

Historical Momentum for Enhanced Cooperation between Azerbaijan and Kazakhstan

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Recent geopolitical developments and a rapidly changing situation in its neighborhood has led Azerbaijan to adjust its foreign policy strategy with Central Asian states in general and with Kazakhstan in particular. President Kassym-Jomart Tokayev's groundbreaking visit to Baku on 24 August 2022 represents the capstone of this policy shift and a breakthrough in the bilateral relationship.

This is reflected in the statements made in Baku on 24 August 2022 by President Tokayev and his host, President Ilham Aliyev. "Several documents will be signed as a result of today's negotiations. I am confident that they will elevate bilateral cooperation and Kazakh-Azerbaijani relations to a new level," Tokayev said at the start of his visit. "Of course, there are great plans regarding the development of transport-logistics infrastructure. Measures on establishing this infrastructure were carried out timely both in Kazakhstan and Azerbaijan," Aliyev underlined on the same occasion.

This presidential visit took place only days before Tokayev called for snap presidential election in fall 2022 and parliamentary elections in spring 2023. The official visit also took place against the backdrop of the six-month anniversary of the present stage of the conflict over Ukraine, which has impacted in various ways on relations between Azerbaijan and Central Asian states. These include, most obviously, interruptions in trade operations via Russia and the rise in importance of the Trans-Caspian International Transportation Route (TITR), which is also known as the Middle Corridor.

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Considering that Kazakhstan is seeking alternative transit routes for its goods and especially for transporting energy, momentum is high for Azerbaijan to increase its role as a transit country, which ought to result in economic and perhaps geopolitical benefits. Thus, this analytic policy brief will examine recent developments in bilateral relations between Azerbaijan and Kazakhstan, its economic and political implications for Baku, and the future direction of ties between Azerbaijan and Central Asian states.

The Bilateral Partnership

Even more so than they have been in the past, the Central Asian states are priority partners for Azerbaijan. From Baku's perspective, many issues are of mutual interest whilst not all have yet been fully exploited for mutual gain.

With regards to the Baku-Nur-Sultan relationship specifically, Azerbaijan and Kazakhstan cooperate within several multilateral frameworks like the Turkic Council, CIS, and the Shanghai Cooperation Organization. Azerbaijan and Kazakhstan have signed around 100 agreements aiming to strengthen partnership and cooperation in various fields, in addition to the more than 20 more that were signed during Tokayev's official visit. Along with this, the two Caspian littoral neighbors are further increasing transport connectivity routes to each other in order to access third markets, like the EU and China, in a more cost-effective way.

In the past 15 years, Azerbaijan has invested \$203.7 million in Kazakhstan, with 500 of its companies operating there. During the same period, Kazakhstan has invested \$94.8 million in Azerbaijan, with 152 of its companies operating there. In 2021, the trade turnover between the two countries amounted to \$135.7 million. This suggests an upswing in interest while at the same time indicates that there is ample room for deepening the economic relationship. It is thus a sign of the times that during the first meeting of the Kazakh-Azerbaijani Business Council, which was held on 24 August 2022 in Baku, the Chairman of the Board of Azerbaijan's Agency for the Development of Small and Medium Businesses, Orkhan Mammadov, said that his organization had received more than 65 applications from Kazakhstan-based companies wishing to invest and establish a business in Karabakh.

This upwards trend can also be observed in the energy field. Although the negotiations to transport Kazakhstani crude via the Baku-Tbilisi-Ceyhan (BTC) pipeline started in 2002, the main foundations of the bilateral energy partnership were laid during President Aliyev's official visit to Kazakhstan in 2006, when parties signed an agreement titled On Support and Development of the Oil Transport System to Ship Kazakh Oil to International Markets Through the Territory of Azerbaijan Via the Baku-Tbilisi-Ceyhan Pipeline. Then, on 14 November 2008, the two states' national energy companies concluded an agreement with respect to the development of a system to transport Kazakh crude oil across the Caspian to Azerbaijan and

international markets. This trans-Caspian route has been in use since that time: Kazakhstan transports its oil through the relevant segments of BTC to terminals on the Black Sea. In 2020, the volume of oil exports by this mechanism amounted to 106,000 tons. Nevertheless, larger-scale integration into the BTC system (i.e., transporting oil from the Tengiz and Kashagan fields through BTC) has not been implemented, due to a lack of infrastructure, regional processes, and the political unwillingness of Kazakhstan to step on Russia's toes.

