

# Overcoming the Curse of ‘Landlockedness’: Strategic Importance of BTK in Connecting Central Asia to the World

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Javid Alisgandarli\*

This article is an analysis of the opportunities presented by the new Baku-Tbilisi-Kars railway project to landlocked Central Asia and Azerbaijan. The creation of efficient transportation corridors is important for landlocked states in terms of obtaining secure and cost effective access to major export and import markets, and in order to overcome the trade bottlenecks created by geography. In this regard, the importance of the “New Silk Road” project is comprehensively assessed, with particular focus on the opportunities presented by the newly launched Baku-Tbilisi-Kars railway route. It is argued that these projects constitute major breakthroughs for Central Asia and Azerbaijan, not only helping them to overcome the economic development limitations entailed by lack of maritime access, but also providing easy access to global markets and significantly increasing their role as transit countries connecting East and West.

Keywords: Silk Road, Baku-Tbilisi-Kars, One-Belt-One-Road, Transit corridors, Central Asia, South Caucasus, Nagorno-Karabakh



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\* Javid Alisgandarli is MSc in International Politics from SOAS University of London. He is currently a lecturer at Baku State University.

### ***Introduction***

One of the major challenges for the Central Asian region has been the establishment of the reliable and effective transportation networks, given the lack of access to the open seas. Creating efficient transportation corridors has been a major issue for Azerbaijan and its Central Asian neighbors Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, and Tajikistan.<sup>1</sup> Historically, the trade between Central Asia and South Caucasus was conducted via the “Great Silk Road”, once the single most important trade route in the world, running from China to Europe. However, the importance of this route waned as international trade gradually shifted to the open seas. The costs of transporting goods overland were simply too high compared with the newly identified maritime alternative. This article argues that reliable and effective transportation networks for easy access to global market are crucial for the economic development and security of landlocked states. The analysis consists of two parts. The first section identifies the importance of building new transportation routes for landlocked Central Asia and Azerbaijan, thereby fostering cooperation among these states. It is noted that the common goal of these states is to transform the region into a transportation hub, in order to reduce its dependence on any one global player therefore support its independence. The second part examines their potential of these states to participate in the ‘New Silk Road’ Project, and assesses the opportunities presented by the Baku-Tbilisi-Kars railway in regard to the development of the transportation network in a way that brings in new players.

### ***The problem of being landlocked***

High transport costs are certainly one of the main impediments to the reorientation of Central Asian trade. The distance of Central Asian countries from the main economic markets is of course only part of the story. However, distance and domestic infrastructure alone do not explain why Central Asian countries are at a disadvantage in comparison to countries with similar income. Lack of maritime access still has a negative and highly significant impact on trade, given the higher costs per mile of

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<sup>1</sup> Azad Garibov (2016), The Trans-Caspian Corridor: Geopolitics of Transportation in Central Eurasia, *Caucasus International* Vol. 6 • No: 1

overland distances versus sea distances. Moreover, landlocked countries are dependent on sovereign transit countries for their trade, which may only compound existing problems. Therefore, in order to achieve sustainable long term economic development, the Central Asian states should focus on becoming “land-linking” countries, providing important transit services to their transit neighbors. In this regard, both landlocked and neighboring transit countries can benefit from actions taken to increase the efficiency of transit transport.<sup>2</sup>

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Efficient transit routes are crucial for landlocked nations. Due to their lack of access to seaports and the prohibitive cost of airfreight, landlocked countries are reliant on the transport of goods by land through one or more neighboring countries. The additional costs incurred, together with problems of distance, make imports more expensive and exports less competitive, placing landlocked countries at a disadvantage in the global economy. Some of the major factors influencing the transit transport systems of landlocked and transit developing countries in the region are described below.

In some cases, transit transport can become more efficient through the development of alternative routes, not only within one transit country but also through different countries. When a transit route passes through the territory of another country, traffic along the route is only possible when the transit country grants the right of transit through its territory, usually under specific conditions. Given that sovereign states have exclusive jurisdiction over transportation within their territories, transit rights, along with any limits, are created when sovereign states voluntarily enter into bilateral, multilateral or international agreements and/or conventions. In most cases, landlocked countries are bound by such agreements in their choice of transit routes.

