extricate themselves.

In other words, Armenia failed to see that its maximalist position was no longer tenable, certainly not in September 2020—an inexcusable act of geopolitical malpractice on the part of Yerevan that naturally produced the sort of response one would expect from the leadership of any serious, strategically conscious, and geopolitically literate keystone state such as Azerbaijan. Simply put, Armenia was outmatched, outgunned, and outmanoeuvred. A few months after the end of that war, Princeton University’s Michael Reynolds explained the situation thusly: “Armenian statecraft [...] revealed itself as a mix of delusional self-confidence and naive sentimentality [that led it] voluntarily to pursue self-destructive policies.” He then concluded his judgment thusly: “Armenia’s example perhaps suggests that historical trauma coupled with limited experience of sovereignty can lead states voluntarily to pursue self-destructive policies.” This accurate assessment is consistent not only with an understanding of Machiavellian “effectual truth,” but also, ironically, with Aristotle’s understanding of tragedy.

Making use of the aforementioned commonsensical and healthy caution does not mean turning away from one’s past achievements, but rather turning to face the real prospect of being outflanked because of one’s inability to learn from past mistakes. What was required most was a clinical examination of what *could not* be achieved. It is still what is most required—and it is a testament to Pashinyan’s virtue that he has displayed genuine flashes of having done so seriously, perhaps even doing so in a systematic fashion after having secured his reelection in June 2021. (Regretfully, this requirement is precisely what is still *not* being fulfilled by his opponents.) For instance, we could conclude that Pashinyan has grasped the effectually true and tragic danger of falsely equating blind ambition with classical “spiritedness” misunderstood as “virtue” in the Machiavellian sense. And for this, much credit should go to the Armenian prime minister. This grasping by Pashinyan continues to represent the Armenian hinge upon which peace with Azerbaijan (and Türkiye) remains possible.

To this we can add that there is no clearer public statement of Pashinyan’s peacemaking intention—a vital reason why we are justified in asserting that peace appears closer now than it has in

decades—than the one he made in the Armenian parliament on 14 September 2022, which is worth reproducing here:

We want to sign a document because of which many people will criticize us, scold us, call us traitors, they may even decide to remove us from power, but we will be grateful if as a result Armenia will have lasting peace and security in an area of 29,800 square kilometers. I clearly state that I will sign a document that will ensure that. I am not interested in what will happen to me, I am interested in what will happen to Armenia. I am ready to make tough decisions for the sake of peace.

The prime minister's reference to "29,800 kilometers" is key. It unmistakably excludes any territory that belonged to the Soviet-era Nagorno-Karabakh Autonomous Oblast (NKAO) and surrounding regions that was seized by Armenian forces during the First Karabakh War and occupied by them until late 2020. It also excludes any territory that presently falls within the purview of the Russian peace-keeping zone established under the terms of the 10 November 2020 tripartite statement that ended the Second Karabakh War.

The prime minister's reference is thus rightly interpreted as ending Yerevan's political support for the

former NKAO. In an interview on Armenian state television that was broadcast the day before the Geneva meeting, Pashinyan went even further: "no one is ready to recognize the independence of Nagorno-Karabakh, just as no one is ready to recognize Karabakh as part of Armenia. And we need to recognize this fact."

The Armenian Foreign Ministry's official readout of the Geneva meeting should be interpreted in light of these and similar statements. The relevant portion of this readout is the following: "the sides exchanged views on the peace treaty between Armenia and Azerbaijan, ensuring the rights and security guarantees for the Armenians of Nagorno-Karabakh, including through the establishment of a discussion mechanism between Stepanakert [sic] and Baku." Such and similar statements represent Yerevan's acknowledgment that, as far as the Pashinyan government is concerned, the territorial conflict between Armenia and Azerbaijan over Karabakh has indeed come to an end.

Azerbaijan's Terms of Peace

Perhaps the fundamental lesson that can be derived from the statecraft of Azerbaijan and the statesmanship of Ilham

Aliyev is that the conquest of a nation's past represents the liberation of its future liberty. This too, it seems to me, Pashinyan has effectually grasped. Now, in the case of Azerbaijan, the result is plain to see: an exonerated state and its vindicated statesman.

And having recovered in 2020 what had been taken in the 1990s, it should come as no surprise that Aliyev has stated on various occasions that the territorial conflict over Karabakh is now resolved. In a strict sense it is but in a broader one it is not: the underlying conflict between Armenia and Azerbaijan remains in some sense unsettled and thus unresolved—if for no other reason because the interstate border has not yet been delimited. We can thus properly say that the 10 November 2021 tripartite statement is more than a narrow cease-fire agreement but less than a general peace treaty: only its first article deals with the cessation of hostilities in Karabakh and the effectual end of the territorial conflict over this same part

of Azerbaijan; the others lay out various concrete measures aiming towards a future predicated implicitly on the establishment of peaceful relations between two sovereign states: Armenia and Azerbaijan. The quest to end this underlying conflict is what is primarily at issue. On the second anniversary of the end of the territorial conflict over Karabakh, a formal peace agreement between Baku and Yerevan remains elusive, but by no means illusive.

Since the end of the Second Karabakh War, the quest for peace has been pursued by victor and vanquished alike. Baku and Yerevan may not be fully on the same page quite yet, but they seem to be reading from the same book written in a language they both understand. Aliyev obviously has the advantage and has not been circumspect in pressing it home on more than one occasion. Still, both he and Pashinyan clearly grasp the effectual truth that Armenia's tragedy would be compounded if it were to choose to meet Azerbaijan's outstretching

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hand with a clenched fist. And both also clearly grasp that the Armenian prime minister's opponents do not. From this follows that it is in Azerbaijan's national interest to conduct its speech and execute its deeds in such a manner as to provide support for the unfinished work to which Pashinyan seems to have committed himself and the country he leads but whose institutions he does not appear yet to fully control

This work by Pashinyan and his Azerbaijani counterpart will be understood to have been finished in the advent of an omnibus treaty being agreed, signed, and ratified. Such a document, should it see the light of day, will almost certainly be based in large part on the five principles put forward to Armenia in February 2022 and first laid out publicly on 14 March 2022 at the Antalya Diplomacy Forum by Foreign Minister Jeyhun Bayramov. We here reproduce verbatim the formulations of what are reportedly contained in a single-page document as stated to the press by the Foreign Ministry's spokesperson, Leyla Abdullayeva, in the immediate aftermath of Bayramov's address on that occasion: *one*, the mutual recognition of respect for the sovereignty, territorial integrity, and inviolability of internationally recognized bor-

ders and political independence of each other; *two*, the mutual confirmation of the absence of territorial claims against each other and the acceptance of legally-binding obligations not to raise such a claim in future; *three*, the obligation to refrain in their inter-state relations from undermining the security of each other, from the threat or use of force both against political independence and territorial integrity, and in any other manner inconsistent with the Purposes of the UN Charter; *four*, the delimitation and demarcation of the state border and the establishment of diplomatic relations; and *five*, the unblocking of transportation and other communications, building other communications as appropriate, and the establishment of cooperation in other fields of mutual interest.

These five principles continue to serve as the foundation of Azerbaijan's peace offer as presented at the Geneva meeting of foreign ministers on 2 October 2022. All other interstate issues should be considered to be of less fundamental importance, at least to the Azerbaijani side. These include but are not limited to the question of reparations, missing persons, accountability for violations of the laws of war, and the future status of the Russian peacekeeping

contingent operating within the zone established by the 10 November 2020 tripartite statement.

Speaking on 22 April 2022 in Shusha during the Fifth Congress of World Azerbaijanis, Aliyev reiterated that in the event negotiations do not result in a treaty based on the five principles reproduced above, Baku will respond forcefully: "If they refuse," he said, "we will not recognize the territorial integrity of Armenia either and will officially declare that." As of this writing, no treaty has been produced; but at the same time, Baku has not made any such or similar declaration. After Geneva, Prague, and Astana, the prospects of the former have seemingly increased whilst the likelihood of the latter appears to have lessened.

However, readers should be mindful of the fact that in mid-September 2022 Azerbaijan *did* respond forcefully to shelling by Armenian forces into undisputed Azerbaijani territory and new attempts by Armenian forces to mine under the cover of darkness the as-yet undelimited state border between the two states, including supply roads linking Azerbaijani army forward positions in the liberated Lachin, Kalbajar, and Dashkasan districts. In its

immediate aftermath, Pashinyan reportedly called the Azerbaijani narrative a "lie," although an examination of the context of this and similar speeches and deeds raises the question of whether Pashinyan knew in advance that such acts of deliberate belligerence was being prepared for execution by what may effectually be rogue elements not entirely under his control. The answer, of course, matters greatly; but in the present context, it needs to be put alongside a hopeful yet sobering political reality: Aliyev keeps his word and Aliyev does not bluff.

Aliyev particularly keeps his word and does not bluff in matters having to do with war and peace, for the Azerbaijani president's statecraft is congruent with the strategic logic contained in the precept first put forward by Vegetius, a Roman thinker whose main treatise on military matters Machiavelli knew quite well: "*Igitur qui desiderat pacem, praeparet bellum*" (Veg. *Mil.* III.Proem). Hence the earlier reference to Aliyev's remarks on 12 February 2019; hence also the deadly seriousness with which the president's warning, pronounced in Shusha in the same speech quoted earlier, should be taken—both by Pashinyan's proponents and opponents: "Given the consequences of the Second Karabakh War, the

Armenian side should understand what this might lead to.” The opponents to peace do not appear to have done so; perhaps the territorial outcome to the recent deadly clashes will provide a corrective to such miscalculations.