This appears to be changing—at least somewhat. Since the war in Ukraine began, Kazakhstan's current leadership has prioritized the importance of diversifying its oil transport routes. With Tokayev's recent visit, negotiations on transporting larger volumes of Kazakh oil via Azerbaijan have been revived. In August 2022, Executive Vice President of KazMunayGas, Dauren Karabayev, said that the “negotiations with the Azerbaijani side on the possible transportation of Kazakh oil are going on at various levels. Azerbaijan has two oil pipelines—Baku-Tbilisi-Ceyhan (BTC) and Baku-Supsa—that can potentially be used to transport Kazakh oil.” Moreover, as part of Tokayev's visit, his country's national gas company QazaqGaz and SOCAR signed a memorandum of understanding on the implementation of joint gas projects. This document envisages the exploration and development of hydrocarbon deposits in Kazakhstan, the development of gas and chemical areas, and the modernization of gas transportation.

Historical Momentum

The bilateral relationship is poised to gain in geopolitical prominence and economic importance, especially in the flagship areas of transport and energy connectivity. This will likely contribute strategically to the pursuit of independent foreign policies by both states. It should also add to the momentum of existing Central Asian regional cooperation initiatives and, perhaps, come to be seen as helpful in ongoing talks on normalizing connectivity in the South Caucasus in the wake of Azerbaijan's victory in the Second Karabakh War.

Both Azerbaijan and Kazakhstan aim to become key actors in the East-West transport corridor by taking fuller advantage of their respective geographic locations and potential roles as bridge-builders between Asia and Europe. This has become more important for Kazakhstan in the wake of the onset of the present stage of war in Ukraine. Nur-Sultan's humanitarian aid to the embattled country, coupled with Tokayev's uncharacteristically direct comments made during the Saint Petersburg International Economic Forum on 17 June 2022, resulted in a deterioration of relations with the Kremlin. (The offending statement has been widely reported as being this one: “We recognize neither Taiwan, nor Kosovo, nor South Ossetia and Abkhazia. In all likelihood, this principle will be applied to quasi-state entities, which, in our opinion, are Lugansk and Donetsk.”)

Shortly thereafter, on 5 July 2022, a Russian court issued an order suspending the transport of Kazakh oil via the Caspian Pipeline Consortium (CPC), causing serious revenue losses and geopolitical uncertainty. This set off alarm bells in Kazakhstan, spurring officials in Nur-Sultan to take policy measures to diversify transport routes and decrease their country's dependence on Russian energy infrastructure. Thus, on 7 July 2022 Tokayev indicated that the transport of oil across the Caspian Sea was a most promising alternative, instructing KazMunayGas (the state-owned oil company) to work out its implementation. After four days of suspension, production at Kazakhstan's Chevron-operated Tengiz oil field and oil transport via the CPC pipeline resumed its normal functioning. However, given that the CPC route, which terminates at the Black Sea port of Novorossiysk, currently incurs a war risk premium, Kazakh oil has been traded at steep discounts despite soaring global oil prices. Although Kazakhstan does have some existing alternative export routes, none could fully make up for losses incurred if the CPC shuts down again. Crude oil exports account for around 14 percent of Kazakhstan's GDP and up to one quarter of Kazakh crude is exported via other Russia pipelines, including the 4,000-kilometer Druzhba network. (Druzhba supplies refineries across Eastern and Central Europe as far west as Germany, although the southern branch of that route, which passes through Ukraine, has recently faced interruption because that country can no longer accept transit fees from Russia due to the West-led sanctions regime)

