



STRASBOURG
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Caucasus & Central Asia

Post COVID-19

Volume I

JUNE 2020



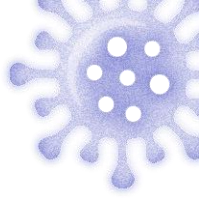
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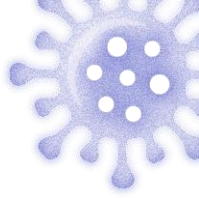
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Volume I



Strasbourg Policy Centre



The **Strasbourg Policy Centre** (SPC) launched in 2020 is a forum dedicated to exploring Europe's role in the world. We explore the regulatory, financial, human rights, and security ties that bind Europe together as "an international actor" of consequence with the rest of the world. The Caucasus and Central Asia Program investigates the way the Europe connects with the region that bridges the Atlantic and the Pacific Economy. We look at the web of regulatory standards, collective security platforms, and human rights regimes that underpin Europe's relationship to a region with geopolitical fluidity and tremendous potential.

Central Asia-Caucasus Institute (CACI)

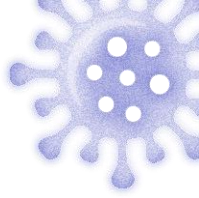


The Central Asia-Caucasus Institute (CACI) was founded in 1997 to respond to the increasing need for information, research and analysis on the vast territory of Central Eurasia stretching from Turkey to Western China, encompassing eight former Soviet republics as well as Afghanistan. CACI is affiliated with the American Foreign Policy Council in Washington, D.C., and forms a Joint Transatlantic Research and Policy Center with the Institute for Security and Development Policy's Silk Road Studies Program in Stockholm. Led by founding Chairman, Dr. S. Frederick Starr, and Director, Dr. Svante E. Cornell, CACI convenes regular Forum meetings and publishes the Central Asia-Caucasus Analyst, Turkey Analyst and Silk Road Papers. Learn more at <http://www.silkroadstudies.org>.

The CAMCA Network



The CAMCA Network is a collection of professionals committed to sharing ideas, knowledge, expertise, experience and inspiration across the 10 countries of Central Asia, Mongolia, the Caucasus and Afghanistan (CAMCA). This new generation of regional leaders values free market economic systems, good governance, the rule of law and basic human freedoms; supports the sovereignty of their countries and traditional national values; and also acknowledges the importance of regional and global cooperation. Brought together initially as participants of the Rumsfeld Fellowship Program, members of the CAMCA Network believe in the value of a connected region and are driven to contribute to the development, prosperity and cooperation of the CAMCA region through a variety of joint activities and projects. Learn more at <https://camcanetwork.com>



Contributors



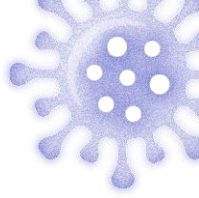
S. Frederick Starr is the founding chairman of the Central Asia-Caucasus Institute and Silk Road Studies Program, a joint transatlantic research and policy centre affiliated with the American Foreign Policy Council (AFPC). He previously served as Vice President of Tulane University, President of the Aspen Institute, and President of Oberlin College. Starr is a cofounder of the Kennan Institute in 1974 and its first director.



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Ambassador Tedo Japaridze has served as Foreign Minister and National Security Advisor, Secretary-General of the Black Sea Economic Cooperation (BSEC), Alternative Director of the ICBSS, Foreign Relations Parliamentary Committee Chairman, and was Georgia's first Ambassador to the United States (1994-2002).

Ambassador Japaridze is currently the Director of the Caucasus and Central Asia Program of the Strasbourg Policy Center. Japaridze worked closely both with the Clinton and Bush administrations and was instrumental in facilitating the emergence of the East-West Energy Corridor, the introduction of the Train and Equip military program, and recently served as Vice-Chairman of the Anaklia Development Consortium (ADC).



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manager and Director of Programs. His Area Studies expertise is the Black Sea and Southeastern Europe and has published on energy security, diplomacy, regulatory development, monetary integration, and nationalism studies.

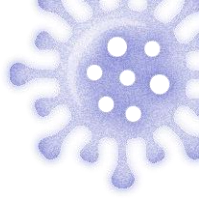
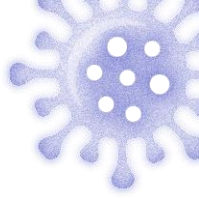


Table of Contents

The Way Forward in the Caucasus and Central Asia <i>by S. Frederick Starr</i>	7
Ch. 1. Georgia in a Multipolar Post-Covid-19 World <i>by Ambassador Tedo Japaridze</i>	12
State, Trust and International Solidarity	12
Multilateral Retreat	15
China's Uncertain Direction	19
The future of the Caucasus and Central Asia	22
Ch. 2 Geopolitics in the South Caucasus: recent trends and the impact of COVID-19 <i>by Mr Fariz Ismailzade</i>	27
The region's current balance of power	27
Azerbaijan's foreign policy priorities	32
The Impact of Covid-19 on regional dynamics	34
Conclusion	38
Ch. 3 Lesson from the Pandemic and Future Imperatives <i>by Senator Sodyq Safoev</i>	39
Is this the beginning of de-globalization?.....	40
Crisis creates new opportunities	44



The Way Forward in the Caucasus and Central Asia

S. Frederick Starr

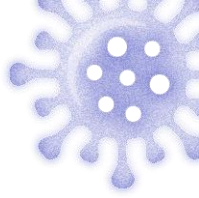
In the following essays, three distinguished analysts assess the current state of their countries and regions and their likely evolution in the post-COVID-19 era. The most prominent factors in their analyses are declining demand, the growing debt, continuing low-priced energy,



diminishing access to investment capital, reduction of international trade, and a general shift away from the globalization that existed during the first two decades of this century. True, all three of our authors-- Messrs. Ismailzade, Japaridze, and Safoev— weigh each of these factors differently. These varying perspectives reflect the views of the three authors, but also the realities as seen from their respective countries. As such, they raise the question of whether it will be possible in the coming years to speak of the lands east and west of the Caspian Sea as a single region or rather as merely an agglomeration of adjacent states.

Mr Ismailzade underscores the stark differences between the geopolitical orientations of the three states of the Caucasus and the tensions that arise. Similarly, if less extreme, differences exist among the states east of the Caspian. Financial pressures generated by the Covid-19 crisis are already causing each state to look first to its resources and make changes needed to preserve them. The reduced presence of international investors and donors and the refocusing of the attentions of international financial institutions all exacerbate this trend.

But does not this same phenomenon look starkly different when viewed through a different lens? Except for Uzbekistan, which long pursued a “go it alone” strategy, most countries of the region spent their first quarter-century of independence on intensive

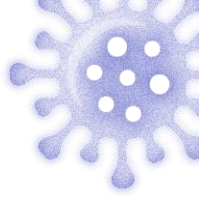


interactions with international lenders and investors. Such interactions not only dominated national attention but drove many structural changes in the post-Soviet era. They pushed to the fore those in each country with the skills necessary to manage successfully international links and relegated more locally-focused leaders to secondary roles, where they were barely visible to outsiders. Such an environment gave rise to a class of powerful local individuals who have been variously described as “oligarchs” or “barons.”

Is it not possible that the Covid-19 pandemic will begin to stir these heretofore secure arrangements by focusing closer attention on domestic life? Economic and psychological pressures will bring many new voices to the fore and will force governments to communicate more effectively in responding to them. Many special arrangements of the past will be exposed to view and subjected to public scrutiny. Far from empowering top-down crisis managers at the expense of everyone else, the pandemic will place a premium on gaining the assent of the governed. In the process, communications within societies will expand, giving rise to public opinion on many issues where earlier silence reigned.

Some governments may seek to respond to this changed reality with well-publicized sleight-of-hand maneuvers and top-down decrees. Examples of this already exist in the region. Others may grasp the need for improved communication *within* society and between the government and society. As our authors suggest, this response, too, is already evident. One can hypothesize that this pressure for greater openness will only grow in the future. Unless rulers decide to “keep the lid on” through increased pressure from above, they will have no alternative. Senator Safoev argues that Uzbekistan has already chosen the path of greater openness. The beginnings of analogous shifts in Azerbaijan and Georgia can also be detected, with greater or lesser degrees of initiative from the governments themselves.