Landlocked countries may be able to strengthen their bargaining position in the negotiation of transit and trade agreements by demonstrating the value of the transit business provided to its neighbors, taking into account not only the direct costs involved,

<sup>2</sup> Transit Transport Issues in Landlocked and Transit Developing Countries, *CONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC Landlocked Developing Countries Series, No. 1* Retrieved from: <http://siteresources.worldbank.org/INTRANETTRADE/Resources/WBI-Training/UN-Landlocked.pdf> Accessed on, November 10, 2017

but also income generated through additional multiplier effects. Transit countries can also benefit from a better understanding of how they can generate revenues through the sale of transit services. In this regard Kazakhstan, has characterized its foreign policy as ‘multi-vectoral’, aiming to foster partnerships in multiple directions and expand its ties with Central Asia and beyond. One central feature of the multi-vector policy is pragmatism. In addition to pragmatism, a central component in the multi-vector policy is the development of good relations with key foreign actors, especially neighbors, and to balance those foreign powers.<sup>3</sup> Multi-vector also implies relations in every direction. This balancing game is important for small states to retain autonomy, especially those neighboring a great power, which could dominate the small state in an asymmetrical relationship.<sup>4</sup>

### *The Development of the New Silk Road Project*

The Silk Road project is vitally important for Central Asian states in overcoming their geographical limitations, as it aims to connect China with Western Europe, thus eventually creating links for Central Asian states to both east and west. The project was initially introduced by the US as part of a strategy to develop the Afghan economy, following its devastation by the war.<sup>5</sup> However, at the moment, this is much more than just an initiative to help Afghanistan but it has grown into a multistate project which aims to facilitate trade between East Asia and Western Europe and contribute to economic activity across the region. In this regard, the new role of the Central Asian states (Turkmenistan, Uzbekistan, Kyrgyzstan, and Kazakhstan) is highly significant in terms of international relations, as they will become very important players in trans-continental trade.

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The revival of global Silk Road was the idea of Chinese president Xi Jinping. In 2013 he launched China’s “One

<sup>3</sup> Sultanov, B., & Muzaparova, L. (2003). Great Power Policies and Interests in Kazakhstan. *Thinking strategically: The Major Powers, Kazakhstan, and the Central Asian Nexus*, 187-216.

<sup>4</sup> Central Asia in a Reconnecting Eurasia: Kazakhstan’s Evolving Foreign Economic and Security Interests [https://csis-prod.s3.amazonaws.com/s3fs-public/legacy\\_files/files/publication/150612\\_Kuchins\\_CentralAsiaKazakhstan\\_Web.pdf](https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150612_Kuchins_CentralAsiaKazakhstan_Web.pdf)

<sup>5</sup> *U.S. Support for the New Silk Road*, U.S. Department of State, Diplomacy in Action, <http://www.state.gov/p/sca/ci/af/newsilkroad/>.

Belt, One Road” (OBOR) initiative, aimed at connecting major Eurasian economies through infrastructure, trade, and investment. The initiative was subsequently developed to include two international trade connections: the land-based “Silk Road Economic Belt” and the “Maritime Silk Road.”<sup>6</sup> China declared its readiness to help partner countries develop the necessary infrastructure for transportation, communication, and telecommunications.<sup>7</sup> In this regard, China aims to provide foreign aid and facilitate capital for those participating in the construction of the “One Belt and One Road”. During his speech at the opening of the “Belt and Road” forum, Xi pledged to invest 780 billion yuan (US\$113 billion) via its state funds and banks to finance projects in the “Belt and Road Initiative”, and urged countries across the globe to join hands with him in pursuit of globalization.<sup>8</sup>

The Belt and Road Initiative seeks to promote infrastructure connectivity, with trade routes covering around 60 countries across Asia, Europe and Africa. Importantly, it also stands to help address the infrastructure investment gap faced by landlocked developing countries, which encounter unique development challenges due to structural and geographical disadvantages. Underdeveloped infrastructure has greatly undermined the ability of these countries to improve productive capacity, expand trade, attract foreign investment, and improve livelihoods. Protracted infrastructure gaps have jeopardized the efforts of vulnerable countries to achieve long-term sustainable development, leaving them unable to reap the benefits of globalization. Establishing a modern and well-maintained infrastructure network, connecting sub-regions in Asia and between Asia, Europe and Africa, could be a potential “game changer” for these most vulnerable countries in terms of boosting trade, facilitating integration into regional and global value chains, encouraging investment, accelerating structural transformation - and ultimately, contributing to the eradication of poverty.

