

Lapis Lazuli Corridor: Meeting the Economic Aspirations of Afghanistan and Member Countries

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Abstract

Lapis Lazuli Corridor is a regional route linking Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey. The three landlocked members Afghanistan, Turkmenistan, and Azerbaijan have great trade potential which could contribute to their sustainable economic growth. However, they face certain challenges not allowing them to exploit their true potential. The landlocked Afghanistan is striving to look for alternative, easier, and economically viable trade routes to European and other international markets. Turkmenistan and Azerbaijan experienced high economic growth on the back of oil exports before their economies were hit by international oil market shocks in 2014. Now, both countries have prioritized to diversify their economies. Georgia is located in a strategic position with its key sea ports in Black Sea but needs to reap the gains of strategic location through more transit, trade and regional integration. On the other hand, Turkey is working hard to ensure more political and economic influence in South Caucasus region and Central Asia. The paper discusses how the Lapis Lazuli Corridor can address the economic aspirations of the member countries by analyzing the strategic documents and national priorities of each member country.

Keywords: Landlocked, Lapis Lazuli, Corridor, Economics, Trade, Transit, Regional Integration

Introduction

The landlocked countries have typical problems in terms of trade and transit routes. Research shows that distance plays a significant role in transportation of goods (Moneta, 1959).¹ The same pattern is revealed even in recent studies which shows that geographic location of a country plays an important role in determining the cost of trade (Hummels, 1998).² Despite technological development in transportation sector, the landlocked developing countries continue to face challenges to access international markets and as a result they lag behind their maritime neighbors not only overall development and external trade (Faye et al, 2004).³ These countries are vulnerable to high freight cost, and the unpredictability in terms of time (Marteau et al, 2007).⁴

The problems are more complicated in context of resource rich landlocked countries where lack of economic diversification makes them susceptible to international oil market shocks. The oil exporting countries need to use the income from natural resource to diversify their economies which would enable them to fight against external shocks (Gelb and Grasmann, 2010).⁵ In this context, Economic and export diversification can contribute visible benefits to the economy and resource dependent countries introduce different policies to decrease their dependence on the extractive industry (Esanove, 2012).⁶

The modern global economy is organized and strongly based on regional integration (Choi and Caporaso, 2002).⁷ Countries in other regions are also working to come closer and address trade barriers. The evidence from Africa shows that the countries in the continent are focusing on regional integration to overcome problems related to transportation of goods and build trade partnership with major economies including European Union, China and Central Asia (Hartzenberg, 2011).⁸

In the light of literature, the paper provides an overview of trade related challenges and potential benefits of Lapis Lazuli Corridor to member countries. It discusses how the corridor could address the strategic priorities of landlocked members in terms of trade, and economic diversification. It also provides an analysis of how the corridor is aligned with the priorities of member coastal countries.

2 Background

The discussion about Afghan economy usually begins with the landlocked geographic position of the country. The disadvantaged geographic position has remained a constraint for economic growth because it restricts the trade prospects for the country. The neighboring transit countries particularly Pakistan exploits it as pressure tactic for political gains.⁹ This is the reason why the debates about alternative trade routes gains attention. The Lapis Lazuli Corridor is one of the key regional projects that has potential to diversify the trade routes of the country.

The corridor is a trade and transport route which begins in Aqina and Turghundi ports in western and north-western Afghan provinces of Herat

and Faryab, reaches Turkmenbashi port of Turkmenistan, crosses Caspian Sea, heads to Baku in Azerbaijan then via Georgian capital Tbilisi reaches its Poti and Batumi ports in Black Sea and finally via Turkey to Europe. The route involves road, rail and maritime transportation means.

The route follows the traces of ancient routes through which Afghanistan used to transport goods to different countries of the world. It gets its name from the historic route through which Afghanistan's lapis lazuli and other semiprecious stones were exported to North Africa, Russia, the Balkans, Europe and Caucasus more than 2,000 years ago.¹ The project was conceived by Afghanistan. Its name surfaced in 2012 and initially consisted of only four member countries with the objective to provide the country access to Black Sea.¹ This is the reason the initial name was proposed as Black Sea Corridor. However, there already existed another project in the region with similar name. Therefore, the name was changed to "Lapis Lazuli Corridor".¹ Later on, Turkey joined² the corridor which extended the trade route to Kars, Istanbul and as such to Europe through Mediterranean Sea.¹

