

A Trilateral Platform for the Caucasus and Central Asia

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Russia's focus on the Ukraine War (and the resulting West-led sanctions regime) has created a unique opportunity for the five core Central Asian states. These countries are seeking routes to advance their respective choices to pursue economic diversification. The EU, which has cut trade relations in virtually all spheres with Russia, has been keen to fill this vacuum by enhancing trade with the five core Central Asian states. Between the EU and Central Asia lies the South Caucasus (and, depending on trade routes, Türkiye). In terms of connectivity, two South Caucasus states (i.e., Azerbaijan and Georgia) are much more important than the third (i.e., Armenia): the road and rail network that runs through the former two states represents the sole politically unencumbered land route through which Central Asian goods and services can reach the European market (and vice versa). The rise in Azerbaijan's cooperation with the two "keystone states" of Central Asia, namely Kazakhstan and Uzbekistan, has thus become crucial for the two sub-regions of the Silk Road region and its major outside actors (the term "keystone state" was first coined by Nikolas Gvosdev of the U.S. Naval War College in the journal *Horizons* and has been developed by him and others in the pages of *The National Interest* and *Baku Dialogues*)

Azerbaijan is the biggest economic and military power in the South Caucasus and has a border with Russia and Iran, which gives it strategic importance along the East-West route—for all practical purposes, it is the indispensable country of the Middle Corridor. However, a different situation in Central Asia can be observed, where no single country holds the most significant share of the regional GDP and population. Despite Kazakhstan's GDP accounting for more than half of the total regional GDP, the population of Uzbekistan accounts for around half of the total regional population. Moreover, of the two countries, Uzbekistan has the more powerful military. These facts clearly show the high importance of both countries in regional affairs.

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Considering the rise in importance of both sub-regions for trade along the Silk Road region, it is essential to understand the logic of establishing a trilateral cooperation platform between Azerbaijan, Kazakhstan, and Uzbekistan—the three keystone states of the core Silk Road region.

Converging Interests

There are many spheres in which the interests of these three countries converge, and one major factor is their location along the aforementioned route of crucial transportation links. Since the diplomatic and military intensification of the conflict over Ukraine, the strategic importance of the South Caucasus and Central Asian states has grown immensely—particularly its three keystone states. This has, in turn, led to the further rise of the importance of the Middle Corridor, which facilitates trade between the Chinese, Central Asian, South Caucasus, Turkish, and European markets.

All this has been particularly beneficial for Azerbaijan, which not only has the biggest economy and population in the South Caucasus, but is, as noted above, the Middle Corridor's indispensable country. The country has put great effort into taking full advantage of its role as a trade facilitator. Azerbaijan has constructed various transport and connectivity facilities, including the Baku International Sea Trade Port and the Baku-Tbilisi-Kars railway; it is currently completing construction on its part of what it calls the Zangezur Corridor on the basis of Article 9 of the 10 November 2020 tripartite statement that ended the Second Karabakh War.

The total cargo handling capacity of the Port of Baku is 15 million tons, which will be expanded to 25 million tons. The main ports on the eastern side of the Caspian Sea are Aktau and Kuryk in Kazakhstan, and Turkmenbashi in Turkmenistan. The Aktau port has a total handling capacity of 17.7 million tons, the port of Kuryk is planned to be expanded to 10 million tons by 2030, and the port of Turkmenbashi can handle 17 million tons.

On 3 August 2015, the first test container train from the Chinese city of Shihezi, which travelled through Kazakhstan, reached the Port of Baku on its way to Türkiye. Since then, trade through this route has continued to grow. Consider the rail freight statistics between Azerbaijan and Kazakhstan for 2021 and 2022: the numbers increased from 125,000 tons to 950,000 tons, which is an 800 percent year-on-year increase. Similarly, on 27 December 2022, the first container block carrying copper from Uzbekistan to the EU reached the Port of Baku. Given the strong political will expressed by the leaders of the relevant countries to construct the China-Kyrgyzstan-Uzbekistan railway, the amount of freight coming through the Uzbekistan-to-Azerbaijan tranche of the route is also expected to grow to a great extent.