For economies in distress, there is no more seductive cure than borrowing. The assumption and management of debt were major concerns across the Caucasus and Central Asia long before Covid-19. Projects connected with China’s Belt and Road

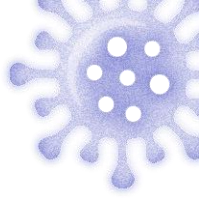


initiative were prominent in this development but by no means the only factors. For weak or indecisive governments, debt became a powerful drug, an aphrodisiac with no immediate downside. And debt has already emerged as a principal challenge for the post-COVID-19 economies. Some will push off the issue through clever rescheduling. But new sobriety regarding debt is all but inevitable. This continence will also cause governments to look more carefully at their human and natural resources and to harbor them in such a way as to foster self-reliance, which cannot be done without more active interaction with the public itself.

Both of the above hypotheses on the possibility of greater civic engagement fly in the face of the widespread assumption that the pandemic is everywhere empowering the state. Our authors acknowledge this by stressing the need for focused state action to balance external pressures, manage debt, and maintain basic domestic security and tranquillity. But all of these actions require and assume social assent. Moreover, no economic program will succeed without the further development of domestic demand, which requires public confidence. Meanwhile, the pandemic, along with falling world prices for oil, means that economies will have to adjust or change their sectoral focus, requiring action by the state, if only to remove existing impediments in some areas. But it calls equally for public initiative and engagement, which will exist only when a mood of confidence prevails.

It is significant that all three of our authors anticipate evolutionary changes in globalization but see no roll-back in globalization as such as a result of Covid-19. De-globalization may not be on the horizon, but a critical change specific to both the Caucasus and Central Asia warrants close attention, namely, *regionalization*. The fact that all three of our authors, each writing based on conditions unique to his own country, reached this conclusion warrants much closer attention from governments, business communities, and public groups than it has received to date.

For almost a third of a century, economists have pointed out that no major region on earth maintains less intra-regional trade than Central Asia and the Caucasus. Not only did Soviet “divide-and-conquer” policies succeed in their day, but they have continued



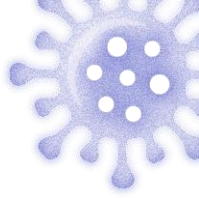
de facto ever since, becoming one of the most powerful forces for backwardness. The question now is whether the present pandemic will further retard or foster the forces of regionalism.

It is impossible to predict the future, but we can be sure the fate of regionalism in Central Asia and the Caucasus will depend on three factors: transport, an enabling environment in finance and regulation, and effective intra-state organization.

Our three authors are all mindful of the role of transport, yet none pushes it to the extent necessary for it to become a more powerful force for regional development. The Azerbaijan-Georgia-Turkey corridor exists, but blockages exist to its East (inadequate interaction between Kazakhstan/Turkmenistan and Azerbaijan regarding access to the Baku port at Aylat) and its West (unresolved problems between Georgia and Azerbaijan and the non-development of Georgia's port at Anaklia). As to Central Asia, it has passively entrusted the design of its connections with the outside world to China, Russia, and the Asian Development Bank, with the national governments of the region playing a mainly passive role. Intra-regional air-links remain inadequate.

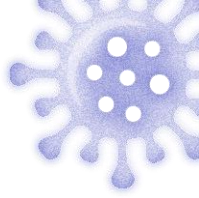
Existing financial and tariff regulations imposed by regional states are a standing impediment to intra-regional production and trade. Uzbekistan took the lead in cutting them back by opening its borders with its neighbors and deregulating commercial activity. However, since the onset of Covid-19 there have been no further initiatives along this line in either Central Asia or the Caucasus.

The keys to improved intra-regional trade and effective commercial interaction with the outsider world are effective intra-state institutions. There have been calls for these at the presidential level within Central Asia and communication has indeed increased. But the process of institutionalization remains stalled, probably due to fears that Russia or China might object but also due to simple inattention by overworked leaders. And while there has been an increase in contacts across the Caspian, the only setting in which littoral countries (but not other regional states) ever meet are the Caspian Summits dominated by Russia and Iran. It is important for the Central Asians finally to



institutionalize their interaction, but it is also important for countries on both sides of the Caspian to regularize their interaction and institutional form.

A central question raised but not answered by all three of our authors concerns the fate of East-West transport, trade, and interaction across the Caspian. Their caution is warranted, for the reformulation of the region in terms of east-west rather than north-south interactions is a complex and sensitive issue. Yet it has advanced steady over the decades since the collapse of the USSR. If the present pandemic causes each country to turn in on itself, it will thwart further progress. And if it causes regional states to throw themselves into the arms of a renewed globalization to the neglect of their neighbors, it will fail. But the chances of success will be greatly enhanced if the regional states come to realize that the development of their own sovereignty and their engagement on the global stage both require an active regionalism. If they advance such a strategy cleverly and persistently, no force will be able to thwart it.



Chapter 1: Georgia in a Multipolar Post-Covid-19 World

Ambassador Tedo Japaridze

All states are finding their economic power tested to the limit by the Covid-19 pandemic, not for mentioning vital social services, medical personnel, security, and infrastructure. As critical parts of the economy come to a halt, it is triggering a profound economic crisis. The question is, will this crisis bring about an equally profound change in the international order? If so, what are the implications for the world that lies between Great Powers, including the Caucasus and Central Asia? The idea that the Covid-19 pandemic won't change the international system is wishful thinking. While the pandemic is an accelerator rather than a root cause of change, there is still a huge leap from a spark to a blazing fire, and after all, every crisis creates change in the world. Therefore, it should be asked how will a potential redistribution of power affect Georgia and its role in the world. To paraphrase the former Assistant Secretary of State for European and Eurasian Affairs, Dan Fried: "how can we help ourselves, so that we can facilitate the help of our allies."

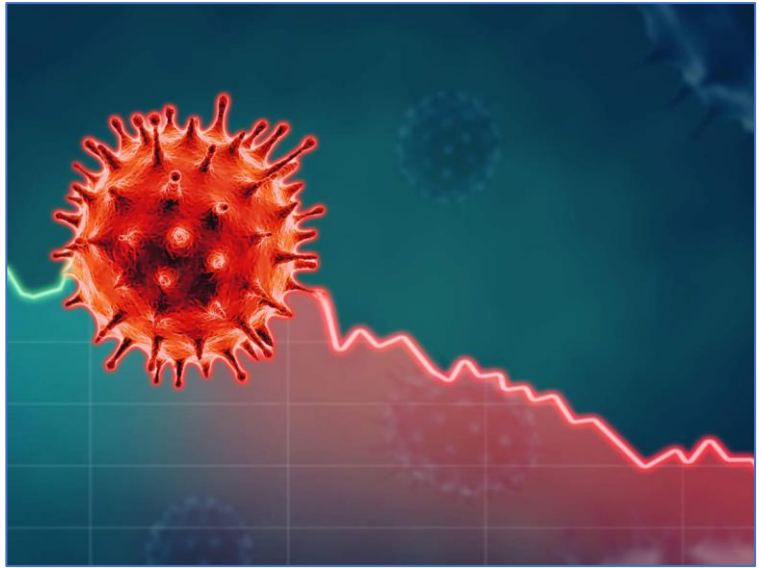
State, Trust and International Solidarity

One unavoidable and fundamental change is the empowerment of the state. While in the past dialogue focused around a small state and a strong private sector, we are now pressed to empower governments. The frontline to fighting the pandemic is the state: procuring ventilators and personal protection equipment, introducing social distancing measures of various severity and economic impact. This battle is fought on reserves, however, as economic revenue dries up and public spending grows exponentially to meet demands from public health services, maintaining social cohesion amidst the geometric progression of unemployment, and the introduction of security measures. This battle requires money. Nowadays, money is first and foremost founded on trust and confidence.