It took the member countries three years to discuss different aspects of the agreement. The first meeting was held in November, 2014 at the Ministry of Foreign Affairs of Turkmenistan in Ashgabat. The text of agreement was finalized in the fourth technical meeting that was held in Baku in November 2016.¹ The Lapis Lazuli Route Agreement was officially signed on November 15, 2017 on the sidelines of Regional Economic Cooperation Conference on Afghanistan (RECCA)- VII in Ashgabat, Turkmenistan.¹

The first and pilot shipment of goods was sent from Afghanistan via Lapis Lazuli route on December 13, 2018.¹ This included cotton (83 ton), wool (23 ton), raisins (26 ton), watermelon (26 ton) and sesame seeds (2.5 ton). Despite the facts above, there are still a number of major issues to be addressed to make the corridor fully operational. For this purpose, the expert groups assigned to work on implementation of the agreement hold regular meetings. The first working group meeting was held in Ashgabat, Turkmenistan on April 2018 in which different issues including visa and transportation protocols, customs cooperation, taxation and tariffs were discussed.¹ To follow up of the issues, second meeting was held in December 2018 in Herat, Afghanistan.¹ The third meeting was held in Tbilisi, Georgia in June 2019 in which all the members showed their commitment to ensure a collective effort for effective implementation of the agreement.¹

The discussions about effective implementation are still underway and it will take some time until the route is fully operational. Once fully operationalized, it can ensure significant economic gains for the member countries. The paper provides an overview of economic importance of the project and how it meets the aspirations of three landlocked members of Afghanistan, Turkmenistan, Azerbaijan, as well as coastal countries of Georgia and Turkey.

3 Economic Aspirations

3.1 Afghanistan

Afghanistan celebrated the agreement as an important development that would heal its long standing economic plague to a great extent. As a landlocked country, Afghanistan has remained dependent on Pakistan for its international trade in the light of international conventions and bilateral agreements. However, these legal frameworks have remained on the paper but not applied in practice and as a result the economy has continued to bear the brunt of transit trade challenges posed by Pakistan.² Over the course of the history, the disadvantaged geographic position has been used as a pressure tool by Pakistan to dictate its political policies against Afghanistan. In this context, Lapis Lazuli Corridor would greatly contribute in the diversification of its trade and transit routes which has been dubbed as the shortest, cheapest and most reliable route for Afghanistan's trade with Europe.²

Beyond transit trade, the agreement is a strategic step towards integration of Afghanistan in the region and securing its economic future by designating it as a hub to connect markets of South Asia, Central Asia, and Middle East. As such, it complements other regional integration projects particularly Five Nations Railway Corridor Project and connect with Middle Corridor Project of Turkey.

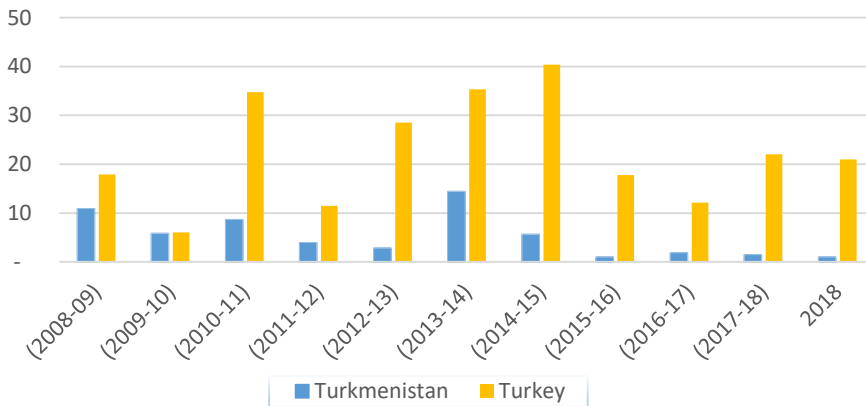
In the recent years, Afghanistan's trade focus has been shifted from Pakistan to Iran.² At the moment, it is Bandar e Abbas of Iran being used as an alternative to Karachi port. In the long term, Chabahar would serve as an important trade and transit route for Afghanistan once fully operation.² In this context, while Chabahar provides Afghanistan access to Arabian Sea, the Lapis Lazuli Corridor gives it access to Black and Mediterranean Seas.

The *Transport and Civil Aviation Strategy* about economic future of the country states that Afghanistan cannot develop without access to regional and international markets.² The facilitation of trade and simplification of procedures along the corridor will enable Afghanistan to expand its trade with member countries as well as European Union. At the moment, both the imports and exports show a downward trend due to an overall decrease in Afghanistan's trade as well as barriers on the current routes to access regional and international markets. The corridor would provide Afghanistan an opportunity to expand trade with member countries. In addition, it would provide Afghanistan access to European markets.