This railway line is not the only point at which the interests of these countries converge. The three keystone states of the Silk Road region are also interested in developing the

International North-South Transport Corridor (INSTC). Azerbaijan's Ministry of Digital Development and Transport indicates that the INSTC will have three directions: a western route through the Caucasus, an eastern route through Central Asia, and a central route through the Caspian Sea. Azerbaijan has financed many projects to finalize the western route. These include the construction of the Astara (Azerbaijan) to Astara (Iran) railway, a railway bridge over the Astarachay River, and the connecting road from the railway bridge to the cargo terminal located within the territory of Iran. Nevertheless, 167 kilometers of the Astara-Resht section of the railway—the construction of which is also heavily financed by Azerbaijan—needs to be finalized, as discussed in detail in previous *IDD Analytic Policy Papers* and *Baku Dialogues* essays. Azerbaijan and Kazakhstan were early signatories to the INSTC Agreement, and both have ratified it. In 2018, during President Shavkat Mirziyoyev's official visit to India, Uzbekistan was invited to join the initiative. In 2020, Uzbekistan agreed to join INSTC. Since then, trade between Central and South Asia experienced a significant increase in volume through the Port of Chabahar in Iran. While the route ending at Chabahar remains the fastest and most convenient, Uzbekistan is also interested in the inclusion of Afghanistan through the construction of the Termez-Mazar-i-Sharif-Kabul-Peshawar railway. A new deal struck yesterday between Afghanistan and Uzbekistan on the maintenance of the Hairatan-Mazar-e-Sharif railway should be understood in this context.

The particular importance of Azerbaijan can also be seen in the trade between the EU and Central Asian countries. For instance, the share of trade turnover with the EU for Kazakhstan in 2020 and Uzbekistan and Kyrgyzstan in 2021 accounted for 29.7 percent of total trade turnover—around 7 and 5.1 percent, respectively. While the official numbers for Turkmenistan and Tajikistan are unavailable, they are likely low. As the influence of Russia on the region decreases, the economic presence of the EU in the region is likely to increase. The numbers clearly show that there is room for the expansion of the EU in the total trade turnover of the Central Asian countries.

This clearly shows the importance of Azerbaijan, Kazakhstan, and Uzbekistan in transportation and trade in the Silk Road region. Moreover, Azerbaijan, Georgia, and Kazakhstan are in the process of establishing the Eurasian Rail Alliance Joint Venture, which is expected to keep tariffs stable to foster trade along the Trans-Caspian International Route (TITR). Similarly, establishing a platform between Azerbaijan, Kazakhstan, and Uzbekistan to promote the harmonization of tariffs along different trade routes could bring greater economic benefits—for the three keystone states, their neighbors in the region, and global trading partners.

The Need for a Trilateral Platform

The shift in the leadership of both Uzbekistan (in 2016) and Kazakhstan (in 2019) has greatly benefitted their bilateral relationship. In 2016, Mirziyoyev was elected to his first five-year term as president of Uzbekistan. His approach to foreign policymaking

has completely changed the discourse of regional cooperation between Central Asian states. This is of particular importance because of Uzbekistan's geographical position: it is the only country in the region that borders all the other Central Asian states, including Afghanistan. Uzbekistan also has access to the most significant water resources in the region, namely the Amu Darya and Syr Darya rivers. Considering the country's massive population, all major political, economic, or social developments in Uzbekistan is likely to affect the whole region. Thus, the new president's declaration that some of his policy objectives would include the establishment of more significant relations with neighbors, the opening up of border checkpoints, and the achievement of reasonable compromises with neighbors, has completely changed the regional dynamics. This policy is effectively reflected in the development strategy that was introduced early in Mirziyoyev's second term as president.

The initiation and continuation of such policies has already led to a massive increase in trade with other Central Asian states and key countries beyond the region, including Azerbaijan.

The trade turnover between Kazakhstan and Uzbekistan increased from \$1.9 billion in 2016 to \$3.9 billion in 2021. Within only five years, trade between Central Asia's two biggest economies increased by around \$2 billion. This now makes Kazakhstan one of Uzbekistan's biggest trade partners, accounting for about 9 percent of the total foreign trade turnover.

A similar change can be observed in the case of Azerbaijan-Uzbekistan trade, which increased from around \$15 million in 2016 to \$111.9 million in 2021. Moreover, within the first three quarters of 2022, the total trade turnover between these two countries (\$131.1 million) exceeded the trade volume for all of 2021. During Mirziyoyev's first term, the opening up of the state to greater regional cooperation led to a doubling of its trade turnover with Kazakhstan. In the same timeframe, it multiplied more than sevenfold with Azerbaijan.