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6 China's One Belt One Road Initiative: What we know thus far, Retrieved from: <http://blogs.worldbank.org/eastasiapacific/china-one-belt-one-road-initiative-what-we-know-thus-far>

7 Your guide to understanding OBOR, China's new Silk Road Plan, Retrieved from: <https://qz.com/983460/obor-an-extremely-simple-guide-to-understanding-chinas-one-belt-one-road-forum-for-its-new-silk-road/>

8 Xi's US\$113b pledge 'more seed fund than credit pipeline' Retrieved from: <http://www.scmp.com/news/china/diplomacy-defence/article/2094311/xis-us113b-pledge-more-seed-fund-credit-pipeline>

### **Baku-Tbilisi-Kars and its importance for landlocked states**

The launch of the Baku-Tbilisi-Kars (BTK) railway on October 30 is one of the key milestones of China's One Road One Belt (OBOR) project.<sup>9</sup> Trains from China to Europe started running in 2012. Since then, some 39 routes connecting 16 Chinese cities with 12 cities in and along the European route have been developed.<sup>10</sup> However, the BTK link is especially important because it is expected to reduce the transport time of goods from China to Europe and vice versa to 15 days, which is less than half what it currently takes by sea. Trains will depart from cities

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It is worth mentioning the importance of BTK to Azerbaijan, as Baku has invested heavily in its own infrastructure as well that of the neighboring countries involved in the development of the railroad project. As part of the BTK project, Azerbaijan provided Georgia with a 25 year loan of US\$200 million for the construction of Marabda-Kartsakhi Railway (1% annual interest rate). On top of that, an additional US\$575 million dollar loan was allocated to Georgian company Kartsakhi-Marabda (25 years; 5% annual interest rate). Thus Baku has loaned Georgia a total of US\$775 million loan for the construction of the Georgian section of the project.<sup>12</sup> BTK is a strong alternative to the existing goods transportation links to Europe via Russia and Iran. Moreover, it provides an excellent opportunity for the economic development of the region, as this will turn the transit states to a hub for goods transportation.

In addition, it will provide an important railway link for Georgia to Europe. At the moment, the only railway connection between Georgia and Europe is through Abkhazia and Russia, but as a

9 Baku-Tbilisi-Kars Railway Line Officially Launched, Retrieved from: <https://www.rferl.org/a/baku-tbilisi-kars-railway-line-officially-launched-azerbaijan-georgia-turkey/28824764.html>

10 Baku-Tbilisi-Kars railway comes online: Retrieved from, <https://www.gtreview.com/news/europe/baku-tbilisi-kars-train-chugs-into-motion/>

11 Ibid,

12 Construction of BTK's Georgian section accelerated, Retrieved from: <https://www.azernews.az/business/100384.html>

result of the conflict with Russia, the line is currently closed. This situation is unlikely to change anytime soon.

Turkey's gains from the project include enhancing its position within Asian-European transit corridors. The project seeks to connect Turkey to Russia via Tbilisi and improve Turkey's access to Central Asia. Another important perspective relates to the special article included in the agreement among three participating countries, which foresees the possibility of Armenia's access to the BTK project under the condition that it ends its military aggression towards Azerbaijan and liberates the occupied territories of Azerbaijan including Nagorno-Karabakh and seven adjacent regions.<sup>13</sup> However, the Armenian government still fails to recognize that in today's world, regional cooperation and economic interdependence are far more important pursuing a zero-sum game. In 1993, Turkey closed its borders with Armenia in response to Armenian aggression towards Azerbaijan.<sup>14</sup> It is argued that although Armenia won the war (1988-1994)<sup>15</sup> and occupied 20% of Azerbaijan's territory, it has lost its sovereignty given its dependence on Russia in terms of security, economic activity and even political decision-making.<sup>16</sup> Despite four UN Security Council passed four resolutions on the Nagorno-Karabakh conflict (822, 853, 874, 884)<sup>17</sup> demanding the immediate release of Azerbaijan's occupied territories and emphasizing the right of IDPs to return, the Armenian government still refuses to liberate the occupied territories Azerbaijan - a clear violation of the international legal principle of territorial integrity. As a result of these unconstructive policies of violating the territorial integrity, conducting military aggression, terrorism and ethnic cleansing in the territories of a neighboring state, Armenia has

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13 Klimas, E., & Humbatov, M. (2016). BAKU-TBILISI-KARS RAILROAD. Retrieved from: <http://sam.az/uploads/PDF/BTK%20railroad.pdf>

14 C Cornell, S. E. (1998). Turkey and the conflict in Nagorno-Karabakh: a delicate balance. *Middle Eastern Studies*, 34(1), 51-72.