In a world of fiat currencies, states leverage their "brand" – their credit rating – to borrow against their future and to deal with the present. Not everyone has the same strength of



brand, can raise the same funds, and endure a prolonged period of no income and accelerated spending. States need to mobilize resources they don't always have. And on this level country are reluctant to cooperate, as "risk" and the management of public confidence is now at the heart of sovereignty and power, as much as



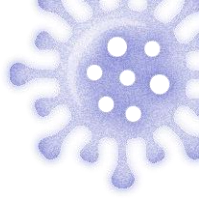
an army. For instance, this is the one policy dimension in which the E.U. has not found the means or the will to cooperate, despite their common currency. In facing the pandemic, even Eurozone member states stand fiscally alone.¹

For the first time in history on 20 April 2020, U.S. crude oil futures collapsed below \$0, indicating an almost certain recession.² As in every crisis, the U.S. dollar surges as commodity-linked currencies lose ground and the world is gravitating around the few remaining certainties in the world, such as the greenback.³ Paradoxically, the dollarization of international oil markets is one of the main reasons the dollar is a global currency. In our immediate vicinity, commodity-dependent countries – Azerbaijan, Iran, Russia, and Kazakhstan – are likely to experience a major economic slowdown. Countries in the region learned valuable lessons from the 2009 crisis and have had the strategic foresight to create a fiscal buffer, maintaining low exposure to international debt and healthy foreign reserves. Only Iran is under immense pressure, as the economic embargo means that it has failed to benefit from foreign direct investment, given the flight of French and German companies over the last two years.

¹ "Brussels Playbook Interview with Thomas Piketty," Politico, April 28, 2020 https://www.politico.eu/event/politico-virtual-brussels-playbook-interview-with-thomas-piketty/?utm_source=POLITICO.EU&utm_campaign=09bf6462cf-EMAIL_CAMPAGN_2020_04_29_04_49&utm_medium=email&utm_term=0_10959edeb5-09bf6462cf-189183549

² 'Historic day': What the experts say as oil price goes negative, April 20, 2020, Gulf News (Reuters), <https://gulfnews.com/business/energy/historic-day-what-the-expert-says-as-oil-price-goes-negative-1.1587412111528>

³ Saqib Iqbal Ahmed, "Dollar edges higher as oil rout hits commodity currencies, EU meeting eyed," Reuters, April 20, 2020 <https://uk.reuters.com/article/uk-global-forex/dollar-edges-higher-as-oil-rout-hits-commodity-currencies-eu-meeting-eyed-idUKKBN22202T>

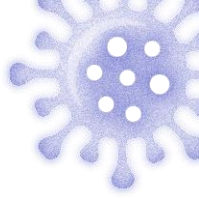


Georgia, too, is vulnerable as its economy so greatly relies on tourism, logistics, and basic manufacturing. Even remittances, on which our countries can historically foldback in times of crisis, are expected to suffer.

The crisis may very well have some sectoral winners. Gold mining in Uzbekistan is likely to be among them, as Central Banks announce successive multi-trillion-dollar stimulus programs, lowering bond yields to historical lows. In this context, investors will be flocking to assets of intrinsic value. One decisive factor for the region as a whole is that although we live in a region of low to middle-income countries, there is relative food security. Many regions dependent on food imports are already witnessing food-price inflation as significant suppliers, including India, Vietnam and Cambodia, have reduced or even banned the exports of basic food staples, like rice. For instance, according to the World Bank, Sub-Saharan Africa could be heading from a health crisis straight into a food security crisis.⁴ That is not a danger for a region that is sparsely populated and remains one of the most promising food-producing regions in the world and a net exporter. Food processing and production, of which Georgia is an emerging power, could also be one of the sectors leading our recovery.

But make no mistake, calls for international solidarity, financial assistance, soft-or-harder loans, foreign direct investment, and the evocation of the need for regional stability, come later. True, the demand for multilateral global governance is surging because public health pandemics have little respect for national borders. The specter of a strand of the virus that will mutate in a part of the world without a sound public health infrastructure – like the shantytowns of Latin America, Africa, and the Far East – carries the danger of reinfection. The poverty of weak or failed states could return to the developed world as a vengeful curse that punishes developed economies absorbed in

⁴Libby Grobbee, *“How Africa risks reeling from a health crisis to a food crisis,”* Reuters, April 24, 2020
<https://uk.reuters.com/article/uk-health-coronavirus-food-africa-insigh/how-africa-risks-reeling-from-a-health-crisis-to-a-food-crisis-idUKKCN2260M8>



their narrowly defined national interest." That has been one of the chief arguments put forward by U.N. Secretary-General António Guterres.⁵

Over and beyond the need to protect public health, there is little doubt that the discussion on renegotiating the post-Covid-19 crisis is likely to take place in the context of dire need and will be linked to the distribution of power – national, regional, and ultimately global. From the perspective of a state, economic



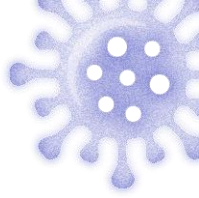
resilience depends on size and diversification. Georgia only has a few strong sectors rather than a plethora of goods and services on which it can rely. These sectors are primarily founded on the assumption of a global economy, as our country has built a reputation as a no-nonsense reformer that features consistently among the top ten most investor-friendly destinations in the world. Still, we know that we will have to stand on our feet before looking to our allies for assistance, medical, economic, and political.

There is little doubt that Georgia will join a club of nations for whom relatively small assistance can go a long way. But that discussion is not timely. At this point, Washington, Beijing, Tokyo, Moscow, Berlin, Delhi, Riyadh, London, Paris, Rome, Madrid, and Ankara are in a crisis management mode. They will first and foremost focus at home before turning their attention to the matrix that underpins global governance: capital markets, regulation, the Internet, energy and transport infrastructure. That is understandable. Great powers are first and foremost states.

Multilateral Retreat

In time, great powers will be seeking an elusive rebound to normality," exploring no-doubt the opportunity encapsulated in a crisis to advance their position in the global stock market of power. For the moment, their power is held in check by a virus that

⁵ LAUNCH OF GLOBAL HUMANITARIAN RESPONSE PLAN FOR COVID 19, March 25, 2020
<https://www.un.org/sg/en/content/sg/press-encounter/2020-03-25/launch-of-global-humanitarian-response-plan-for-covid-19>



towards the end of April 2020 had infected 2.7 million people, killing more than 192,000 and devastating the global economy. We are not at a point where a return to normality is visible. The subject of ending the lockdown or partially reopening sectors of the economy is controversial. Time in this context is of the essence, and that factor is in turn linked to either the containment of the virus or its cure.

There is now a race to identify a vaccine, test it, and distribute it to hundreds of millions of people within 12 to 18 months. Failing a medical solution, governments will need to take calculated risks, conducting a cost-benefit analysis that entails lives.

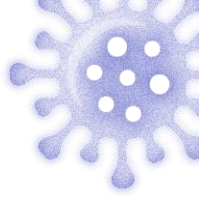
The ultimate prize is an effective vaccine⁶, and big pharmaceutical companies are partnering with governments on both fronts. Again, the state is an investor, and the question will arise as to how public and private interests will be balanced when a vaccine is developed. Due to unprecedented mobilization, there are now a few vaccines at the human trial stage, albeit with no guarantees of success. And when the vaccine is produced, there will be further delays as power matters when it comes to saving human lives.

In 2009 the developed world moved to stockpile the H1N1 swine flu virus vaccine before the World Health Organization (WHO) brokered a deal calling on them to share 10 percent of their stockpiles. For the moment, the World Health Organization has championed a collaborative platform for the development of a coronavirus vaccine, without U.S. participation. However, the U.S. Department of State and the U.S. Agency for International Development are spending nearly \$500 million to assist with the COVID-19 crisis abroad. Without fail, USAID is already doing its part in terms of crisis management.⁷

⁶ Julie Steenhuisen, Peter Eisler, Allison Martell, Stephanie Nebhay, “Special Report: Countries, companies risk billions in race for coronavirus vaccine,” Reuters, April 25, 2020

<https://uk.reuters.com/article/uk-health-coronavirus-vaccine-specialrep/special-report-countries-companies-risk-billions-in-race-for-coronavirus-vaccine-idUKKCN2270U3>

⁷Out of Order, “Fighting the Coronavirus, Preserving Democracy: A Conversation with USAID’s Brock German,” Marshall Fund Bierman, April 24, 2020 <http://outoforderpodcast.libsyn.com/frontlines-of-democracy-fighting-covid-19-preserving-democracy>

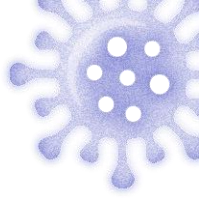


The failure to reach consensus in a crisis-management mode is indicative of a much bigger crisis of multilateralism. Georgia is ultimately going to look to the West, looking specifically to the U.S., the E.U., as well as Turkey and Japan. But in facing the challenges before us, there is a clear need to coordinate if not altogether streamline strategies on dealing both with the immediate crisis at hand and the management of the post-crisis period. In this scheme, US leadership is needed not only by Georgia but also from the world at large. At the moment, the US is at the epicenter of the pandemic and, as Secretary Condoleezza Rice recently noted, the focus is inevitably on saving New York rather than the world at large.⁸ Although the State Department reflexively deploys international development aid instruments in any given crisis, questions will arise about their systemic significance.