The conflict over Ukraine demonstrates a truism in risk analysis: depending on a single transport route through a territory whose government can opt to engage in political conditionality (in times of either war or peace) produces heightened economic vulnerability. This, in turn, has had consequences not only for Kazakhstan itself but also for the European Union (Kazakhstan exports 70 percent of its oil to markets in the EU, which meets around 6 percent of the EU's total oil demand). That is why decreasing Kazakhstan dependence on Russia to serve as a transit conduit for its energy resources to the EU is also in the interest of Brussels. In this context (and others), supporting greater cooperation between Azerbaijan and Kazakhstan should also be understood as a core security and economic interest of the European Union. Thus far, Azerbaijan has offered the BTC as an alternative route for Kazakhstan to transport some of its oil to markets in the EU. There is room for this to happen unimpeded: in 2021, BTC operated at 55 percent capacity. In other words, 22.5 million tons of capacity remained unused.

Another area of cooperation for Kazakhstan and Azerbaijan lies in taking fuller advantage of the significant transport opportunities that their geographical location presents. Along with being resource-rich, both countries are landlocked whilst being situated at the center of East-West transport corridors. Such corridors represent not only important geo-economic perspectives for both countries; they have also recently become a geopolitical focus for them as well as for all outside actors with an interest in financing, promoting, and making use of corridors that avoid Russian or Iranian territory (or both). This could also play an important role for both Baku and Nur-Sultan to deepen cooperation with other Central Asian states.

Such corridors include the Trans-Caspian International Transportation Route (TITR), more commonly known as the Middle Corridor and associated with the opportunities that arose from the launching of what is now known as the Belt and Road Initiative. Additional steps in implementing TITR were taken in April and June 2022 at transport cooperation meetings in trilateral or quadrilateral formats involving Azerbaijan, Georgia, Kazakhstan, and Türkiye within the framework of the Trans-Caspian East-West Corridor initiative. Emphasis was placed on the importance of developing the corridor and increasing its transit potential, as well as on integrating it into the international transportation system and strengthening cooperation among the parties.

Certainly, Azerbaijan seeks to integrate more fully the Trans-Caspian transport corridor into the global supply chain system—a proposition that is becoming more likely given the projected increase in global trade volumes and the likelihood that a greater share of the overall worldwide volume will fall on inland transport mechanisms. This would also benefit Azerbaijan’s strategic aim of becoming a more important transportation and economic hub of the Silk Road region. Such aspirations work toward the country’s ultimate goal of further entrenching Azerbaijan’s independence by prudently leveraging its geographic position such that incursions against its sovereignty and territorial integrity by one stakeholder would provoke decisive reactions from all others (as well as from Azerbaijan itself, of course). Kazakhstan appears to be fully supportive of such a goal, since doing so coincides with its own national interests.

Furthermore, through the expansion of the port of Alat (it is now the largest port on the Caspian) and its adjacent free zone, Azerbaijan aims to build a major trading hub that connects Europe and Asia. This, too, augments the transit potential of the Middle Corridor. The logic of the Middle Corridor is such that its natural strategic partner is Kazakhstan’s port at Aktau, located less than 300 nautical miles away on the eastern shore of the Caspian. Concrete steps in this direction were made during Tokayev’s recent visit to Baku. Kazakhstan’s national railway company—Kazakhstan Temir Zholy (KTZ)—and the port of Alat—i.e., the Baku International Sea Trade Port—signed a memorandum of cooperation in logistics that envisions implementation of joint projects.

Beyond this, one of the provisions in the tripartite statement that ended the Second Karabakh War concerns the Zangezur corridor. Once it becomes operational, it will connect Türkiye directly with mainland Azerbaijan through a sliver of Armenian territory along the Aras River by both road and rail. This, too, will open further opportunities for economic cooperation—particularly in the event that it becomes attached to the Middle Corridor route, which seems likely. The Zangezur corridor thus has a great potential to contribute to an increase in trade across the Silk Road region. In the particular context of this analytic policy paper, it is enough to mention that Türkiye’s two main trading partners in Central Asia are Kazakhstan and Uzbekistan.