15 Souleimanov, E. (2011). DEALING WITH AZERBAIJAN: THE POLICIES OF TURKEY AND IRAN TOWARD THE KARABAKH WAR (1991-1994). *MERIA Journal*, 15(3).

16 Armenia's Foreign Policy Four Years after the U-Turn, Retrieved from: <http://hetq.am/eng/news/81704/armenias-foreign-policy-four-years-after-the-u-turn.html>

17 *Resolution 822* (1993, April 30); *Resolution 853* (1993, July 29); *Resolution 874* (1993, October 14); *Resolution 884* (1993, November 12). Retrieved from <http://2001-2009.state.gov/p/eur/rls/or/13508.ht>



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been left out of the major regional economic projects.<sup>18</sup>

The BTK railway is important step for China as it plays a unique role for developing multimodal transportation of goods. It is argued that the BTK Railway was the missing link of the middle corridor of the New Silk Road, which runs from China to Europe via Kazakhstan, Azerbaijan, Georgia, and Turkey. Therefore, BTK is significant for China's new Silk Road project as it allows the movement of goods and passengers in both directions in a much shorter period, which in turn reduces the transportation costs.<sup>19</sup>

### **Conclusion**

To sum up, it can be said that the Central Asia and South Caucasus made significant progress in fostering economic development and cooperation since independence, despite their disadvantageous geographic locations. It was argued that the land transportation era has long been over, with no chance of revival.<sup>20</sup> Lack of access to seas created number of economic problems, as these states had little access to global markets and transportation of goods. This limited their economic independence by creating a sort of dependency on strong regional players who controlled the access to world markets via their ports. The Revived Silk Road Project, in this sense, represents an immense opportunity for Central Asia and Caucasus, as it provides an opportunity to turn the region into a transit hub as well as creating different routes into the global market. Thus, no single player will have absolute control over the transit routes and all parties will benefit equally from the economic activity.

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18 Finkel, E. (2010). In search of lost genocide: historical policy and international politics in post-1989 Eastern Europe. *Global Society*, 24(1), 51-70.

19 Klimas, E., & Humbatov, M. (2016). BAKU-TBILISI-KARS RAILROAD.

20 Azad Garibov (2016), The Trans-Caspian Corridor: Geopolitics of Transportation in Central Eurasia, *Caucasus International* Vol. 6 • No: 1



With additional links, it can connect to the North-South Transport Corridor and Southern Corridor via Iran. The BTK will be the heart of the new links for more than one country, as it is the only connection between the Caspian Sea and the Black Sea. This line is vitally important, considering the lack of feasible land connections between Central Asia and South Caucasus, and Europe via Turkey.<sup>21</sup>

The development of economic interdependence among the transit countries of the New Silk Road Project clearly indicates that the long term benefits of this cooperation will be even more important than the short-term benefits. However, in order to achieve this, the participating states will need to make necessary adjustments to their customs and tariffs. In the long run this will enhance economic cooperation in the region. In this regard, BTK provides an opportunity to increase the currently low level of interregional trade between Caucasus and Central Asia. This is because oil and gas remains the main export in regard to interregional trade between Central Asia and Caucasus. The heavy reliance on the energy transportation has proven risky for economic stability, clearly demonstrated in the wake of the decline of global oil prices in late 2014. The currencies of Russia, Azerbaijan, and Kazakhstan have suffered massive depreciations over the last couple of years due to rapidly declining oil prices.<sup>22</sup> It is expected that the development of multimodal transportation of goods and increased trade and transportation of goods related to non-energy sectors will significantly improve economic diversification in the Caspian Basin.

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21 Klimas, E., & Humberov, M. (2016). BAKU-TBILISI-KARS RAILROAD.

22 Ibid, (2016)