Or perhaps it will not: to affirm that peace appears closer than it has in decades, as we have done, is not the same thing as to affirm that a comprehensive settlement will actually be reached. Opportunity and outcome are not yet aligned sufficiently, much less fully. We remain in a moment of what social scientists call “high variance.” Both great reward and great calamity are still possible.

Nevertheless, the outcomes of the Geneva and Prague meetings, and the renewed political momentum that preceded it (and ought to follow from it), suggests that a payout of the peace dividend may take place in the time ahead. At the same time, Azerbaijan’s forceful response in mid-September suggests a rise in the opportunity cost for Armenia of opting to delay collecting it.

Certainly, it would be prudent for Yerevan to weigh the question of vacillating levels of trust in the intentionality of the other side against the virtually certain consequences

of its pursuit of a course of action resulting in the wholesale renewal of armed hostilities.

Clear-headed deliberations ought to involve Armenian proponents and opponents to peace alike taking another very close look at the line on the maps they and their adversaries have reportedly accepted as the basis of the delimitation and demarcation process of the state border between the two countries. It should be underlined that not only the *mediator*, but both the *facilitator* and *supporters* of the endeavor are aware of this commitment yet, in the case of the latter two, maybe not of its content (i.e., the exact trace of the line). Perhaps the deployment of a civilian EU mission to the Armenian side of the undelimited border with Azerbaijan will bring more specificity to the Western understanding of the situation.

In this context, we note that a third meeting of a bilateral commission on this critical issue is supposed to take place in Brussels in November 2022, but that during the Geneva meeting the Azerbaijani delegation proposed moving up the timing of the meeting to later in October 2022 due to the “recent tension on the undelimited border.” (It is worth noting that the announcement of work to establish this com-

mission is contained in the tripartite statement signed in Sochi on 26 November 2021 by the President of Russia, the President of Azerbaijan, and the Prime Minister of Armenia, and that this document refers to the scope of this body’s work as the “delimitation of the state border between the Republic of Azerbaijan and the Republic of Armenia with its subsequent demarcation with the consultative assistance of the Russian Federation at the request of the parties.” The first meeting of this bilateral commission was held on 24 May 2022, two days after the President of the European Council stated in Brussels that the President of Azerbaijan and the Prime Minister of Armenia had agreed it would take place.)

Perhaps Armenia’s decision to involve the EU in the delimitation process on the ground (and the EU’s agreement to do so) may have been the immediate cause of recent Russian statements that represent the first public evidence of Moscow’s dissatisfaction with what it may perceive as the EU’s attempt to shift its role from *facilitator* of the peace process to one akin to that of a *mediator*. After all, Yerevan’s choice to involve the European Union was a unilateral one and can be read as a violation of both the spirit and the letter of the Sochi tripartite statement.

However, the various statements and readouts stemming from the 14 October 2022 Astana meeting between the foreign ministers of Armenia, Azerbaijan, and Russia suggest that the Russian response to the Armenian initiative will not produce a reaction by Moscow in the time ahead that could be construed as actively seeking to undermine the peace process.

Still, how exactly the Russian troops stationed on the Armenian side of the as-yet undelimited state border will get along with the EU civilian mission is presently unknown, as is the manner in which Azerbaijan will fulfill its commitment to “cooperate with this mission as far as it is concerned.” The outcome of the forthcoming meeting in Russia between the Prime Minister of Armenia, the President of Azerbaijan, and the President of Russia should provide more clarity in this regard.

Presumably, one topic of this discussion will involve the presidents of Azerbaijan and Russia seeking precise and clear information from the Prime Minister of Armenia on the exact purpose of the civilian EU mission, bearing in mind the text of the tripartite Sochi statement cited above. On 14 October 2022, an “EU technical assessment mission” arrived in Yerevan. This was inter-

preted as fulfilling the terms of the official statement issued in Prague by the presidents of France and the European Council that the EU mission “will start in October for a maximum of two months.” The same statement indicated that “the aim of this mission is to build confidence and, through its reports, to contribute to the border commissions.” The statement issued by the European External Action Service on 14 October 2022, however, employs language that is more expansive and substantive. It refers to the arrival of this “EU technical assessment mission” and defines its task as “prepar[ing] for the deployment of EU monitors to the Armenian side of the Armenia-Azerbaijan border later this month.” The same statement further adds that the EU High Representative has proposed to EU member states that they “further discuss” and presumably approve the deployment of an “[EU] monitoring mission, which will have as its primary aims contributing to stability and building confidence as well as supporting the work of the border commissions to improve security along the bilateral border.”

This unilateral Armenian initiative, which the European Union has embraced, has reinvigorated discussions in some quarters regarding Yerevan’s intention

and posture in the context of the ongoing negotiations. Consider that in the same television appearance in which Grigoryan stated Armenia’s expectation that a peace agreement should be ready for signature by the end of 2022, he stated that “there was also an agreement that delimitation would happen by the end of the year, meaning the peace agreement and delimitation are interrelated.” Those in Baku and elsewhere who are prone to interpret Yerevan’s actions with caution, not to say suspicion, have indicated that Grigoryan’s emphasis linking the timing and perhaps content of completing work on a peace treaty and the delimitation of the border, coupled with the latest Armenian initiative inviting the presence of the European Union on the ground for the first time ever, represents yet another stalling tactic, which, they argue, is consistent with a longstanding pattern of behavior prior to the onset of the Second Karabakh War that established the country’s evident unwillingness to bring the occupation to an end peacefully, through good-faith negotiations, as discussed above.

As corroborating evidence of Armenia’s re-embrace of stalling tactics, they point to Yerevan’s repeated refusal to implement

Article 9 of the 10 November 2020 tripartite statement that ended the Second Karabakh War, which we reproduce here in full:

All economic and transport links in the region shall be restored. The Republic of Armenia guarantees the safety of transport links between the western regions of the Republic of Azerbaijan and the Nakhchivan Autonomous Republic in order to organize an unimpeded movement of citizens, vehicles, and goods in both directions. Control over transport shall be exercised by the bodies of the Border Guard Service of the Federal Security Service (FSB) of Russia.

They also point to Yerevan’s repeated refusal to implement Article 4 of the same document, which requires the “withdrawal of the Armenian troops” concurrently with the deployment of the Russian peacekeeping forces (they arrived within hours of the end of the war). Here it is useful to underline that the linguistic formulation of this clause, both in English and in the original Russian, makes it clear that “Armenian troops” does not refer solely to the Armed Forces of Armenia but also to the men at arms under the command and control of the ethnic-Armenian secessionist entity that sees itself as the successor to the former NKAO.

And those same sorts of persons have contrasted Armenian reticence (bad faith) with Azerbaijan’s swiftness (good faith) in implementing the terms of Article 7 of the same document, whose relevant part we also reproduce here:

The Lachin Corridor (5 km wide), which will provide a connection between Nagorno-Karabakh and Armenia while not passing through the territory of Shusha, shall remain under the control of the Russian Federation peacemaking forces. As agreed by the Parties, within the next three years, a plan will be outlined for the construction of a new route via the Lachin Corridor, to provide a connection between Nagorno-Karabakh and Armenia, and the Russian peacemaking forces shall be subsequently relocated to protect the route. The Republic of Azerbaijan shall guarantee the security of persons, vehicles and cargo moving along the Lachin Corridor in both directions.

The Bottom Line

The concluding assessment that flows from the cumulation of our present considerations is that Pashinyan does not want another war; and that he is fully aware of the paucity of realistic alternatives to forging a

comprehensive peace agreement, the pursuit of which he has committed himself and his government despite the opposition he faces from various quarters and the possibility that all elements of the Armenian state are not under his full control.

Aliyev, too, does not want another war; he is genuinely desirous of peace on terms he feels befit a country that, as he said in Lachin on 21 September 2022, is “proud” to have “liberated our lands by force.” And it is precisely the sincere desire for such a peace that drives this statesman to strengthen preparations for martial deeds that may still be required to achieve it.

Pursuing a course of action that would require the commission of further deeds of this sort is not Azerbaijan’s preference. Baku may elect to do so again, however, if it judges that Yerevan has opted to re-embrace the sort of stalling tactics discussed above. And this is quite likely to result in another

Armenian story about tragedy, in the original Aristotelian understanding of the term, as discussed above.

Be that as it may, we may be approaching the point where the following bottom-line appraisal could be made unambiguously: neither Pashinyan nor Aliyev are malefactors who are merely ‘going through the motions’ of peace to gain the tactical approval of outsiders or special interests or anything of that sort. Moreover, at present we can say with confidence

When their vital interests are in play, the leaders of responsible, strategically conscious, and geopolitically literate keystone states like Azerbaijan do not bluff; they keep their word, too. This is the effectual truth that ought to drive the quest for peace to its successful conclusion.

that both have carefully weighed the advantages and disadvantages of peace, and that both seem to have concluded the former outweighs the latter. Both also clearly put the interests of their respective countries first, which is predicated on an unemotional assessment of their own red lines and hierarchy of preferences, those of the opposing side, and those of the various foreign players (i.e., those that are geographically proximate like Iran, Russia, and Türkiye and those that are farther away like the

EU, and its most engaged member states, and the United States).

Evidently, this does not mean that any aspect of the peace process is taking place against the background of equal power dynamics. Both Pashinyan and Aliyev know who is stronger and who is weaker; and both know this will not change—in fact, both know the power disparity will grow further the longer the process drags on. Finally, both are fully cognizant of the fact that when their vital interests are in play, the leaders of responsible, strategically

conscious, and geopolitically literate keystone states like Azerbaijan do not bluff; they keep their word, too. This is the effectual truth that ought to drive the quest for peace to its successful conclusion.