The first question of systemic significance is how we are going to stimulate demand and rebuild supply chains. If “each state for itself” is not the answer for running an economy, it cannot be the answer for rebuilding an economy. Washington will soon be hard-pressed to reflect on its leadership role, especially following the end of the 2020 campaign season, when discussion can fill the airwaves on America's role in the world. In Brussels, Paris, Tokyo, Berlin, Warsaw, Bucharest, and Stockholm, American leadership is needed, missed, and many will often underscore its absence.⁹ The pandemic has seen no Western response.” At this point in time, Washington seems to be favoring intergovernmental bilateral talks in policy forums like the G7 and the G20 – rather than multilateral, where the chances of consensus seem unlikely. The assumption is that U.S. state-power is unmatched, while institutional frameworks have their normative logic that is not always aligned with US interests, although the unfolding crisis could refocus this thinking.

⁸ “Condoleezza Rice: COVID-19 and National Security | Hoover Virtual Policy Briefing,” Hoover Institute <https://www.youtube.com/watch?v=9UxzAIX92PI>

⁹ Julie Smith, Carima Mohan, “In a Crisis, A Fumbling America Confirms Europe’s Fears, The German Marshal Fund, April 23, 2020 http://www.gmfus.org/commentary/crisis-fumbling-america-confirms-europes-worst-fears?utm_source=email&utm_medium=email&utm_campaign=ww%202020-04-29



The World Trade Organization (WTO) is in deadlock,¹⁰ the IMF has been prevented from playing a role as the global bailout institution of last resort,¹¹ and even WHO has been under severe criticism.¹² Without



getting into the substance of why such institutions that underpin the global status quo are facing a crisis of confidence in Washington, it is clear that conceptualizing a plan for a concerted response to the unfolding economic and political crisis will be an intergovernmental rather than multilateral project. The question subsequently arising is whether major powers will be able to set a minimum benchmark of policy consensus that goes beyond traditional alliances. That is not likely.

Even prior to leaving behind us the crisis management dimension of this pandemic, there appears to be a geopolitical clash between the U.S. and China. In a recent article on Foreign Policy, the founder of the term soft power," Joseph S. Nye, notes how Beijing blames the U.S. military for the presence of the Covid-19 virus in Wuhan, while President Donald Trump speaks of a Chinese virus."¹³ In this context, it comes as no surprise that Washington often views with suspicion the Chinese dispatch of medical equipment and personnel to coronavirus-stricken countries in Europe – Spain, Italy, the U.K. – dismissing these gestures as merely an effort to whitewash responsibility. Over and beyond harsh rhetoric, there is real strategic distrust that makes the two parties unlikely to engage constructively.¹⁴

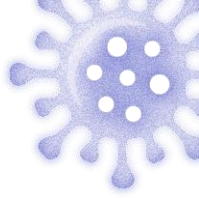
¹⁰"WTO deadlock: What's next for trade - and disputes?," MIC Custom Solutions, December 19, 2019, <https://www.mic-cust.com/insights/posts/detail/ad/wto-deadlock-whats-next-for-trade-and-disputes/>

¹¹Larry Elliot, "The IMF needed a progressive vision and US leadership. Both were absent," The Guardian, April 19, 2020 <https://www.theguardian.com/business/commentisfree/2020/apr/19/the-imf-needed-a-progressive-vision-and-us-leadership-both-were-absent>

¹²"Gowdy slams WHO: US paid billions to get the 'exact wrong information,' FOX News <https://www.youtube.com/watch?v=AI-0XZMcNPU>

¹³ Joseph S. Nye JR, "No, the Coronavirus Will Not Change the Global Order," Foreign Policy, April 16, 2020 <https://foreignpolicy.com/2020/04/16/coronavirus-pandemic-china-united-states-power-competition/>

¹⁴ Abraham Denmark, "Charles Edel, Siddharth Mohandas, "Same as It Ever Was: China's Pandemic Opportunism in Its Periphery," War On the Rocks, April 16, 2020 <https://warontherocks.com/2020/04/same-as-it-ever-was-chinas-pandemic-opportunism-on-its-periphery/>



China's Uncertain Direction

The geopolitical rivalry between China and the U.S. goes well beyond soft power," as there is a real and substantive geopolitical narrative at play. For the first time in nearly thirty years, it is now likely that China will see its growth being barely positive. That is a problem. The Chinese economy was one of the engines of growth that pulled the world economy out of the mud following the 2009 crisis, by continuing to generate massive demand for export-driven economies, such as Germany and Japan. Germany ran the world's largest current account surplus in 2019 for the fourth consecutive year,¹⁵ with China being by far its most significant market.¹⁶ Before the Covid-19 crisis erupted, China was transitioning to a service economy with a more significant role for services¹⁷ and retail,¹⁸ following the trajectory of every maturing economy.

Much like America went from being the factory of the world in 1945 to being the Shopping Mall of the world in the 1990s, China is also becoming a significant importer and investor. As China is gradually leaving behind the worst of the pandemic, it is becoming clear that it aspires to shape the narrative of recovery. For more than five years, China has sought to internationalize its power via the Belt and Road Initiative (BRI), that is, a major mega-infrastructure development project now likely to face a crisis.¹⁹

Chinese exports are declining and that will inevitably mean unemployment, which already in February had reached 6.2 percent in major urban centers. Inevitably, the Covid-19 outbreak is shifting attention to domestic development, and many BRI projects

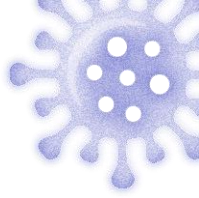
¹⁵ "Germany to run world's largest current account surplus in 2019 – Ifo," Reuters, September 13, 2019
<https://www.reuters.com/article/germany-economy-trade/germany-to-run-worlds-largest-current-account-surplus-in-2019-ifo-idUSL5N2641DF>

¹⁶ "China Remains Germany's most important trading partner," Xinhua, February 19, 2020
<http://www.chinadaily.com.cn/a/201902/19/WS5c6bb7e4a3106c65c34ea251.html>

¹⁷ "New retail estimated to make up 22.4% of total Chinese consumer spending in 2018," MINTEL, October 31, 2018
<https://www.mintel.com/press-centre/retail-press-centre/new-retail-estimated-to-make-up-22-4-of-total-chinese-consumer-spending-in-2018>

¹⁸ Neil Stern, "China To Become The World's Largest Retail Market, Even With A Slowdown," February 5, 2019
<https://www.forbes.com/sites/neilstern/2019/02/05/china-to-become-the-worlds-largest-retail-market-even-with-a-slowdown/#27bcc86e133f>

¹⁹ "Coronavirus could force China to rein in Belt and Road ambitions," DW, April 17, 2020
<https://www.dw.com/en/coronavirus-could-force-china-to-rein-in-belt-and-road-ambitions/a-53159033>



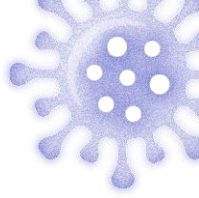
could soon be short of cash.²⁰ However, we should recall that there are two very domestic economic calculations underpinning the project of Chinese power-globalization.

First, the focus on Central Asia is linked to China's domestic calculations of political, ethnic, and economic balance. China's "Go West" policy, launched in 2000, was a call to rebalance the coastal East's growth to underdeveloped Central Asia, not like Turkey shifted its growth strategy from the Near East coast to Anatolia in the 2000s. In sum, China prioritizes the re-globalization of the Central Asia hinterland. China's six inland provinces of Gansu, Guangzhou, Qinghai, Shansi, Sichuan, and Yunnan and its five autonomous regions Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang represent 71.4 percent of its territory and, as of 2015, merely 19.9 percent of its total economic output. Beijing's 2016 five-year plan confirms the Go West objectives, which, combined with the famous BRI, promises to link the region to the world. In fact, the two objectives are complementary.