While trade between Uzbekistan and Azerbaijan has been increasing steadily, the situation is more nuanced with regards to Kazakhstan and Azerbaijan. The value of the trade turnover between these two countries rose from \$124 million in 2016 to approximately \$230 million in 2019. In 2020 and 2021, however, the numbers went back down to 2016 levels, in large part due to the strict regulations that Kazakhstan adopted to prevent the spread of COVID-19 (in 2021, the trade turnover number went down to \$136 million). However, within the first three quarters of 2022, trade turnover spiked up to \$417 billion. This is yet another consequence of the conflict over Ukraine, in that Kazakhstan decided to strategically diversify its trade routes. One of the routes that Kazakhstan has prioritized is the Trans-Caspian one. During a summit held by the leaders of Kazakhstan and Azerbaijan on 24 August 2022, the countries' foreign ministers signed the "Agreement on Trade and Economic Cooperation Between the

Government of the Republic of Azerbaijan and the Government of the Republic of Kazakhstan.” This ought to facilitate a further increase in the trade turnover numbers in the years to come.

While the Mirziyoyev period in Uzbekistan has led to radical changes in regional trade and economic relations, Central Asia’s greater focus on intra-regional *political* cooperation came about after Kassym-Jomart Tokayev took presidential office in Kazakhstan in 2019. The two Central Asian leaders seem to have had a meeting of minds: both grasp that leadership in regional affairs requires deeper political and economic cooperation between their two countries. Hence the clear trend of deepening relations between these countries in recent years. This culminated on 22 December 2022 with Tokayev’s official visit to Tashkent during which the Agreement on Allied Relations was signed by the two leaders. In his remarks on that occasion, Tokayev underlined that this step would strengthen sustainable growth, connectivity, stability, and security in the region.

As the priorities of both Uzbekistan and Kazakhstan include strengthening connectivity and economic growth, more comprehensive cooperation under a single platform with Azerbaijan would be of significant benefit. Establishing an institutionalized cooperation platform would allow products from Central Asia to reach European and Turkish markets (and vice versa) whilst avoiding transiting through the two main sanctioned countries (Iran and Russia). Such a platform would also determine the shape of cooperation between the Silk Road region’s two chief sub-regions, namely the South Caucasus and Central Asia.

Time for a New Trilateral Format

The trilateral format is a familiar model for Azerbaijan and one that its ally Türkiye has used to great effect—including with some of the Central Asian states. For instance, the first trilateral summit between the foreign ministers of Azerbaijan, Kazakhstan, and Türkiye took place in Baku on 27 June 2022. The declaration that was signed during that meeting focused on strengthening connectivity along the Middle Corridor. The decision they reached to establish an interdepartmental working group on transportation will facilitate this process. Another example involves Azerbaijan and Kazakhstan plus Georgia; it too is indicative of this trend. So is Astana’s decision to export more of its energy resources through the Caspian Sea. Hence the March 2022 trilateral involving the aforementioned three countries that established a joint venture to discover the greater potential of the Trans-Caspian Trade Route (TITR). The resulting format will be responsible for tariff setting, unified IT solutions, and several other issues like unified cargo declaration procedures.

Similarly, the first trilateral meeting of the foreign ministers of Azerbaijan, Türkiye, and Uzbekistan took place in Tashkent on 2 August 2022. The resulting Tashkent Declaration covered many sectors for cooperation. There too, the particular focus

there was on transportation. While this meeting laid the foundation for an increase in East-West connectivity, Uzbekistan’s transport minister also mentioned the importance of initiating the Türkiye-South Caucasus-Central Asia-South Asia route—an indicator of an even more expansive vision. In this context, particular preference was given to the advantage provided by the existence of railway lines like Baku-Tbilisi-Kars through Azerbaijan and Türkiye as well as both the Termez-Mazar-i-Sharif-Kabul-Peshawar and Uzbekistan-Kyrgyzstan-China rail lines that pass traverse Uzbekistan.

In short, it is a strategic imperative for the three keystone states of the Silk Road region—Azerbaijan, Kazakhstan, and Uzbekistan—to establish a trilateral format for cooperation. Over time, this could be transformed into something with a more formal institutional framework.