Neither opponents of the peace dividend on offer nor foreign players sympathetic to the weaker party ought to be under the illusion that downplaying the harshness of the foregoing assessment would serve their own interests in the long run or that of the object of their sympathy. ^{BD}

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Two Years of Non-War

Can Armenia and Azerbaijan Make Peace?

Ruslan Suleymanov

The Second Karabakh War marked the end of one of the longest and bloodiest territorial conflicts in the post-Cold War era. The 2020 conflict saw the restoration of Azerbaijani sovereignty over land that had been occupied by Armenian forces for decades—lands that amounted to around 20 percent of Azerbaijan’s internationally-recognized territory. At the moment, Baku is rapidly restoring war-damaged lands and infrastructure step by step.

Nevertheless, the post-conflict settlement between Azerbaijan and Armenia remains incomplete. The terms that ended the war have not been implemented in full and a comprehensive peace treaty between Baku and Yerevan has not

yet been signed. Huge efforts are still required to overcome existing difficulties, challenges, and threats. One of the main stumbling blocks remains the issue of security. Recent skirmishes on the Azerbaijani-Armenian border in mid-September 2022 remind us that peace in the region is not yet as close as some may have imagined.

However, several top-level meetings that have taken place in the wake of these clashes suggest that a formal end to the state of war that effectually remains in existence between Armenia and Azerbaijan may soon come to an end.

In any case, over the last two years, the Azerbaijani authorities have managed to do a lot in terms of restoring the utility of

their liberated lands of Karabakh. Foreign investment is being actively attracted and modern infrastructure—including houses, hotels, schools, to say nothing of roads and airports—is being built. In addition, refugees and internally displaced persons (IDPs) are gradually returning to their historical homeland.

By and large, the past two years have made it clear that Azerbaijan’s Great Return to Karabakh project is already being successfully implemented: skepticism expressed in some quarters notwithstanding, it is highly unlikely that any actor will directly seek to impede its execution in the time ahead.

Ultimately, the future of the region largely depends on how the post-conflict process develops and on the success of negotiations on a comprehensive peace agreement between Baku and Yerevan. In this regard, it is very important for Azerbaijan and Armenia to strive for a direct and, if possible, confidential dialogue, that is, without intermediaries. It appears that this has now started to take place.

The Great Return

Immediately after the Second Karabakh War, the Azerbaijani authorities began to carefully and consistently restore the country’s lands in the wake of 30 years of occupation. Thus, in 2021 the state budget included \$1.3 billion for reconstruction works in the liberated territories. Since then, funds have been implemented and works are well underway in the larger towns. As of June 2022, the Azerbaijani government has already invested more than \$2.5 billion in the reconstruction endeavor. According to the draft state budget for 2023, the funds allocated for the reconstruction of Azerbaijan’s liberated territories will reach \$1.7bn.

In July 2022, a historic operation was launched: the return of IDPs to the regions of the republic liberated from Armenian occupation. The first 10 families (totaling 58 people) returned to the Yeni Agali village in the Zangilan region, which was built on the basis of a “smart village” concept. In early September 2022, another 12 families, or 63 people, arrived in the settlement. On 15 September, after 29

Over the last two years, the Azerbaijani authorities have managed to do a lot in terms of restoring the utility of their liberated lands of Karabakh.

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years, the bell rang at the Yeni Agali village school and children began to study there again. Azerbaijan's president Ilham Aliyev has aptly called this repopulation project the "Great Return."

The process of restoring roads and transport networks in Karabakh also deserves special attention. The works have so far included 600 kilometers of roads, regional interlinking motorways, and more than 150 kilometers of railway tracks.

The flagship in this regard is certainly the 101-kilometer-long Victory Road to Shusha, which has already been completed. The construction of a large network of highways of 2, 4, and 6 lanes is also in full swing, including Shukurbayli-Jabrayil-Hadrut (39.7 kilometers); Xudaferin-Gubadli-Lachin-Khanlig-Gubadli (83 kilometers); Horadiz-Jebrayil-Zangilan-Agband (124 kilometers); Barda-Agdam (44.5 kilometers); and Toganali-Kalbajar-Istisu (80.7 kilometers). Due to the complexity of the terrain, they will be enriched by bridges and tunnels. All in all, the process of road building in Karabakh has become a symbol of the rapid postwar reconstruction of the liberated territories.

In February 2021, Aliyev laid the foundation of the Horadiz-Agbend railway line during his visit to the districts of Fuzuli, Zangilan, Lachin, and Jebrayil. The strategic importance of this railway line, with a total length of 100 kilometers, is enormous. First of all, this transportation infrastructure will play a decisive role in the transportation of Azerbaijani citizens to the liberated lands. Secondly, it will be instrumental in establishing a direct transportation link between Azerbaijan's mainland and its Nakhchivan exclave.

There is no doubt that the construction of airports also gives a huge impetus to the development of the liberated territories. In September 2021, an international airport in Fizuli was put into operation in a record seven months. A second one, located in Zangilan, is expected to be commissioned before the end of 2022. The construction of a third airport in the city of Lachin is slated for completion in 2024.

Another equally important issue for ensuring normal life in Karabakh is water resources. In this regard, of course, cooperation between Azerbaijan and Iran on the construction of Khudafarin and Maiden Tower hydroelectric power plants on the Araz River in

the formerly occupied lands is relevant. These two projects will generate a total installed capacity of 200 MW and 80 MW, respectively.

The project, which is to be completed by 2024, will allow Azerbaijan to produce an additional 358 million kWh of electricity per year, improve irrigation on 252,000 hectares of agricultural lands, and even result in the capacity to irrigate an additional 12,000 hectares of such lands. Although these facilities are being built by the Iranian side, they will be used jointly by the two states. This kind of cooperation between Baku and Tehran—as Fariz Ismailzade noted in his authorial contribution to an edited book on the Second Karabakh published by ADA University Press in September 2021 that he co-edited—“will not only bring economic benefits, but also provide a win-win aspect to Iranian-Azerbaijani relations and boost the regional focus on developing renewable sources of energy.”

Also, the Ministry of Culture of Azerbaijan has cataloged 1,376 historical monuments and archaeological sites

of particular interest in the liberated territories, implementing their restoration in the reconstruction of cultural institutions demolished and/or vandalized by the Armenian occupation regime—i.e., libraries, museums, music schools, theaters, places of worship, etc.

It is symbolic that in May 2021, Shusha, the cultural capital of Azerbaijan, hosted the Khari Bulbul Music Festival for the first time in almost 30 years. It presented the works of musicians and artists from 13 countries of the world. In addition, in July 2021, Vagif Poetry Days were held in Shusha, which were previously held from 1982 to 1991. Events like these illustrate that Shusha, like the whole of Karabakh, has great spiritual significance for the Azerbaijani people—Karabakh is the nucleus of their national self-consciousness. The liberation of Karabakh is a new milestone in the recent history of Azerbaijan: the Azerbaijani people can now rightfully consider themselves to be a victorious people.

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External Context

Azerbaijan's victory in the Second Karabakh War brought Baku closer to its partners, starting with Türkiye, Pakistan, and Israel. The Azerbaijani side also demonstrated both the skill of its diplomacy and the high level of military cooperation with the rest of the world. Without a doubt, the Shusha Declaration signed by the leaders of Azerbaijan and Türkiye on 15 June

2021, has become a symbol of the strengthening and deepening of bilateral ties between Baku and Ankara. This document, among other things, stipulates a new level of "allied relations [...] on the basis of friendship and brotherhood between the two countries and peoples."

In parallel with this, Azerbaijan's success in the Second Karabakh War also contributed to the further development of relations with Israel. For the most part, it is about the economic sphere. Noteworthy in this regard are the increased trips by high-ranking Israeli officials to Azerbaijan, including Minister of Agriculture

and Rural Development Oded Forer and Minister of Finance Avigdor Lieberman, who visited Baku in spring 2022. It is also worth mentioning that the visit by Israeli Defense Minister Benny Gantz to Azerbaijan in early

October 2022 took place shortly after Iranian Deputy Defense Minister Admiral Amir Rastegari's visit to the country. Thus, Azerbaijan is one of the few states in the world that is able to conduct

and develop mutually beneficial relations with Israel and Iran concurrently. Furthermore, it is significant that now Tehran, being itself interested in rapprochement with Baku, as well as recognizing the strength and potential of its neighbor, began to react more restrainedly to the development of contacts between Azerbaijan and Israel.

By and large, Azerbaijan's victory in the 2020 war has fundamentally changed the balance of power in the region. "A new era started in the Caucasus with the Karabakh Victory," Turkish President Recep Tayyip Erdogan emphasized in May 2022.

Azerbaijan is one of the few states in the world that is able to conduct an open dialogue and develop mutually beneficial relations with Israel and Iran concurrently

In fact, Azerbaijan proved its leadership in the region not only by victory, but also by further developments in Karabakh itself. In addition, Baku continues to confirm its key regional standing through various multilateral format, for the most part those involving heightened connectivity cooperation.

Thus, the completion of regional oil and gas pipelines such as Baku-Tbilisi-Ceyhan, the development of East-West transport corridors in the Silk Road region, the construction of the Baku-Tbilisi-Kars (BTK) railway, and the development of new ports on the shores of the Caspian, starting from the Baku International Sea Trade Port (BSTP) in Alat, have made a huge contribution to the development of Azerbaijan as a link between Europe and Asia.