From 2000 to 2016, the Chinese government invested €800 billion in 300 major Go West projects, mostly in infrastructure and energy. Furthermore, Chinese manufacturing is shifting inland, driven in part for a search for cheaper labor, encouraging companies like Hewlett Packard to consider rail shipping. For China, rebalancing economic activity from the coast to Central Asia reflects the need for political and ethnic cohesion as well as environmental sustainability.

But the model of debt-fueled infrastructural development is bound to suffer a short-term crisis. Overland trade through Central Asia and the Caucasus makes more sense when oil prices go up, and ships slow steam to cut fuel costs, delaying delivery of goods to make transport cost-effective. In this scheme, trains have a time advantage and are closer to cost-parity. That is not the case now. With less trade, many BRI countries will be unable to service their debt. Not surprisingly, work on major infrastructural projects

²⁰ Plamen Tonchev, "The Belt and Road after Covid-19," *The Diplomat*, April 7, 2020
<https://thediplomat.com/2020/04/the-belt-and-road-after-covid-19/>



ceased along the China-Pakistan Economic Corridor, Cambodia's Sihanoukville Special Economic Zone, Indonesia, Myanmar, and Malaysia.²¹

The overall systemic question remains what will happen to the BRI as a mechanism for the internationalization of Chinese power. Under one scenario, China may seize the opportunity to control BRI infrastructure directly. But a much-cited study by the New York-based Rhodium group suggests that in 40 cases of Chinese debt renegotiations with 24 countries, Beijing did not go down the path of "debt-trap diplomacy," with the notable exception of Sri Lanka.²²

The second domestic reason for China's enlightened approach to debt management is that most BRI infrastructure contracts are awarded to Chinese companies that use Chinese labor and supplies. With the disruption of soft loan liquidity, it may well be the case that it will need to focus on Southeast Asia, where manufacturing allows China to hedge its risks against supply chain disruption.²³ This will make the BRI less global, as debt is one of the critical drivers of the internationalization of the Chinese currency (and power).

But there is also an international consideration that China will be taking into account in Central Asia. China's productivity is bound to decline over the coming decades as its labor force shrinks and the number of retirees soars. This demographic process has begun and is unstoppable.²⁴ However, the size of the labor force in the Indian sub-continent (India, Pakistan, and Bangladesh) is soaring and could be twice the size of that of China within a generation. It is all but inevitable that the Indian sub-continent will become a world economic center, generating higher demand for east-west transport and all kinds of commodities.

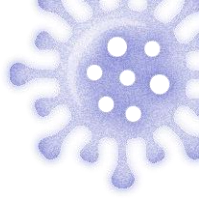
The Great India Road, India's counterpart to China's Silk Road, may very well become the second narrative of growth in the region – the Indian Ocean brings together 50 percent of global container shipments. India is not the only power anxious to hold

²¹ <https://www.cfr.org/blog/what-covid-19-pandemic-may-mean-chinas-belt-and-road-initiative>

²² <https://www.dw.com/en/china-a-loan-shark-or-the-good-samaritan/a-48671742>

²³ <https://www.bakermckenzie.com/-/media/files/insight/publications/2020/03/covid19-bri-short-report.pdf?la=en>

²⁴ See S. Frederick Starr. "The Southern Corridor."



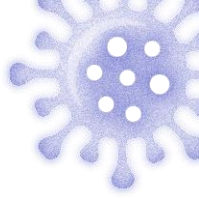
influence in the Indian Ocean, and the U.S. is fully aware that it is losing Pakistan as a military ally to China. In sum, the BRI is not an uncontested project. China is leading the race, but the race continues.

In that context, India's significance weighs heavily in Washington's strategic calculations. In November 2018, the U.S. State Department announced that it would exempt Iran's oceanic port of Chabahar from sanctions, as well as the attached railway. The Iranian port enables India to bypass Pakistan to trade with both Afghanistan and Central Asia. At the same time, Chabahar could conceivably end Afghanistan's dependence on Pakistan's port of Karachi. This road is not merely a potentially significant artery for international trade, but also a political hedge, of the kind that can shape market conditions for decades.

Naturally, this discussion appears to be premature. At present, the main question in the world is who will be the net lender and whose credit will define the day after for the region. Because Chinese, American, Japanese, and European institutions will unavoidably offload their high-risk portfolio, and infrastructural development could be significantly delayed. Until it is clear what will be the value chains of the future and investment restarts, it is hard to see how commodity-driven economies in the region can self-finance their future development.

The future of the Caucasus and Central Asia

Georgia sits at the intersection of two logistic routes to China and India. On the one hand, the so-called Middle Corridor links Europe to China via Georgia, Azerbaijan, and Kazakhstan; on the other, the so-called Southern Corridor connects Europe to the Indian subcontinent via the Iranian port of Chabahar in the Gulf of Oman and, thereon, Azerbaijan, Georgia, and Turkey. A route under development that could transform Eurasia's map is a 650 kilometre route designed to connect Uzbekistan via Afghanistan to the Indian Ocean.



Until the outbreak of the Covid-19 pandemic, the region stretching from the Black Sea to the border with China was gaining significance as a primary overland conduit between Pacific and Atlantic economies. The Silk Road concept linking Europe to the Far East was initially conceived in Washington, as a post-Afghan-conflict stabilisation plan. Still, it was soon embraced by the Chinese as part of a global outreach initiative that would consolidate

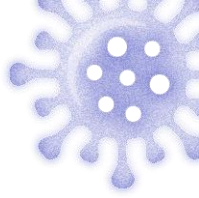


their role as the factory of the world. No matter who takes the lead, the narrative of rediscovering Central Asia seems to be a matter of when, rather than if, with the West returning to a landscape abandoned since Portuguese Caravels circumvented the Magellan Passage to reach China and the Japans.

Primarily its software – that is its regulatory environment – rather than its hardware infrastructure currently defines Georgia's niche role in this corridor. Specifically, Georgia and Switzerland are the only countries in Europe to enjoy access to the E.U.'s Single Market as well as having in place a Free Trade Agreement with China and nearing completion of a similar agreement with India. In this respect, Georgia missed an opportunity to develop a deep-sea port in Anaklia, creating a door from Central Asia to Central Europe. That was an opportunity that was not only lost to Georgia but also to our partners, as the U.S., Japan and the E.U.²⁵ saw in this project a foothold in the greater narrative of strategic articulation of revitalizing Central Asia.²⁶ Perhaps in time, this vision will be resurrected, which would require renewed not only local and international commitment but also some degree of risk-sharing arrangements.

²⁵ "EU Committed to Finance the Construction of Anaklia Port," November 17 2019 <https://forbes.ge/news/5534/EU-Committed-to-Finance-the-Construction-of-Anaklia-Port>

²⁶ "The US Secretary of State's messages to Georgia – reactions," JAM: June 13, 2019, <https://jam-news.net/us-secretary-of-state-to-the-georgian-authorities/>

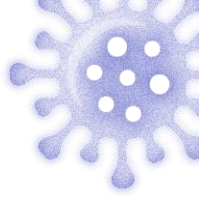


Beyond the power game surrounding competing visions for the control of the corridor in question, there is regional movement. Across the corridor, trade is becoming easier through the elimination of tariffs, permits, duplicative paperwork, and mandatory inspections. Trans Eurasian trade reached a milestone in May 2018, when China signed the International Road Transports convention, removing en route customs inspections and on-site duty payments for approved carriers departing from select locations. Besides, all Shanghai Cooperation Organisation (SCO) member states signed the agreement that makes overland trade a cheaper and faster proposition. In terms of infrastructure, milestone projects such as the Baku–Tbilisi–Kars (BTK) Railway have been completed, and countries in the region are pursuing their incremental optimization.²⁷

While oil prices surged, the gap in cost between shipping and railway transportation was narrowing. For a while, it was possible to envisage land-to-sea cost parity, which would see an end to the term landlocked being viewed as a perennial sign of underdevelopment. This positive trend is currently reversing. The retreat of multilateralism means that there are no global regulatory means by which to make overland trade more economically viable. For instance, it is now harder than ever to push the shipping industry towards electrification. As the shipping sector suffers, there will be fewer economic incentives for an energy transition that could lead to land-sea parity or at least a situation in which different sectors would weigh time over price.