Hence, Türkiye's ongoing efforts to intensify the construction of the Middle Corridor, coupled with its support for the opening up of the Zangezur corridor, will contribute positively to Kazakhstan-Azerbaijan relations as well as Azerbaijan's engagement with Central Asia in general.

Recommendations

Expanding cooperation and partnership with Kazakhstan within different formats will serve Azerbaijan's foreign policy strategy by expanding its economy through oil contracts, investment in infrastructure projects, and ensuring Azerbaijan becomes a stronger regional transport and logistics hub.

The deepening of bilateral ties in this manner will also serve the security interests of both countries by helping to cement their independence, sovereignty, and territorial integrity.

In addition, by continuing to engage actively in various regional economic cooperation frameworks and further diversifying their partners and opportunities, both keystone states will continue to decrease their economic and political dependence on any single sector *and* stakeholder.

Furthermore, Azerbaijani understands very well its key role in the connectivity projects and energy markets and will continue leveraging it in such a way as to increase its export potential and fulfill its foreign policy interests.

Thus, in the context of recent geopolitical developments and a rapidly changing situation in its neighborhood, the rapprochement between Azerbaijan and Kazakhstan is turning out to be a genuine win-win outcome.

In fact, the core interests of both are being advanced, perhaps strategically, for the Middle Corridor and related projects and initiatives truly opens huge opportunities for both parties. International logistics projects are an effective tool to enter new markets, which is especially important when economy diversification is seen to be an imperative. Both Azerbaijan and Kazakhstan have unique opportunities to intensify bilateral trade and recover trade turnover through international transport corridors. Yet, to increase the Middle Corridor's capacity and fully benefit from its potential, enlarged cooperation and greater policy harmonization is needed. Recent developments in the bilateral relationship indicate that both Baku and Nur-Sultan understand the strategic potential of the Middle Corridor and are taking the right steps to transform it into concrete and long-lasting benefits. In this respect, the Declaration on Strengthening Strategic Relations and Deepening Allied Cooperation between Kazakhstan and Azerbaijan, which was signed by presidents Aliyev and Tokayev during the latter's official visit to Baku several weeks ago, has

greatly strengthened the foundation for comprehensive cooperation between the two countries in both political and economic domains.

The growing weight of the Turkish variable also needs to be added to the Azerbaijan-Kazakhstan bilateral equation. Ankara's interest in promoting the Turkic identity of the two Silk Road region's keystone states (as well as its third, namely Uzbekistan) is part of Türkiye's larger quest to become a significant political and economic factor in setting an increasing part of the cooperation agenda that part of the world. Integral to this, in the view of Türkiye, is the enhancement of interregional connectivity projects. And in this sense, Ankara has an interest not only in drawing Azerbaijan closer to it, but also in drawing Azerbaijan closer to Central Asia—particularly to its largest country, Kazakhstan.

Various connectivity projects will thus likely lead to an increase in the scope of economic ties between Caspian littoral states, particularly the Azerbaijan-Kazakhstan bilateral relationship. However, the full realization of this potential—which includes greater energy cooperation and completing the Middle Corridor, and which will, in turn, contribute to the independence, stability, and prosperity of the Silk Road region—requires both Baku and Nur-Sultan to undertake the following:

- Adopting measures (technical and legal) to streamline and liberalize trade, logistics, and transport procedures leading to an increase in the importance of the Middle Corridor.
- Working more closely with Türkiye, Georgia, and other relevant stakeholders to develop and expand the capacity of the Middle Corridor.
- Increasing dialogue at the institutional level for integrated policies and measures in the sphere of trade, transport, transit, etc.
- Developing multiple platforms to discuss the increased harmonization of policies, procedures, and measures in both countries with the involvement of Türkiye, Georgia, the EU, and other relevant stakeholders.
- Expanding and more fully exploiting the technical capacity of the port of Alat and its adjacent free zone, as well as the Zangezur corridor's road and railway infrastructure potential, and linking them fully to the Middle Corridor.