Nowadays, the importance of Baku is also growing in connection with the restructuring of international transport and trade chains in the wake of the conflict over Ukraine. Azerbaijan is gradually integrating into such large-scale transnational projects like the Belt and Road Initiative (BRI) under the leadership of China. Covering 4,256 kilometers of railways and 508 kilometers of sea routes, this corridor stretches from the Chinese-Kazakh border to

Azerbaijan (via the Caspian Sea), Georgia, and Türkiye. The location of both the BTK and the BSTP in the central corridor has turned Azerbaijan into a keystone country in terms of realizing and reaching BRI's full potential.

In addition, Azerbaijan is a main component of the North-South transport corridor, on which Moscow, Baku, and Tehran are currently actively working. According to preliminary estimates, the total investment in the construction of the Qazvin-Resht-Astara section of this corridor is about \$400 million. The commodity market of the INSTC is estimated at the level of 25-26 million tons per year. The construction of this rail line was protracted due to the COVID-19 pandemic; it now appears that it will be fully completed in 2023. It is no coincidence that Azerbaijan, Russia, and Iran have reached several agreements in recent months on the simplification of customs procedures.

Then there is the matter of the recent agreement between Azerbaijan and the EU on the supply of additional gas by the former to the latter, which was made public during the visit of EU Commission president Ursula von der Leyen to Baku in July 2022. As part of the deal, the European

Union will double its purchases of gas from Azerbaijan by 2027. This deal also expands the scope of strategic energy cooperation between the two sides, opening the way for cooperation in the supply of solar, wind, and hydrogen energy by Azerbaijan—a

prospect that would ensure many further decades of close cooperation between the two sides.

A landmark event, of course, was the inauguration of Greece-Bulgaria Gas Interconnector which was held on 1 October 2022. The total length of the Greece-Bulgaria Gas Interconnector (IGB) is 182 kilometers, and it connects the gas transmission networks of Bulgaria and Greece. The total cost of the interconnector is more than €240 million. IGB will deliver natural gas produced from Azerbaijan's "Shah Deniz-2" field to Bulgaria.

Actually, Azerbaijani gas is becoming one of the alternatives to Russian gas in Europe. However, at the same time, Baku manages to maintain close relations with Moscow, notwithstanding the fact that, in terms of energy supply, Baku

The Declaration on Allied Interaction with Moscow, the Shusha Declaration with Türkiye, and the MOU deepening the strategic energy partnership with the EU are all critical aspects of Azerbaijan's postwar geopolitical context.

is in some ways a competitor to its large neighbor. Of course, this is facilitated by the new allied nature of the Azerbaijani-Russian relations, which are now based on Declaration on Allied Interaction signed between the two countries

on 22 February 2022. As a matter of fact, this document, along with the aforementioned Shusha Declaration, helps Baku to maintain a balance in the region and avoid any insinuations of having "pro-Turkish" or "pro-Russian" approaches. The document signed with the EU in July 2022 should be at least partially understood within this geopolitical context.

In addition, during the Second Karabakh War, the Azerbaijani army proved its strength in practice. As Aliyev put in on 6 September 2022, "the combat experience of the Armed Forces of Azerbaijan, which fought the war of the 21st century, is being carefully studied in the military centers of countries nowadays."

In this regard, it is no coincidence that during the visit of the

Azerbaijani leader to Uzbekistan in June 2022, Baku and Tashkent reached an agreement on military-technical cooperation. Hence Azerbaijan, Türkiye, and Uzbekistan can build a new axis of military-technical cooperation within the Turkic Council.

In parallel with this, the restoration and development of infrastructure in Karabakh has not gone unnoticed by foreign investors. After 30 years of neglect, this region of Azerbaijan is becoming more and more attractive to private enterprise. Definitely, Turkish firms have taken a lion's share of projects to rebuild Karabakh. In particular, in January 2021, İlhami Öztürk, the chairman of the Turkish TUMKIAD association, which units leading businesspeople and entrepreneurs in Türkiye, revealed plans to invest about \$50 million in the liberated lands. For the most part, Turkish companies are concentrated in the construction sector.

Other fraternal Turkic nations like Kazakhstan and Uzbekistan (both are Central Asian keystone states) have expressed their desire to actively invest in Karabakh. Astana has already begun construction of a Creative Development Center for Children in the Fizuli region and Tashkent is completing the construction of a large school in

the same city, which is expected to be put into operation this autumn.

Investors from EU countries are also showing interest in Karabakh. In particular, in December 2021, Italy and Azerbaijan signed an agreement on cooperation in the framework of the creation of the energy infrastructure of Karabakh. Thus, the Italian company Ansaldo Energia received a €5 million contract to create energy infrastructure in the liberated territories. Also, in March 2021, Hungary's Minister of Foreign Affairs and Trade Péter Szijjártó said that six Hungarian companies would contribute to reconstruction projects in Azerbaijan. Thus, Hungary's Eximbank is believed to be providing a \$100 million credit to promote such ventures.

Along with this, the Japanese company TEPCO is working with BP to set up renewable energy plants in the liberated territories, including solar energy production facility. As Azerbaijan's Ministry of Energy informed in February 2022, TEPCO has prepared and submitted to the government a concept document titled "Green Energy Zone in the Liberated Territories." This is a strong indication that "green" energy projects are preferred in the construction work to be carried out in Karabakh. According to

preliminary estimates, the area's solar energy potential is 7,200 MW and wind energy potential is 2,000 MW.

Moreover, in June 2022, Azerbaijan's Energy Ministry and UAE-owned renewable energy company Masdar signed an Implementation Agreements on 4 GW onshore and offshore wind and solar power projects, including some located in Karabakh and East Zangezur, and 2 GW offshore wind and green hydrogen facilities. Also, in June 2022, Saudi Arabian ACWA Power's Chief Investment Officer (CIO) Clive Turton said his company is ready to work with Azerbaijan on decarbonization projects. "The Karabakh region has great potential both in the field of installing solar and wind power plants," he noted.

In parallel with this, delegations of foreign tourists are already arriving in Karabakh. Although such trips are, for the moment, more in the service of enabling such groups to familiarize themselves with the state of the region during the occupation as well as highlight the rapidity of the restoration work taking place, it is extremely important for influential foreigners to get acquainted with the postwar development of Karabakh. For example, one of the most frequent

visitors to the liberated territories in recent months has been Charles Veley, the founder of America's MTP (Most Traveled People) club, one of the four largest travel clubs in the world.

"We expect that the emerging Karabakh tourist zone and East Zangezur will attract about one million local foreign tourists by 2025," said Fuad Nagiyev, chairman of the State Tourism Agency in January 2022.

In their own way, media outlets with global reach that cover what is happening in Karabakh can also play an important role in these processes. Thus, for instance, on 18 September 2022 representatives of Al Jazeera, The Independent, El País, and a number of other foreign media visited the Fizuli region and then widely disseminated information about the situation in the region to an audience of many millions.

New Reality, Old Challenges

The results of the Second Karabakh War have markedly shaped the new reality in the region. However, a number of urgent problems still remain on the regional agenda. It is extremely

important to implement all the provisions of the 10 November 2020 tripartite agreement. This includes paragraph 9 of this document, which states that "the Republic of Armenia shall guarantee the security of transport connections between the western regions of the Republic of Azerbaijan and the Nakhchivan Autonomous Republic in order to arrange unobstructed movement of persons, vehicles and cargo in both directions."

However, almost two years later, the government of Armenia has done practically nothing to implement this clause. In turn, Baku raises this issue at many venues, both via bilateral and multilateral formats. For example, Iran and especially Türkiye, which will gain more direct access to the markets of Central Asia via this route, have already declared their interest in the Zangezur corridor. "This corridor will provide the shortest road link between China and Europe and will promote closer integration between Europe and Asia," said Azerbaijan's ambassador to Türkiye Rashad Mammadov in May 2022, adding that the realization of the corridor will ensure the establishment of direct land connections of the main part of Azerbaijan with both the Nakhchivan Autonomous Republic and Türkiye.

Another, no less important issue for Baku and Yerevan is the presence of Russian peacekeepers in Karabakh, who may vacate the area as early as November 2025 as per the terms of the tripartite agreement. Armenia may want to extend the mandate for the Russian military, but the language of the document in question indicates that it is sufficient for one of the three signatories to indicate a desire for these troops to leave. Thus, all need to agree for them to stay; it takes only one for them to leave. In public statements and official documents, Azerbaijan has underscored the temporary nature of the presence of Russian soldiers on its territory. This, in turn, suggests that plans are underway for all the territories and settlements of Karabakh, including those that fall within the Russian peacekeeping zone like Khankendi, will come under the full administrative and military control of Azerbaijan. Baku considers this matter to be separate from the peace process with Armenia.

In this regard, the return of the city of Lachin as well as the villages of Sus and Zabuh to the control of Azerbaijan at the end of August 2022 is a harbinger. "I want to say again that no one and nothing can stop us. [...] We are on the side of the law, justice, and international

law. We have restored our territorial integrity and are protecting it,” Aliyev said on 21 September 2022, during his visit to liberated Lachin.

Here it is important to mention the threat posed by revanchist sentiments in Armenian society. There are two basic categories here: the political opposition in the country and the diaspora. The former is engaged in an internal political struggle by trying to put pressure on Prime Minister Nikol Pashinyan. The latter—or at least its leadership, which is colloquially referred to as the Armenian lobby—has tasked itself with inciting their compatriots to engage in various forms of provocation. Both play a negative role, but the diaspora is doing so in ways that fall beyond the scope of legitimate political disagreement: their radical supporters have engaged in a series of recent attacks against Azerbaijani diplomatic missions abroad. In this context one could also mention periodic aggravations on the border between Armenia and Azerbaijan, in particular in May and November 2021, as well as in mid-September 2022.