For the moment, it is hard to see a single viable Chinese, Indian or American vision that can lift the region out of its perennial dependency on commodity trading. Furthermore, as economic activity comes to a halt, oil prices sink, tourism comes to a standstill and remittances are all but exhausted, the present economic downturn is blazing through future development prospects. Inevitably, the future will be defined by credit and investment. As Central Banks in the emerging economies see their interest rates sink below zero and liquidity flood markets, there is a need for multilateral or even intergovernmental risk-sharing initiatives, which will channel capital to Central Asia as

²⁷ "Azerbaijan to launch passenger train to Turkey in 2019," RailTech.com, November 6, 2018
<https://www.railtech.com/rolling-stock/2018/11/06/azerbaijan-to-launch-passenger-train-to-turkey-in-2019/?gdpr=accept>

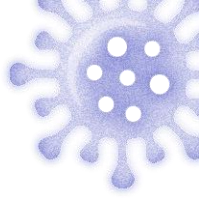


investors seek bigger yields. To this end, there is a need for states in the region – from Georgia to Uzbekistan – to create deeper institutional and regulatory alliances, creating a better value proposition for international investors.

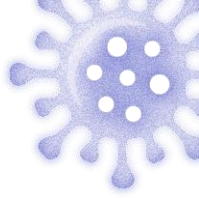
In a world where intergovernmental cooperation rules, we must define our relevance to the world economy beginning from our region. In the absence of functioning multilateralism, post-Soviet states in Central Asia must eventually choose between crushing bilateralism, becoming in essence satellite states, or create alternative intergovernmental networks, pooling together diplomatic clout, human and scarce capital resources to manage what will inevitably be a difficult transition period. Our countries have already taken some timid steps in crisis management cooperation. We need to maintain the momentum in a world in which things could get a lot worse before they get better.

The only viable alternative in this context is the tested model of high-level trilateral cooperation championed by Turkey, backed by Georgia and Azerbaijan, and promoted under the auspices of Washington since the early 2000s. Since the dissolution of the Soviet Union, Turkey has seen the bridging of Central Asia to Europe as part of its narrative of becoming a majored G20 and, perhaps in time, a G10 economy. While for years enthusiasts of European Integration have insisted on the need to focus on E.U. and NATO integration – with good reason – the fact is that the Treaty of Rome between the original six E.U. member states started from a core of six nation-states, working on a limited industrial cooperation agenda, building a community top-down.

In this context, this regional cooperation has yielded the Baku–Tbilisi–Ceyhan (BTC) pipeline, the BTK railway, and numerous other projects. Azerbaijan has been critical in regionally grounding the evolution of this relationship to the development of a world logistics hub. Uzbekistan has pierced through a link to India and the Persian Gulf. And Georgia has provided a sense of normative integration, signing an unprecedented nexus of free trade agreements.



This framework is less ambitious than what was initially envisaged in the 1990s as a European neighborhood. This ambition need not be abandoned, but the objective regional integration should not altogether be lost, especially at a point in time when engagement in the region from outside powers is waning. The advantage of a limited scope functional cooperation that builds a broader agenda project-to-project is that it allows the integration of countries that do not share the same foreign policy trajectory, have a distinct set of defining and binding relationships, which they bring to the mix as part of their competitive advantage. To this date, the Finnish, Irish, Cypriot, and Swedish legacies of non-alignment, the French Francophonie, and other foreign policy legacies continue to have a bearing on what we regard E.U. foreign policy. A step-by-step functional integration process has served Western Europe well. The same logic could serve the South Caucasus and Central Asia, particularly at a time of multipolar competition in which there is no single uncontested matrix of regional consolidation.



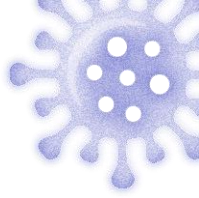
Chapter 2: Geopolitics in the South Caucasus: recent trends and the impact of COVID-19

By Fariz Ismailzade

The spread of the COVID-19 virus and the ongoing migration crisis in the E.U. has shown that no country or region can stay isolated from its neighbors when it comes to security risks and challenges. Until now, the European Union has viewed South Caucasus with some interest, yet it has pursued rather vague policies towards the region and, at times, sent conflicting and mixed signals to the regional players. This perspective hinders policy coordination and integration, leaving the region in a vacuum. It is important that Brussels reviews the region's significance and develops a clear and consistent cooperative framework of cooperation, enhancing the security of Europe's eastern frontiers.

The region's current balance of power

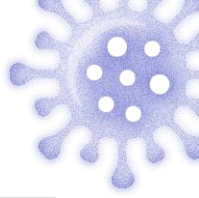
The three states of the South Caucasus – Azerbaijan, Armenia, and Georgia – will soon be celebrating the 30th anniversary of their independence. It is a significant historical milestone, considering the risky and challenging path that they have come through in these past three decades. While all three republics have emerged from the collapse of the Soviet Union with bold ambitions to build strong, democratic, economically prosperous, and truly independent states, the overall picture in recent years is one of varying degrees of success and achievements at different levels. Initially, the three nations of the South Caucasus were expected to follow the Baltic States' trajectory, adopting common foreign policy objectives. Disappointment with their communist past led to the belief these countries would turn their eyes to the West and aspire to become full members of the Euro-Atlantic community and its institutions. Thus, the region's integration with NATO and E.U. seemed to be the primary foreign policy focus in those early years.



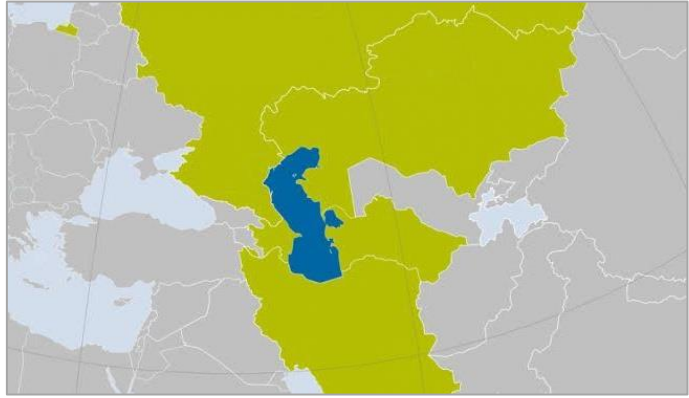
Today, one can observe that the three states of the Caucasus have chosen different and, at times competing foreign policy trajectories. Armenia, the smallest country of the three, has continued to rely heavily on Russia for military, political, and economic assistance. It is the only country in the region that still hosts Russian military bases and troops, has joined the Russia-led Collective Security Treaty Organization, and has sold off most of its strategically significant economic, energy and transport assets to Russian state monopolies. The country has closed its borders with Turkey and Azerbaijan due to the ongoing conflict in Nagorno-Karabakh. It has effectively cut-off itself from major regional transit and transport corridors.

Georgia has conversely pursued very close ties with the Euro-Atlantic community since the first days of its independence, actively pursuing NATO and E.U. membership. Successive NATO summits have even given Georgia cause to expect promises of this long-expected membership to be fulfilled, but this has yet to materialize. Nevertheless, Georgia was the first country in the region to have membership in Council of Europe and World Trade Organization. It is the first to sign an Association Agreement and a visa-liberalization agreement with the E.U., continues to engage with NATO at various levels, and continues to actively lobby for full membership. The ongoing conflict with Russia pushes Georgia towards the West, and Tbilisi relies on military assistance from the U.S. and other NATO allies.

Unlike Armenia and Georgia, Azerbaijan has decided to maintain a relative balance between the Western and the Eastern dimensions of its foreign policy. The energy-rich country has had no immediate urge or needs to seek foreign protectors. Baku is largely self-sufficient and self-reliant in terms of economic resources. It seeks partnerships with various regional stakeholders to maximize opportunities to develop its trade and overall economic environment. And it rallies support for the restoration of its territorial integrity. Azerbaijan has refrained from joining military alliances or other economic blocks dominated by regional or global powerhouses; instead, it has offered to act as a facilitator, hosting several multilateral initiatives, organizations, and policy frameworks.