In terms of trade with member countries, Turkmenistan and Turkey are the key destinations for Afghanistan's exports. The exports to both countries have mainly included dry fruits, animal skin, wool, high value and medical herbs. Georgia and Azerbaijan make random appearance as export destinations. However, the Afghan Government sees them as potential market for mineral products. In this regard, the first shipment of 115 tons of marble reached Azerbaijan in June 2019.² While this was not the first time

that Afghanistan has exported marbles in the last decade, this indicates the potential for future exports.

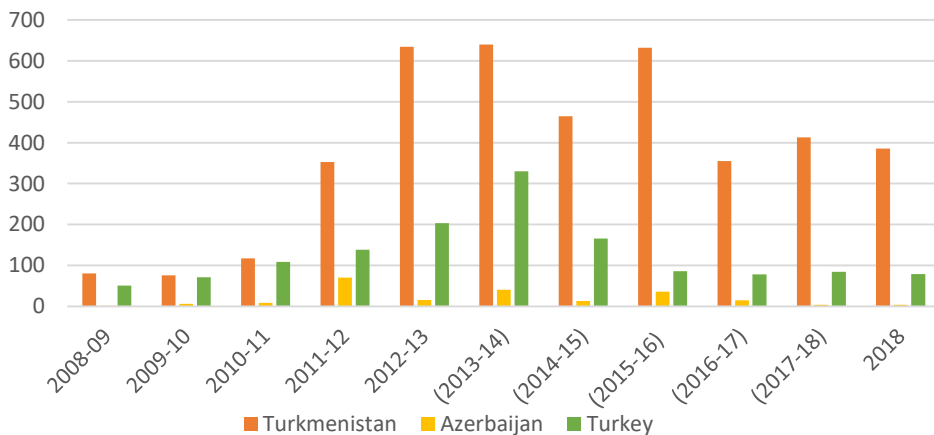
Figure 1: Afghanistan's Exports to Turkmenistan and Turkey (2008-2018)



Source: National Statistics and Information Authority (Afghanistan)

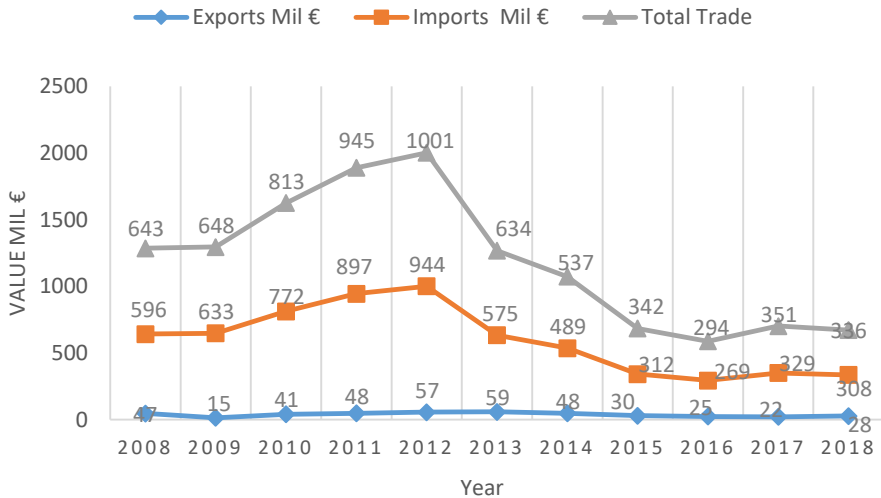
In terms of imports, Turkmenistan has remained at the top followed by Turkey and Azerbaijan. The imports from both Turkey and Turkmenistan include food and non- food items in different categories. However, the significant part of imports from Turkmenistan includes electricity, diesel, liquid gas and petrol. This is one of the key reasons why the imports from the country have remained very high.

Figure 2: Afghanistan's Imports from Turkmenistan, Azerbaijan and Turkey (2008-2018)



Source: National Statistics and Information Authority (Afghanistan)

An important aspect of Lapis Lazuli corridor is that it provides Afghanistan alternative access route to European markets. The exports of Afghanistan have remained slightly above €50 million in peak years while the imports reached well above €900 million. The best year in the past one decade has been 2012, when the bilateral trade crossed one billion Euro mark. The facilitation and ease of barriers will enable Afghanistan to expand trade with EU.