The delimitation of borders, as well as control over them, is an extremely topical issue for Baku and Yerevan today. A positive step in this direction was the formation

of a joint Azerbaijani-Armenian commission at the end of May 2022. How soon a peace treaty between Azerbaijan and Armenia will be signed also largely depends on the productivity and success of its work. “Demarcation and delimitation works are urgently needed to clarify some contested areas, prevent further escalation between the warring sides, and ensure security and stability for the surrounding villages on both sides of the border”—to quote the words written by Fariz Ismailzade in his aforementioned book chapter.

The issue of demining the liberated lands should also be mentioned. If Armenia had fully provided accurate maps of mine fields, Azerbaijan’s task of demining would have been simplified. It also would have likely produced fewer casualties. As of 9 October 2022, 259 Azerbaijanis have been killed or injured by Armenian mines since the end of the Second Karabakh War, according to the Azerbaijan National Agency for Mine Action (ANAMA). However, since November 2020, Azerbaijan has cleared 54,841 hectares of area. In addition, 25,751 anti-personnel and 12,547 anti-tank mines have been found by ANAMA. Reports also indicate that Armenian forces have planted at least 1,400 new landmines since the end of the war.

Also, the Azerbaijani leadership has had to overcome the consequences of environmental pollution and smuggling in Karabakh. “Armenia has savagely exploited gold and other precious metal deposits in Zangilan and other districts. In Zangilan, the Vejnali gold deposit was brutally exploited. They have also turned the area into an ecological disaster zone. The illegally mined gold was then smuggled abroad,” said Ilham Aliyev in May 2022.

An additional challenge for the region is the unclear position of individual countries and politicians regarding the Armenian-Azerbaijani settlement. For instance, the French and U.S. ambassadors refused to visit Shusha at the end of August 2022. “We consider French and U.S. ambassadors’ non acceptance invitation to Shusha as disrespect to Azerbaijan’s territorial integrity,” assistant to Azerbaijani President Hikmet Hajiyev pointed out in this context. On the other hand, Russian Ambassador to Azerbaijan Mikhail Bocharnikov visited the cultural capital of Azerbaijan in July 2022.

And then there are the provocative actions against Azerbaijan and Armenia by people who should just know better. The visit of Speaker of the U.S. House of Representatives

Nancy Pelosi on 17-19 September 2022, who thought it in the interest of her country to make a number of harsh statements about Baku, was not only unhelpful but could have set back the peace process under different circumstances. Such and similar actions can clearly exacerbate an already sensitive and tense situation in the region.

Post-Conflict Settlement

Regardless of all the existing difficulties and contradictions, Baku and Yerevan need to come to a common denominator and agree on the text of a peace agreement that will serve as a guarantor of stability and peace for the entire South Caucasus.

In March 2022, the Azerbaijani Ministry of Foreign Affairs released 5 basic principles to which, in the opinion of Baku, the parties must adhere in order to establish diplomatic relations: the mutual recognition of respect for the sovereignty, territorial integrity, and inviolability of internationally recognized borders and political independence of each other; the mutual confirmation of the absence of territorial claims against each other and the acceptance of legally-binding obligations not to raise such a claim in future; the obligation to refrain

in their inter-state relations from undermining the security of each other, from the threat or use of force both against political independence and territorial integrity, and in any other manner inconsistent with the Purposes of the UN Charter; the delimitation and demarcation of the state border and the establishment of diplomatic relations; and the unblocking of transportation and other communications, building other communications as appropriate, and the establishment of cooperation in other fields of mutual interest.

“In principle, I said some time ago that if Armenia is interested, the peace agreement could be signed by the end of the year. [...] I must say that no-one—neither the Armenian side nor the European Union—has any questions about the five principles we have declared. Today, during the meeting with the President of France, I saw that these five principles are being accepted.” So said Aliyev in Prague on 6 October 2022 during the inaugural meeting of the European Political Community.

At the same time, one of the most urgent tasks for Azerbaijan remains the issue of reintegration of the ethnic-Armenian minority of Karabakh into Azerbaijani society. As Ismailzade

underscored in this aforementioned chapter, Baku “must develop a positive and forward-looking stimulus package that include both economic and security arrangements, preparations for which seems to be nearing their end.”

On the other hand, a lot, of course, depends on the willingness of Karabakh’s Armenian minority to again be part of Azerbaijan. The incessant provocations and revanchist speeches made by some representatives of political parties in Armenia and the Armenian diaspora abroad only serve to alienate the Armenians of Karabakh and make it less possible for them to co-exist with other peoples within the framework of the Azerbaijani state.

Here we can again refer to Aliyev’s words uttered in Prague: “We plan to step up consultations within the framework of our foreign policy agenda and continue informal relations with representatives of the Armenian population of Karabakh. I must say that such interaction has been ongoing for some time now. I think this will lead to a complete understanding with the population still living in the area of responsibility of the Russian peacekeeping contingent because there is simply no other option of integrating into Azerbaijani society. If people believe that they need to live as

citizens of Azerbaijan, I think they will not regret that.”

Moscow and Brussels can make their positive contribution to the cause of a peaceful settlement. In view of the fact that Russia is now involved in an armed conflict on the territory of Ukraine, the European Union has begun to gradually seize the initiative. Thus, in May and August 2022, it was through the mediation of the President of the EU Council Charles Michel that talks between Aliyev and Pashinyan took place. The next talks in this format are preliminarily scheduled to take place in Brussels in November 2022 this year.

Meanwhile, on 6 October 2022, Aliyev and Pashinyan met in Prague with the participation of French President Emmanuel Macron and the President of the EU Council, Charles Michel. Following the meeting, a statement released by France and the EU indicated that Azerbaijan and Armenia had “confirmed their commitment to the Charter of the United Nations and the Alma Ata 1991 Declaration through which both recognize each other’s territorial integrity and sovereignty.” In fact, this means that Karabakh has once again been confirmed as an integral part of Azerbaijan. Recognizing

Azerbaijan’s sovereignty, Armenia recognizes the power of Azerbaijan over Karabakh. The same statement also indicated that “there was an agreement by Armenia to facilitate a civilian EU mission alongside the border with Azerbaijan. Azerbaijan agreed to cooperate with this mission as far as it is concerned. The mission will start in October for a maximum of two months. The aim of this mission is to build confidence and, through its reports, to contribute to the border commissions.”

However, Moscow continues to play a coordinating role on the issue of border delimitation. Thus, at the end of August 2022, a second meeting of the Commission on the delimitation and demarcation of the Azerbaijani-Armenian border was held in the Russian capital, after the first such meeting was held in Brussels at the end of May 2022. So, Moscow and Brussels can complement each other’s efforts, especially in the wake of the Prague summit, which paved the way for the two principal mediators to help Baku and Yerevan hammer out the details of a peace agreement that may put an end to one of the longest and bloodiest territorial conflicts in the post-Cold War era.

One important point is that Baku and Yerevan need a new negotiating format, since the OSCE Minsk

Group is no longer an acceptable one. As Aliyev put it in June 2022, “the OSCE Minsk Group is dead, it is impossible to revive it.” The Azerbaijani side called on Armenia to engage in direct talks many times. However, the Armenian side has not responded to this suggestion yet, although there are reports of direct informal talks taking place on the margins of various meetings. All in all, the latest developments demonstrate that direct dialogue between Baku and Yerevan is the optimal way forward.

One of the new platforms in the future could be the Shanghai Cooperation Organization (SCO), where, as SCO Secretary-General Zhang Ming said in March 2022, the granting of observer status to Azerbaijan and Armenia is now being actively discussed. The 3+3 regional platform proposed by the Azerbaijani and Turkish presidents also remains relevant. This format could bring Armenia, Azerbaijan, and Georgia together with Iran,

Russia, and Türkiye in order to solve all the urgent regional issues without any external actors. However, it is well-known that Tbilisi is not prone to participate in this format due to its unresolved territorial disputes with Russia regarding two breakaway entities (Abkhazia and South Ossetia) that unilaterally declared their independence from Georgia in 2008, with Russian political and military support. At the same time, since Moscow has gotten bogged down in Ukraine, Tbilisi gained some room to play a certain mediation role between Baku and Yerevan.

In any case, it is important for Baku and Yerevan to establish a direct and mutually trusting dialogue, without mediators. The first bilateral meeting of the Foreign Ministers of Azerbaijan and Armenia Jeyhun Bayramov and Ararat Mirzoyan, held in Tbilisi in July 2022, and then in Geneva on 2 October 2022, demonstrated that such a direct dialogue between the parties is possible. ^{BD}

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The Silk Road Region's Financial Center and Investment Hub

The Story of the Astana International Financial Centre

Kairat Kelimbetov

Baku Dialogues:

Good afternoon, Mr. Kelimbetov. On 8 July 2022, the Institute for Development and Diplomacy at ADA University was honored to host you as part of our Global Perspectives Lecture Series. And the idea of conducting this conversation is an outcome of this event and, of course, has been made more relevant due to the official visit to Azerbaijan by President Kassym-Jomart Tokayev, which took place on 24 August 2022.

Kelimbetov:

Thank you! First off, I'm grateful for the opportunity. I have been perusing *Baku Dialogues* since ADA University re-launched the journal two years ago, and I have been impressed by many of the insights and analyses provided by your authors. I congratulate you both on your achievement and wish you continued success for many years ahead!