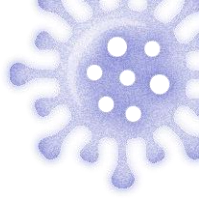


The intense competition between Russia, the U.S., China, Iran, Turkey, and the E.U. over this region in the early 1990s was well-founded. The abundant resources of the Caspian Sea and the promise of viable and valuable transit corridors, the important geographic



location, and finally, the geostrategic proximity to the Middle East and other critical global areas frame a high prize of engagement with the region. Thus, regional and global powers have rushed to position themselves in the region, carving out their sphere of influence to maintain full control over the region. Three decades later, we can say that the region has balanced itself off. Foreign powers illegally occupy certain areas, some borders are closed off from the international system, and some new infrastructure projects have transformed the regional geopolitical balance.

Russia continues to view the South Caucasus as its regional backyard. It pursues an assertive foreign policy, as shown with the 2008 war with Georgia, the subsequent recognition of the independence of South Ossetia and Abkhazia, as well as the active mediation role between Armenia and Azerbaijan. The European Union refrains from active military engagement, extending the possibility of economic cooperation and assistance with these countries instead, aiming at further functional integration with the E.U. – political, strategic, institutional, and economic. Turkey prioritizes the region's significance as an important economic and transit corridor to Central Asia, while Iran is mindful of the region's potential for American and Israeli military intervention. Although the U.S. signaled the South Caucasus as a region of strategic interest in the 1990s, the last two successive administrations of Barack Obama and Donald Trump have paid little attention to it, effectively leaving it to the regional powerhouses to sort out. We expect to see China and India becoming more and more active in the South Caucasus, both politically and economically.

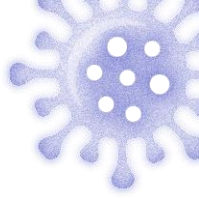


External threats and risks

This strategically important region has two types of security threats that, at times, complement each other: conflicts between state actors and conflicts with non-state actors. Unresolved conflicts in the region, such as Nagorno-Karabakh, Abkhazia, South Ossetia (and Transdniestria and Crimea), pose serious threats to regional security and economic development. Three of the four borders (Turkish-Armenia, Azerbaijani-Armenian, and Georgian-Russian) in the region remain closed, which disrupts social, cultural, transport, energy, and logistics networks, preventing the region from fully realizing its potential and assume a globally visible role. An enduring humanitarian issue is the plight of refugees and IDPs, which brings significant social and economic consequences.

Although the conflicts are in a "no active war, no peace" situation, the unexpected eruption of military engagement cannot be excluded, as was the case with the Georgian-Russian war of 2008 and the Armenian-Azerbaijani four-day war in 2016. Daily cease-fire violations with subsequent deaths among soldiers and civilians are widespread, not to mention kidnappings. Such short-term military activities can easily spin out of control and transform into full-scale wars, bringing the region into chaos like in the early 1990s. The intensified regional militarization and a regional arms race increase the risks under consideration. Moreover, the internal socioeconomic pressures and the ongoing coronavirus crisis might prompt individual governments to view military activities as a way to distract the domestic audience's attention and rally them behind the unified flag against the external enemy.

Among the risks posed by state actors, one should also mention assertive policies by regional powerhouses, which often pressure the countries of the South Caucasus to gain political and economic leverage. Such pressures and assertive policies create further challenges for the foreign policy scoping of these young democracies.

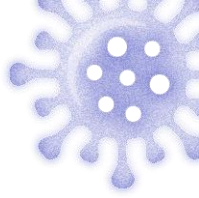


In recent years, we have also witnessed the rapid proliferation of security threats that now include formidable non-state actors. Among them, radical religious transnational organizations and organized crime groups as well as terrorist organizations. The ongoing conflict in Syria and Iraq has turned the South Caucasus to a transit zone for arms, human trafficking, and drugs, as well as a recruitment ground for terrorists. Many of them also pose a threat to the region's secular regimes, aspiring to change the region's constitutional order by violent means, including terrorist activity. As everywhere, such extremist movements could be fueled by unfulfilled expectations for social progress and economic advancement for young people.

Unregulated migration, the rise of transnational crime and the illegal trafficking of drugs, biological and chemical weapons via the uncontrolled occupied territories, and transparent borders threaten to undermine governments in the region, which would have an inevitable spillover further afield to other nations in the wider region.

The European Union and other regional/global powerhouses have done very little to resolve in either a bilateral level or multilateral diplomatic frameworks. In contrast, mediation initiatives have substantially failed to substantially reduce security risks. International law regimes are not consistently applied, weakening the legitimacy of and respect for normative benchmarks that define Europe's human rights regime. Clearly, the occupiers continue to enjoy immunity, and this situation undermines public confidence in the rule of law among South Caucasus polities.

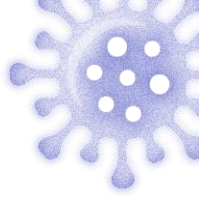
The underlying tension of Russia's relations to the West casts its shadow over the region's strategic and economic environment. On the one hand, Russia seeks to assert its own rules of diplomatic engagement with the South Caucasus nations. On the other hand, the West provides little tactical and strategic assistance to hold Moscow's power in check and bolster the sovereignty of states in the region. Neither the West nor Russia has provided an attractive road map to regional economic or political integration. Therefore, regional players are in constant search for empowering multilateral frameworks that will bolster their security, maximize their economic potential, and support their social cohesion.



Azerbaijan's foreign policy priorities

Azerbaijan views relations with the Euro-Atlantic community through the lenses of its foreign policy priorities: the restoration of its territorial integrity and the return of the occupied territories, the strengthening of its sovereignty and independence, and its full integration into the global family of nations. For these reasons, Azerbaijan has considered a Euro-Atlantic dimension in its foreign policy. Membership in the OSCE and subsequent Minsk Group mandate – France, Russia, and the U.S. – allowed for the facilitation of conflict resolution talks over the status of Nagorno-Karabakh, elevating cooperation with these powerhouses to a top priority. Azerbaijan has also joined the Council of Europe, the European Union's Eastern Partnership framework, and NATO's Partnership for Peace program to deepen cooperation and knowledge transfer. Large scale energy and transportation projects link Azerbaijan with the European Single Market, and, at the moment, the EU remains Azerbaijan's biggest trading partner.

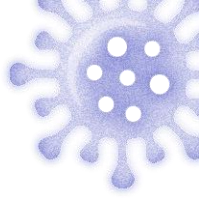
While the initial euphoria of the 1990s pointed towards the acquisition of quick and full E.U. and NATO membership, with commentators projecting Azerbaijan's full Euro-Atlantic integration, the vision gradually faded away, paving the way for a more pragmatic approach. It's worth noting that the E.U. was a much more attractive force in the 1990s than it is now. The project of European Integration now faces a mounting set of challenges, not least Brexit, the management of migration flows, prolonged economic stagnation, and the ever-deepening political cleavages between member states. Meanwhile, Georgian and Ukrainian aspirations for NATO and E.U. membership have been met with harsh resistance from Moscow, resulting in subsequent territorial conflicts involving Russian troops in both countries. The current state of the E.U. as much as the whole nexus of Western international organizations have disillusioned and disappointed the Azeri public, not least due to a consistently failing expectation over the application of international law in the settlement and resolution of the Nagorno-Karabakh conflict. Double standards and lack of consistency have resulted in deep frustration among ordinary Azerbaijanis, and the popular appeal of Western organizations rates poorly throughout this period.



Azerbaijan no longer expresses the aspiration to join either NATO or the E.U. formally. Instead, it proposes mutually beneficial and pragmatic forms of transactional and instrumental cooperation with tangible security and economic benefits, without the pretext of a more broadly transformational agenda. Instead of knocking at the doors of E.U. and NATO to apply for membership, which currently appears unrealistic, Baku prefers to focus on positioning itself as a regional hub between Europe and Asia, serving as a bridge, and connecting different civilizations, cultures, religions and economic zones. This desire to move from an unimportant appendix of this regional multilateral framing into an important platform for the development of a strategic overland conduit between the Euroatlantic and Asia economies has captured the imagination of Azeri policymakers and drives Baku's foreign policy aspirations.