Figure 3: Afghanistan's Trade with European Union

Source: Directorate General for Trade, European Commission

An important aspect of the corridor is that Afghanistan is a highly resource rich country blessed with mineral wealth. But, the current gains from the mining sector are way below its potential.² The export remains a challenge due to landlocked geographic position of the country. The case of talc mineral can explain the situation and potential for Afghanistan's mining sector. A recent study revealed that Afghanistan's talc is imported by Pakistan at a very low price and then re-export to international markets. It is important to mention that Pakistan is an important name in the global talc market. It is a producer, consumer as well as exporter of the mineral to major importing countries. The data from 2016 shows that Pakistan produced 125,330 MT (metric ton) of talc. However, it exported 305,970 MT valued around \$56.7 million. In the meantime, data reveals that the country consumed 120,000 MT of talc in the same year.² Given the fact that in the same year, Pakistan's domestic production was almost at par with its consumption, it did not have significant import from another country and that almost all of Afghanistan's talc was exported to Pakistan which can be implied that the remaining gap is filled by talc from Afghanistan. In this context, the Lapis Lazuli would serve as an alternative route which Afghanistan could use to export its minerals to Europe and other international markets.

3.2 Turkmenistan

The next destination of Lapis Lazuli route is Turkmenistan. The competition for influence in resource-rich, landlocked and strategically important Central Asia among USA and the regional players China and Russia is not new.² This has forced the Central Asian republics to decide their foreign policies in accordance with geopolitical position. Among these republics, Turkmenistan had adopted Permanent Neutrality in 1995 under a unique UN resolution which manifests strong commitment of the country towards international peace and security in its foreign policy.²

The economy of Turkmenistan largely depends on its natural resources. The country is fourth largest producer of natural gas in the world with major exports to Russia, China and Iran.³ However, the revenue from hydrocarbons industry is shrinking following major back-to-back blows. For instance, Russian giant Gazprom stopped purchase of Turkmen gas apparently due to price dispute.³ On the other hand, the supply to Iran was stopped due to contract issues.³ Both these incidents took place in early 2017. This left China as the only destination for Turkmen gas. However, that too is turned into an uneven road for the country. The supply to China is made through three lines A, B, and C passing through Uzbekistan and Kazakhstan before reaching western China. In order to boost the supply, an additional 30 billion cubic meter of gas was planned to be supplied through a fourth pipeline “Line D” which was supposed to pass through Uzbekistan, Tajikistan, and Kyrgyzstan to reach China.³ However, the construction work has remained suspended since December 2015 due to disagreements over route, and other technical issues among the three transit countries.

Turkmenistan is aware of the risks associated with its heavy reliance on the hydrocarbon industry and has been planning to diversify the economy. The economic diversification agenda is highlighted as strategic national priority and outlined in the National Program for Socioeconomic Development (NPSD) 2011-2030.³ The country has embarked on an ambitious objective to become a transnational transit corridor, including Black Sea and Caspian Sea connections. As such, Turkmenistan has heavily invested in transport infrastructure. According to NPSD, the investments in transport infrastructure need to be complemented by the development of services to facilitate trade. In this context, the Lapis Lazuli Agreement is in line with country’s strategic priorities. It will help to expand trade and integrate the country more strongly with the South Caucasus, Turkey and Europe.

3.3 Azerbaijan

Across the Caspian Sea, the Lapis Lazuli route reaches Azerbaijan. The economy of Azerbaijan collapsed following independence from Soviet Union in 1991. But, the country soon made remarkable progress in economic realm on the back of its hydrocarbon resources. In 1995, the economy was less than 40% as compared to what it was back in 1989.³ However, it made remarkable progress starting in the mid-2000s and reaching a GDP per capita of \$7886 in 2014 and poverty rate as low as 6% in 2012.³ The economy was hit by nose dive in global oil prices in 2014 like many other countries dependent on the sector.³

The situation revealed that too much dependence and concentration on the hydrocarbon industry had made the country susceptible to external shocks. The data from National Statistics Committee for structure of economy between 2007 and 2015 reveals that the share of manufacturing sector was less than 5% in the GDP while that of mining industry ranged between 26-42% during the same period.³ Therefore, as a typical case of

resource rich country, Azerbaijan needed to diversify its economy to address the underlying challenge. In this context, trade can play an important part in diversifying economy of the country as suggested by studies.³

The fact is understood and duly addressed in strategic document “Strategic Roadmap for development of logistics and trade in the Republic of Azerbaijan” which sets the overall direction for economic development of the country for 2020, 2025 and beyond.⁴ The strategic document aims to turn Azerbaijan into logistic and trade hub of regional significance through increased traffic in medium to long term.