Dr. Kairat Kelimbetov is the Governor of the Astana International Financial Centre. Previous positions include Governor of the National Bank of Kazakhstan, Deputy Prime Minister, Minister of Economic Development and Trade, Head of the Samruk-Kazyna National Welfare Fund, Presidential Chief of Staff, and Head of the Kazyna Sustainable Development Fund. The interview was conducted in stages between July and September 2022 by Fariz Ismailzade and Damjan Krnjević Mišković. The views expressed in this conversation are solely those of the participants.

Baku Dialogues:

We are honored to count you amongst our growing pool of readers. As you know, *Baku Dialogues* occasionally publishes conversations with prominent decisionmakers from what we are calling the Silk Road region—this part of the world that looks west past Anatolia to the warm seas beyond, north across the Caspian towards the Great Steppe, east to the peaks of the Altai and the arid sands of the Taklamakan, and south towards the Hindu Kush and the Indus valley, looping around down to the Persian Gulf and back up across the Fertile Crescent and onward to the Black Sea littoral.

And, so, we're privileged to have this opportunity to talk to one of the Silk Road region's most experienced and well-respected economic strategists. We'd like to make a few background points before we begin our discussion—to reacquaint you and the rest of our readers with our editorial premise, as a way to establish a conversational baseline, so to speak.

To our way of thinking, one of the few strategic sempiternities in this tumultuous era of change—characterized by various centrifugal geopolitical trends, quickened first by the effects of the ongoing pandemic and now by the conflict over Ukraine—is that this area, this part of the world as we have just sketched it out in terms of geographical scope, will maintain its position as a “critical seam of international relations,” as one of our authors has put it.

And what's particularly interesting is that the Silk Road region does not really have a “go-to” geopolitical hub that is an exclusive and integral part of the region. Here, it seems to us, the predominant reality is something else: a combination of formal treaties and informal understandings; and there's also some tension, obviously; and frozen conflicts that occasionally flare up into skirmishes and even open conflict—like the Second Karabakh War—that end up altering the weight of one or more variables in the regional equation, if we may put it that way. But, as a rule of thumb, in the Silk Road region, no one power dominates, equilibrium is maintained, and a general balance is kept. And this is a major reason why we remain cautiously bullish

on its future prospects. At the same time, we are mindful of the fact that most great powers look at the Silk Road region and conclude that they have intrinsic national security and economic interests. And yet, we also notice that there is tension between those same great powers in terms of how they each define their respective interests: they are evidently colliding with one another in various theatres, at least one of which neighbors the Silk Road region. So, this is the general picture—the background, as we at *Baku Dialogues* see it.

And so, with this in mind, we would like to begin by asking a few strategic questions before proceeding with more targeted questions that touch directly upon the role of the Astana International Financial Centre (AIFC). The logic, here, is that you are one of the few people who has had a say in conceiving and executing Kazakhstan's geo-economic strategy, and this cannot be understood without some reference to your country's geopolitical strategy. So, it makes sense to begin from that.

Now, the origins of Kazakhstan's geopolitical strategy have very much to do with your country's policy of multi-vectoralism. And the effectual originator of this state policy of yours, which dates back to the turn of the century, is President Tokayev, who at the time served as Kazakhstan's prime minister—a stint that was bookended in the role of foreign minister. Throughout this period, we could say that now-President Tokayev consolidated his standing as your country's chief geostrategist. And in the first part of his premiership, you held a succession of senior strategic planning posts, and then in 2001 you became First Deputy Minister of Finance, and the next year Minister of Economy, and so on.

So, might we be able to take you back to this period? To ask you to outline the strategic logic that informed the decision to pursue a foreign policy of multi-vectoralism, and how this impacted on Kazakhstan's geo-economic thinking? Whatever else it may mean, it certainly seems that the long-term aim was to transform Kazakhstan from an object of great power jockeying to a subject of international order.

Is this a fair assessment? Can you paint a picture, in broad strokes, of how this policy—this doctrine, really—of multi-vectoralism has worked out in practice over the past two decades?

Kelimbetov:

Indeed, the roots of the current public policy landscape are quite deep. You said that geo-economic strategy cannot be understood without a geopolitical strategy and that this, in turn, cannot be understood without the long history of Kazakh policymaking. And I think that's an important point.

If you look back across the centuries—to the Kazakh Khanate and its predecessors, the Golden Horde, and even the Turkic states before that period—you see that Kazakhstan's tradition of statecraft has always exercised one or another version of this multi-vectoral policy. Our ancestors connected East and West but also used to have the right relationships with South and North. After all, if one's lands contain a long route that connects Asia and Europe and, therefore, needs protection and stability, one cannot allow conflicts with big powers.

It also helped that these big powers—you know, the European states, understood as a bloc, or the Chinese empire—all needed the Silk Road to be conflict-free to sustain their respective economies.

Now, of course, this doesn't mean that there were no conflicts. But the economic substance of that age was always protected from local or regional feuds spiraling out of control.

And our goal—then, and now—was to ensure the defense and development of trade routes that traverse our lands, and to establish diplomatic relationships with all our neighbors. And you gentlemen know very well that what you call the Silk Road region—including Central Asia and South Caucasus—was the financial and economic center of that era. We were a big power to be reckoned with.

Now, let's come back to our age. In the 1990s, when the Soviet Union fell apart, the independent states that arose adopted new strategies, built new relationships, and implemented new

economic models. But in a broad sense, none of this arose out of thin air. There was a spirit of the past—a tradition to be inspired by—that informed our thinking; certainly, in the case of Kazakhstan. This is what I mean to say.

There are different angles from which to tell the story of Kazakhstan's multidirectional international policy: we could talk, for example, about nation-building or the struggle for geopolitical power. You rightly pointed out the work and strategy of President Tokayev in his long diplomatic career.

But as an economist, I would like to focus on one main thread: to explain how these decisions and policies worked in favor of our chosen economic model.

We moved from a planned economy to a free-market economy, and we made a significant effort to integrate into the global economy. Natural resources have propelled Kazakhstan to become an important regional player: we have significant quantities of oil and gas, coal, metals, grain, and so on. And this makes us a global supplier of these commodities. These natural resources allowed our young state to start accumulating financial resources. And this was vital for our subsequent development. The success of the reforms in the late 1990s led to booming growth in the twenty-first century. Part of this story is that, as a relatively small open economy, we quickly integrated and connected to foreign markets. For example, American companies brought capital and much-needed technology to produce oil, our Chinese partners created the demand for the development of infrastructure, and we have continued our trade with our partners in Eurasia—in what you call the Silk Road region. And so on.

Thus, this approach benefitted us during the years of rapid economic growth. After the global financial crisis that began in 2008, we needed additional capital to support our economy, and so we strengthened our partnerships and launched new projects. For example, we supported the Belt and Road Initiative, which connects East and West. And you indicated

that we will have an opportunity to talk about AIFC later on, but I just want to bring out the example of our Astana International Exchange, which we've built in partnership with Nasdaq and the Shanghai Stock Exchange, while Goldman Sachs and the Silk Road Fund joined the list of investors later.

Today, we enjoy long-term partnerships with the EU, the U.S., and China; Kazakhstan has been a member of the Eurasian Economic Union since its foundation, and we value our economic and cultural ties with Turkey and the countries in our region—including Azerbaijan, of course. And the European Union, too: it may seem from afar that geography significantly affects this balance, but I would like to underline that the EU, as a bloc of states, remains Kazakhstan's main trading partner.

Our openness affected our economy during the period of volatility in global markets that came out of 2008. And, as I said, this prompted us to introduce new reforms and to upgrade our institutions—for example, we transitioned from a fixed exchange rate policy to inflation targeting.

Now, during the present time of distress and geopolitical turmoil, Kazakhstan—led by President Tokayev—remains adherent to this approach. His recent remarks on different international stages show this very eloquently. So, I would say that his approach is working out very well.

Baku Dialogues:

Integral to this holistic, multi-vectoral approach to the outside world is the geo-economic dimension, which you just mentioned. And, again, in this context, you are one of the few people who has had a say in conceiving and executing it. For example, when the flagship 2050 Strategy was announced in late 2012, you were Kazakhstan's deputy prime minister and had previously served as minister of economy. Now, just to take you back, in making this strategy public, President Nursultan Nazarbayev characterized it as a posture of “universal economic pragmatism” designed to make Kazakhstan one of the world's top 30 most developed states by

2050—a Top 30 global economy. This was a very striking statement. And then, after your tenure as Deputy Prime Minister, you went on to become chairman of the National Bank for a few years—and during this period President Nazarbayev launched the Nurly Zhol infrastructure development plan to turn Kazakhstan into a key transport and logistics hub in the Silk Road region. And a little over a year later, in December 2015, you took up your current post: Governor of AIFC.

Now, in a moment, we will get to AIFC’s mission and role in bringing this strategy forward, but can you speak to Kazakhstan’s geo-economic strategy with more specificity? How would you characterize it? And, looking ahead, what is Kazakhstan doing to execute it successfully?

Kelimbetov:

Yes, I think I just covered the “economic diplomacy” part of this question, but thanks for bringing up the right word to describe it: “pragmatism.” We sometimes hear that our policy is “prudent,” which is not 100 percent accurate, although there is obviously an element of this—certainly, this is our view. But “pragmatic” describes it much better.

So, let me share a very brief economic history of Kazakhstan and our approach to the country’s development, and say something more about the economic diplomacy aspect. Our development—our approach to development—was not linear, because we were affected by regional and global trends. Rather, our approach was cyclical, with every cycle or stage of our development supported by a new generation of institutions.

Let me get into this a little bit more. First of all, after the Soviet Union’s dissolution, we needed to act swiftly, so we introduced new institutions to adapt to a market economy and, in a broader sense, to the new reality. We had to set up the new government and central bank and introduce our own national currency—Azerbaijan and the other post-Soviet countries went through quite similar processes. The formative years were not without their ups and downs, but by the late 1990s,

Kazakhstan had laid out strong fundamentals for the second generation of institutions.

When the Asian financial crisis hit our part of the world in 1997, we already had a sound plan. Kazakhstan was among the first countries—if not the first—to formulate a long-term vision: the Kazakhstan 2030 Strategy that you mentioned. It defined our mission, set key priorities, and introduced a package of reforms. It was also the basis for our social contract, as it emphasized security, stability and social compact, social protection, and set out the pillars for economic growth.

This strategy set the right course. And so, despite the consequences of the 1997 Asian financial crisis and the dotcom crisis of the early 2000s, Kazakhstan had a strong start. Between 2000 and 2007, for example, Kazakhstan was the second-fastest growing economy in the world. We set up our National Welfare Fund, opened new universities, sent high-performing young Kazakhs to study in the best international universities at state expense, and introduced a number of new institutions to develop new industries and create strong national companies, which led the development drive. Accumulated financial capital allowed Kazakhstan to weather the global financial crisis: the country showed moderate economic growth during those years.

However, that crisis also highlighted that the economic model needs constant tending and upgrading. What worked well in the 2000s didn’t yield the same results in the 2010s. Understanding that also gave us the confidence to act: you know, that with the right tools and instruments, Kazakhstan could continue its growth. Hence the ambitious goal of becoming a Top 30 global economy by mid-century. In 2012, we adopted a new or updated strategy—we called it Kazakhstan 2050—which was followed by large reforms on both local and international levels. I am talking about our support for the Belt and Road Initiative, the evolution of the Eurasian Customs Union, work on WTO accession, the beginning of banking sector reform, important pensions reform, new policies for development

institutions, and, last but not least, our new monetary policy regime of inflation targeting, which we delivered in 2015. At the same time, the very first cohort of Nazarbayev University graduates entered the labor market, while successive generations of Bolashak Scholarship recipients—our state program that finances higher education studies in the best universities abroad—came back to Kazakhstan and moved up, attaining new positions with greater responsibilities, and thus contributing to the evolution of policymaking in the country.

So, the geo-economic strategy has also seen changes and adaptations along this journey. We remain confident that Kazakhstan can rely on its natural resources as an advantage. At the same time, we need to understand that an export-only-based economy will lead to uneven development and wealth distribution. Our social policies will only partially solve this problem, and this is why economics or geo-economics must take into account the spatial development aspects, and also the creation of new industries.

Today, we face additional challenges. Therefore, the new—the fourth—generation of institutions must offer tools to create high-quality jobs, especially in new sectors, embrace the fourth industrial revolution, decrease inequality on many levels, and also ensure sustainable economic growth. The Astana International Financial Centre is the first institution of this new generation of institutions, if I can put it this way.

Baku Dialogues:

So, let's turn directly to the role played by AIFC, which really is one of the most important institutions of its kind. The Astana International Financial Centre is positioning itself as one of the pivotal economic hubs of the Silk Road region—a cornerstone institution of business and finance activities, certainly in this part of the world. As far as we can understand, AIFC has a two-fold international role: to connect the various parts of the region to each other, and to connect this region with its various neighbors and external powers—near and far.

So, this obviously has a political dimension and also a security dimension—one would hope that no one seriously believes anymore that economic statecraft operates in a vacuum. And you are welcome to touch upon these aspects if you wish, but we would like to ask you to focus more on the economic ones.

The specific question can thus be divided into three parts—past, present, and future. First, what was the thinking that went into the establishment of the AIFC?

Kelimbetov:

Thank you for your kind words; it was the political will and the collective effort of the government, the AIFC team, and our international partners that made it happen. Back in 2015, when we first discussed this idea, we had a very simple goal: to solve the financial intermediation problem. At that time, our banking sector has not yet fully recovered from the global financial crisis; for example, the level of non-performing loans was still high, which led to stagnating banking credit for the economy. Unfortunately, the prominence of the banking sector in the 2000s led to little development of the non-banking financial sector. The loans-to-economy ratio was declining, despite the growth of the deposit base, and new investments occurred only from the state budget or foreign investors.

Our goal was thus to develop non-banking financial services and transform significant domestic savings into new investments.

It seemed easy on paper, and it wasn't the first attempt. Earlier, we had tried a similar approach in developing a regional financial center in Almaty.

See, but here is the problem: when your financial sector is dominated by banks, the regulators spend most of their time focusing on prudential regulation, which leaves little room

for new instruments to grow. The former project—the one in Almaty—ran into this issue of regulation. Even with the resources and willingness, in the 2000s and early 2010s, the older stock exchange remained overly regulated and could not upgrade its infrastructure.

So, without delving too deep into the past, I can say that, as our experience shows, new successful systems cannot be based on legacy structures. It is much easier to build new systems from scratch. Proceeding in this new manner also allowed us to leapfrog and introduce new soft infrastructure—you know, the adoption of a modern digital exchange infrastructure, a digital environment for new businesses to open and grow. Everything should be based on modern institutions, strong rule of law, and risk-based regulation comparable to that existing in modern financial centers.

Let me explain. We followed Dubai’s successful model. They also built an independent jurisdiction, even though the UAE respects shariah law. In our case, we established a new jurisdiction, which required constitutional amendments, a new constitutional statute, and a whole package of new acts and bylaws to set the independent jurisdiction. Let me tell you, this was not a small undertaking. In our very first strategy, we focused on four clusters of priorities: a legal and regulatory framework, a new exchange infrastructure, the development of human capital, and green finance principles—in some sense, you could say that we adopted an ESG-based approach back in 2015. And the main pillars or directions of development were comprised of capital markets, asset management and private banking, Islamic finance, and fintech.

During the first years, we also faced some skepticism, but I think that the support we received from our international partners added to the work done by the government. Now I can proudly say that we managed to overcome the skeptics and win over our critics.

Baku Dialogues:

Yes, indeed. Definitely not a “small undertaking,” as you put it. And this was just the beginning, because then you went much beyond that. And this takes us to the second part of the question: how has the AIFC evolved since you assumed governorship over it in December 2015?

Kelimbetov:

Do we have enough time to go over everything?

Let me just give you the highlights of our achievements in the past six or seven years. We spent the first couple of years mostly studying international experience and doing preparatory work—you know, building up our financial ecosystem according to the highest global standards, and so on. We reached out to all major exchange groups in the world—requesting proposals and so on—and met with most of them: NYSE, ICE, Nasdaq, Shanghai, Hong Kong, LSE, Deutsche Börse, CME—you name it. As I already mentioned, Nasdaq and the Shanghai Stock Exchange became our investors and strategic partners.

In order to set up the legal system, we approached the legendary Lord Woolf, who made important reforms in the UK legal system in this area and others, too. Lord Woolf—Harry Woolf—was Master of the Rolls and then Lord Chief Justice of England and Wales, amongst many other achievements. His experience and prudence helped us not only to design the required bylaws but also to attract renowned senior lawyers to join the AIFC Court—this is the institution that has exclusive jurisdiction to resolve civil and commercial laws within the AIFC, and it’s based on the norms and principles of English law. Like the AIFC itself, by design the Court is separate and independent from Kazakhstan’s judicial system. And so, now we have a dream

team of justices who regularly come to Kazakhstan, hear cases, give lectures in local universities to help build local capacity, and so on.

Similarly, we approached experienced lawyers to design AIFC's own regulatory framework. It is based on principles and not codes, which makes it very flexible. We constantly improve our regulation, as we are adding updates to regulate new financial services and fintech. The Astana Financial Services Authority is an independent regulator—we have signed a tripartite agreement with the National Bank of Kazakhstan and the national financial regulator, which allows AIFC participants to offer selected services for all Kazakh market participants. We also set up a fintech sandbox, which is quite active: already, we have about 20 graduates of the sandbox, with a whole pipeline of new innovative fintech startups ready to enter the market—they're able to offer fintech services without the full burden of regulatory requirements.

Another important milestone was the creation of our in-house training facility: the Bureau for Continuous Professional Development. It was one of the first sovereign partners for coursera.org. It also works with international certification institutions and does in-house economic research. A couple of years ago, we also set up an AIFC-based coding school. Another of our recent initiatives is the University of the Future, which plans to train and offer certificates to prepare professionals for the regional market. We will also be happy to work closely with ADA University to grow regional capacity in new professions.

So, in short, these are some of the key institutions with which we embarked on our journey. As I mentioned, our goal is to develop and promote the national capital market and some specific financial industries. We have been successful in some of them—for example, in developing Islamic finance and green finance. The teams that led these developments today represent the AIFC Islamic finance hub and the Green Finance Centre. The stock exchange was christened by an

important IPO—that of KazAtomProm: the global leader in uranium production.

However, I don't think that these big milestones and the establishment of the centers I mentioned tell the whole story. Look, we started operations as a government startup. This was our mindset. In the beginning, AIFC consisted of a few dozen people working in five or six small rooms rented in a local business center. The team had that entrepreneurial startup mindset: in the first year or two, we would bring our own laptops to work and share one copy machine in the hallway; folks worked in "pizza teams"—small groups of four to six people focusing on specific tasks, which I just mentioned.