In this context, Lapis Lazuli Corridor falls within its regional priorities. The simplification in customs procedures and facilitation would increase the traffic on the ports and offer economic opportunities. According to World Bank report, the development of major transport corridors and efficient logistics services will enhance the access to international markets, thereby increasing competitiveness and opening new income opportunities by, for example, capitalizing on Azerbaijan’s strategic geographical position to attract regional cargo transit.⁴

In the meantime, there is potential for increased trade between Afghanistan and Azerbaijan particularly in mineral sector. The trade with and via Azerbaijan would help the country reap benefits of its strategic location.

3.4 Georgia and Turkey

The next stop of Lapis lazuli Corridor is Georgia, a country which shares borders with Russia, Azerbaijan and Turkey, with Black Sea on its West in South Caucasus region. For more than two centuries, the country had to seek western support to fight the influence of its giant neighbors Russia and Persia.⁴ A brief British security ensured its short-lived independence after World War- I, before Bolshevik regime took over the country. The collapse of Soviet Union granted independence to the country in 1991, but Russia continues to assume it as its backyard, like its other small neighbors.⁴ The most recent display of power against Georgia appeared when Russia invaded the country in August 2008 and recognized Georgian territories of South Ossetia and Abkhazia as independent states. The action was further interpreted as an attempt to prevent Georgia from getting close to West by joining NATO.

Georgia is a transit route for Azeri oil and gas to reach Turkey. Azerbaijan, Georgia and Turkey are focusing on the connectivity interventions among the three countries. The connectivity interventions like South Caucasus Pipeline (gas pipeline), Baku-Tbilisi Ceyhan (BTC) oil pipeline and Baku-Tbilisi-Kars (BTK) railway have offered new economic opportunities to Azerbaijan, Georgia and Turkey. The corridor would offer further economic opportunities to Georgia along the same lines.

These developments are a clear indication of increased influence and dominant position of Turkey vis-à-vis Russia in the South Caucasus region.

Turkey has already termed the BTK railways as the Turkish version of the New Silk Road Corridor with an ambition that it would be utilized by North Africans and Europeans to connect with landlocked Central Asia.⁴

In this context, the Lapis Lazuli route agreement provides it an opportunity to further integrate with the countries in the region and as such follow its agenda to tackle Russian influence. Moreover, it would enhance trade between Georgia and member countries, help it explore new markets, and reap dividends of increased connectivity.

Turkey, on the other hand, is aiming to turn into an energy hub for EU.⁴ At the moment, Russia is the biggest supplier of oil and gas to EU. As part of diversification efforts and to decrease dependence on Russia, the US and EU are backing initiatives like Nabucco gas pipeline project which would carry gas from Caspian and Middle East to Austria in Central Europe, and Turn Turkey into an energy cross roads. The Caspian spur of Nabucco pipeline can challenge Russian monopoly and Iranian efforts to supply gas to Europe through Trans- Caspian Gas Pipeline which was suggested by US and the agreements about the construction were signed in 1999.⁴ Further, it would diversify Turkmen exports and its reliance of China. The pipeline is meant to supply gas not only from Turkmenistan but also Kazakhstan to EU through a subsea pipeline. At the moment, the dispute over territorial boundaries in Caspian and fierce opposition of Iran and Russia is holding back the project. It is important to note that mentioned pipeline would reach Turkey via Lapis Lazuli Corridor countries i.e. Azerbaijan and Georgia. As such, the corridor falls in line with the regional economic and political priorities of Turkey.

4 Conclusion

The analysis of strategic priorities of member countries reveals that landlocked member countries are striving for sustainable economic growth through regional integration and economic cooperation. The Lapis Lazuli Corridor can help Afghanistan to get access to smooth, reliable, and economical trade routes to international markets. On the other hand, two natural resource rich landlocked member countries Turkmenistan and Azerbaijan aim to diversify their economies to ensure sustainable economic growth which tackling the external shocks in the internal oil market. The two countries have invested in transport infrastructure and aim to expand their trade and transit potential as outline in their strategic national documents. The corridor has the potential to significantly contribute towards these goals. Georgia's ports in the Black Sea can offer great prospects of economic growth for the country and for the region. More traffic, transit and trade would offer more economic opportunities to the country. Similarly, Turkey is trying to establish itself stronger in the region through connectivity projects in South Caucasus region and extend it to Central Asia. The Corridor falls within its regional political and economic priorities. The analysis shows that the Lapis Lazuli Corridor can address the economic priorities of both landlocked and coastal members. However, the potential benefits would be reaped once the corridor is fully operational.

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