It was only in 2018—when we finished our "minimal viable product" and officially launched the financial center—that we had to reorganize and work broadly on increasing the role of AIFC in not only the national economy, but also in the regional economy. Just like most startups, we had our inflection point. For us, this took place in 2019, when we realized that our jurisdiction is best suited not only for offering financial services but also for structuring investments. So, already in 2019, we saw AIFC becoming a great conduit for foreign investments.

It was President Tokayev's vision to task AIFC in late 2019 to become the primary platform for direct and portfolio investment in Kazakhstan. This was quite early on in his presidency. His vision was transformed into our new strategy, which was approved two years ago. Since then, AIFC has adopted a dual model: to serve as a financial services center and an investment hub. In turn, our business development team has transformed into a separate company: AIFC Business Connect, whose goal is to oversee business processes to make AIFC a go-to destination in the region.

And just to give you some numbers: we already host more than 1,500 companies with over \$7 billion in investment attracted to the country.

Baku Dialogues:

This brings us now to the future—to AIFC’s future. Now, as you formulate your answer, we hope you can address a trend that we can observe, at least in the context of the Central Asian countries—and we can bring in the Azerbaijan angle, and the angles of some other neighbors, in a moment. But just in terms of Central Asia, we can underline that Kazakhstan was the earliest and strongest advocate of institutionalizing regional economic connectivity.

And it took a while for some other states to come around, with a serious, text-based regionalization process getting off the ground in November 2017 during a summit of heads of state that took place in Astana. And the most recent annual meeting in this format took place on 21 July 2022 in the Kyrgyz resort town of Cholpon-Ata, which is located about 100 kilometers directly south of Almaty, across the Tian Shan mountain range. And the document that was put on the table there—the Agreement on Friendship, Good-Neighborliness, and Cooperation for the Development of Central Asia in the Twenty-First Century—really does have the potential to be a strategic game-changer. In a decade from now, we may come to see it as having been the cornerstone of some sort of Central Asian version of ASEAN. And the AIFC seems well-positioned to become the natural financial hub of this regional process of economic integration.

And so, with this in mind, the question is this: how do you see AIFC developing in the next five to ten years?

Kelimbetov:

Indeed, ASEAN is a great example. Do you remember that I mentioned that we studied the experience of different financial centers? I believe that AIFC in particular—and Kazakhstan, in general, and even neighboring countries—can learn a lot from Singapore. So, today one of our role models is the Economic Development Board of Singapore. This can help to ensure our development as *the* regional financial center and investment hub. We want to consolidate our resources to help Kazakhstan

develop new industries and increase economic complexity. Our mission is to contribute to the sustainable development of the region.

Today, we are taking the lead in developing financial services and new technologies, but investments coming via AIFC can help other sectors, too. We will definitely be focusing on that in the time ahead.

For example, the Kazakhstan Investment Development Fund set by the Kazakh government in AIFC shares risks and co-invests with foreign investors in new industries. I believe that AIFC can allow many similar companies to thrive and contribute to sustainable development and create stable, high-quality jobs. Since Kazakhstan is a large and heterogeneous country, we need to sustain investment in labor-intensive and skill-intensive industries alike and, of course, encourage investment in new innovations.

If you are asking my personal opinion on what will be important for us in the near future, I would list a few broad industries in addition to finance: the products of the Fourth Industrial Revolution, agriculture and food security, international infrastructure (both hard and digital), and green technologies.

Now, AIFC has already set up a few building blocks in those directions. For example, AIFC TechHub focuses on different technologies and hosts the World Economic Forum’s Affiliate Center for the Fourth Industrial Revolution. And, so, we’re developing the venture capital industry as well.

Infrastructure development will also be vital for Kazakhstan and other economies in the region. Needless to say, we need to better connect the South Caucasus and Central Asia with points east and west and, speaking broadly, create a seamless route between Eastern China to Western Europe via Kazakhstan, the South Caucasus, and Turkey. Our goal here is to become the regional infrastructure financing facilitation hub: the regional financial center of the Belt and Road Initiative. And you know

that there are ongoing discussions and initiatives at the political top that are moving in this direction.

However, sustainable development doesn't mean only investments and economic growth. AIFC's ecosystem and institutions generate great spillovers for the rest of the economy and region. For example, our International Arbitration Centre has reviewed over 1,000 different cases, most of which were disputes between non-AIFC members. Our Bureau for Continuing Professional Development—this is our platform for continuous professional development—works with local and foreign education institutions to enhance human capital way beyond AIFC. Our mentors love to work with seasoned and young professionals, university students, and high school students alike. I want AIFC to become the main center of competence and know-how accumulation. I believe that achieving this would allow us to reach all our KPIs and our minor goals.

Baku Dialogues:

Our final question can turn directly to the subject of our Global Perspectives Lecture Series event—the one that we at the Institute for Development and Diplomacy hosted during your visit to Baku in early July 2022. The title of your talk was “Prospects for Azerbaijan-Kazakhstan Financial and Economic Cooperation.” And that's what we would like you to focus on.

Now, there is obviously a political background to all this: in a series of recent meetings, the presidents of Azerbaijan and Kazakhstan—who have a relationship going back decades—have further strengthened the foundation of the bilateral relationship, and ministers responsible for various portfolios have been tasked with following up—everything from energy cooperation to regional connectivity. It really is a strategic partnership—both in form and substance. And this was clearly seen last month during President Tokayev's first official visit to Azerbaijan as head of state. Strengthening overall economic ties was a centerpiece theme, as reflected in the contents of the more than 20 bilateral documents that were signed during this visit.

Now, the implementation of many of these documents will, in one way or another, involve the active participation of the AIFC. And we have alluded to this throughout our conversation. Thus, for example, President Tokayev underscored in his public remarks in Baku the importance of boosting the trade numbers, of developing transport and logistical relations, and so on. This echoed President Aliyev's emphasis, made during his remarks on that day, on linking cargo flows and developing infrastructure, on “increasing mutual supplies,” as he put it. There really does seem to be a synergy of approach—a shared emphasis on taking economic and commercial relations to the next strategic level. President Aliyev even explicitly spoke of “great prospects in the field of investment.” It's worth quoting this part of his statement in full: “Both Kazakhstan and Azerbaijan have a very positive investment environment and a large volume of foreign investments. I think that the time has come for us to join our efforts in this direction and participate in joint investment projects in Azerbaijan, Kazakhstan, and possibly in other countries as well.”

And so, well, how about that? A few minutes ago, you described AIFC as wanting to become “*the* regional financial center and investment hub.” All this seems to fit together. What then can we expect in the time ahead? In other words, what role can we expect AIFC to play in furthering the strategic partnership—the alliance—between Azerbaijan and Kazakhstan, in the field of financial and economic cooperation?

Kelimbetov:

This is a very important question. I already hinted at the importance of our cooperation when I was talking about infrastructure development. Indeed, this partnership will shape the development of our region for many years to come. Regional conflicts and tension in the Pacific have already changed the dynamics in the region. Both Kazakhstan and Azerbaijan have strategic locations and existing strategic partnerships. If we do our homework and improve existing links, the China-Kazakhstan-Azerbaijan-Georgia-Turkey-EU corridor will likely become the most important land corridor in the region—you know, this is sometimes called the Middle Corridor. Thus, our economic partnership

will include common hard and digital infrastructures, trade and transit, financial flows, and the exchange of experience and information. Earlier in our conversation, I referred to the history of the Silk Road that connected the financial and economic centers of centuries past. Similarly, Baku and Astana should become links in the larger chain of financial hubs in the twenty-first century.

Kazakhstan and Azerbaijan conduct their own independent and relevant policies; it is only proper that our countries work together and lead regional development. The AIFC's role in all of this is quite simple: we exist to host international financial and non-financial transactions. For example, today, we discuss contracts between our national oil companies and the establishment of joint ventures for our transportation and logistics companies. These contracts and new international or bilateral companies can be structured at AIFC because it provides compliance with international rules and regulations and, thus, would serve both parties better. Moreover, it will simplify the engagement of other international partners.

President Tokayev's visit to Baku was very successful—like you said, over 20 memoranda and letters of intent were signed, including one titled Comprehensive Program on the Development of Cooperation between the Republic of Azerbaijan and the Republic of Kazakhstan for 2022-2026.

During President Tokayev's official visit, AIFC representatives had very productive meetings with representatives from Azerbaijan's Ministry of Economy and the Central Bank of Azerbaijan. With the latter we discussed the prospect of using AIFC to provide certain services—specifically, using our Fintech Lab for pilot programs by Azerbaijani fintech startups.

Needless to say, our stock exchange and VC hub offer services for all countries in the region; I hope that Azerbaijan businesses will consider using them as we strengthen our economic ties in the time ahead. We also shared our

experience in creating an independent jurisdiction with our Azerbaijani counterparts, who are working on developing the Alat Free Economic Zone.

Finally, of course, AIFC will continue contributing to the enhancement of human capital. I appreciate you taking the time and inviting me to this discussion. I hope that it will be useful for experts and policymakers in Azerbaijan. We are also happy to invite you to visit Kazakhstan to learn more about the opportunities on offer, and to give you and your colleagues at the Institute for Development and Diplomacy—and ADA University more broadly—a platform to share your views and expertise.

The successful partnership between Kazakhstan and Azerbaijan will be further built on, first and foremost, strategic dialogue and then on commercial contracts. Now, we can observe that the strategic dialogue is at an all-time high in the wake of President Tokayev's official visit, and so it is incumbent on all of us to follow up with all deliberate speed. And I have every confidence that AIFC will make a substantial contribution to this endeavor.

Baku Dialogues:

Undoubtedly this will be the case, Mr. Kelimbetov. Thank you for the wide-ranging interview and, of course, for the kind invitation. **BD**

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