In this regard, Azerbaijan actively pursues economic and political ties with Russia and other Commonwealth of Independent State (CIS) countries. Specifically, military cooperation with Belarus and Ukraine, as well as energy and trade networks with the nations of Central Asia, have imbued Azerbaijan's foreign policy with a more diversified and balanced outlook. An additional Middle Eastern trajectory is also rising in significance in Azeri foreign policy, signaled by engagement with international Islamic organizations investing in Baku's Muslim heritage and close ties with regional powerhouses like Iran, Saudi Arabia, Turkey, and Gulf countries. Thanks to the support of the Organisation of Islamic Cooperation (OIC) members, Azerbaijan was elected a non-permanent member of the U.N. Security Council (2011-2013) in a fierce diplomatic effort with no less than 17 rounds of voting. Being a member of the U.N. Security Council was one of the most significant foreign policy achievements during the lifespan of the independent Republic of Azerbaijan.

ively explores the potential of its membership in multilateral organizations and frameworks to advance its foreign policy objectives. The recent chairmanship in the non-Alignment movement that boasts 120 members is a good example. Aside from the existing multilateral organisations – Non-Aligned Movement (NAM), Economic Cooperation Organisation (ECO), OIC, Organisation for Security and Cooperation in Europe (OSCE), Parliamentary Assembly of the Council of Europe (PACE), NATO and



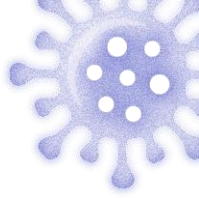
others – Azerbaijan is a co-founder of new regional framings, such as Turkic Council, GUAM, and others. Even non-formal multilateral forums such as the trilateral cooperation frameworks of Azerbaijan-Georgia-Turkey, Azerbaijan-Iran-Turkey, and Azerbaijan-Turkey-Pakistan are enormously consequential. They serve as useful platforms for the advancement of well-defined and policy-specific foreign policy objectives, not least the promotion of regional and national security.

On occasion, Azerbaijan favors multilateral cooperation beyond the political sphere, such as the advancement of connectivity objectives. The effectiveness of such high-level, top-down, flexible, narrowly scoped and functionally aligned cooperative frameworks has been made abundantly clear in the progress of regional trade and connectivity projects such as the Baku-Tbilisi-Kars railway, the East-West transport corridor, the Russia-Azerbaijan-Iran (North-South) transport corridor, and the Trans-Adriatic Pipeline to Italy via the Balkans. Azerbaijan has invested heavily in its new Alyat seaport and free economic zone, south of Baku. Georgia has successfully launched several ports and economic zones on the Black Sea coast. Similar infrastructure projects and transport hubs on the Eastern side of the Caspian Sea suggest the emergence of a multi-channel corridor from Central Eastern Europe to the Far East, creating new opportunities for the promotion of intraregional and international trade.

This dynamic, vibrant yet carefully crafted and balanced foreign policy is aimed at ensuring that Azerbaijan does not fall into complete dependence on any military block and regional powerhouse. The Azeri foreign policy is guided by national interests and in pursuit of the advancement of a national agenda.

The Impact of Covid-19 on regional dynamics

The Covid-19 pandemic has created a new geopolitical reality on the ground. Foremost, its negative impact on world oil prices, the disruption of regional trade and global value chains, and the weakening of Russia's ability to exert an assertive foreign policy in the region due to limited resources and Moscow's preoccupation with a likely domestic economic crisis. Some analysts in Baku have even rushed to predict that for the first



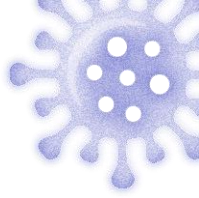
time in post-independence history, Azerbaijan and Armenia are alone to sort their bilateral problems.

While this projection might be too premature or just wishful thinking, a scenario in which Russia takes a more pragmatic approach towards the resolution of the Nagorno-Karabakh conflict and proceeds to pressure Armenia to adhere to a step-by-step plan for confidence-building, conflict de-escalation, and eventual evacuation and liberation of the surrounding occupied territories, is plausible. Possible joint anti-pandemic measures by Armenia and Azerbaijan could also foster such peaceful rapprochement. Natural catastrophes have previously provided opportunities to the warring sides around the world to focus on common goals and move away from animosity. Such a situation could repeat itself in Nagorno-Karabakh, especially if the people of the occupied areas ask for humanitarian assistance from regional capitals.

A prolonged economic crisis in Russia that would accentuate socioeconomic challenges may very well shift the balance of power in the wider South Caucasus and Black Sea regions, following the opposite trajectory of 2010-11, when world oil prices hit \$140 per barrel. Subsequently, opportunities for the peaceful resolution of frozen regional conflicts might emerge.

Similar threats with the reduced oil prices hit Iran and Saudi Arabia, and it remains to be seen how these powerhouses will evolve from this crisis and how their reduced revenue stream will affect their aspirations for regional leadership. Both nations will likely need to curtail their regional interventions and aspirations, not least by holding back on the cost of disseminating their specific vein of political Islam or "soft power" outreach.

At the same time, decreasing oil prices will put pressure on Azerbaijan to rapidly diversify its economy, develop its non-oil sectors, and attract foreign direct investment. In turn, it will require further political and legal reforms in the country, initiated in 2016-2018, following the first oil price shock and subsequent devaluation of the national currency. President Aliyev has significantly reshuffled the Cabinet, getting rid of the old cadre and bringing technocrats to key positions. Policies of deregulation and anti-

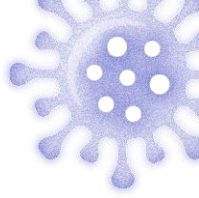


corruption have been fostered, and major tax and customs procedures have been simplified. Yet, unless such reforms are scaled up, it will be hard to make Azerbaijan's economy regionally competitive and thus provide the necessary revenue for the state budget to meet social aspirations. In this scheme, large-scale local and international infrastructure projects are also likely to be put off due to declining oil revenue.

The impact of the Covid-19 on regional connectivity and trade is undoubtedly harmful, as many borders are closed, and the movement of people, goods, and services is significantly hindered. This new reality very much challenges Azerbaijan's positioning as a regional hub for the East-West and North-South transport corridors. The longer the coronavirus crisis looms over the region, the harder it will be to restore the level of trade and economic cooperation between regional stakeholders. Under these circumstances, Azerbaijan will continue to promote the increased usage of newly built Baku-Tbilisi-Kars railway route, as it has done in the first online conference of Turkic heads of state. At the same time, Azerbaijan supports the acceleration of the Chinese Government's One Belt-One Road initiative in the region.

Due to its efficient handling of the crisis, China, which has exited from the Covid-19 pandemic with relatively low damage and high prestige, will be a popular partner for countries in the region. Azerbaijan and other countries of the greater Eurasia will look to China for investment, aid, and cooperation in the transport and logistics sector. Similarly, India and the rest of South Asia are likely to emerge as a promising partner in the field of I.T., light industry, and transport.

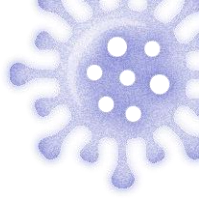
Protectionism, the rise of nationalism, and a departure from multilateral platforms pose both regional risks in the South Caucasus and global threats. The Covid-19 pandemic has undermined trust and eroded goodwill for cooperation between nations. Most countries have locked their borders and are building a narrative of self-reliance to cope with the emerging challenges at hand. The G-20 has failed to convene and develop a meaningful consensus. At the same time, the E.U. and NATO appear hopelessly impotent to contribute constructively to crisis-management despite years of joint training and simulations on potential risks and challenges. This lack of solidarity and cooperation



mechanisms and the failure to elevate crisis management to a common multilateral challenge threatens to fragment the region further, testing the resilience of regional cooperation frameworks to breaking point.

At this point, it is evident that the U.S. and the E.U. are too preoccupied with domestic concerns to consider their strategic engagement in the South Caucasus. Nevertheless, the virus has shown that the E.U. and its borders are too close to Brussels to remain indifferent, as the South Caucasus is a source of opportunity and risk. Risks include threats to public health, uncontrolled migratory flows, trafficking – in humans, substances, and arms – not to mention climate change. Perhaps now more than ever before, the E.U. should clarify its objectives in the region and develop coherent and consistent policy instruments in the South Caucasus, rid of ambiguity and vagueness, and make the most of the resources at hand.

Azerbaijan, being loyal to its multi-vectoral and balanced foreign policy, has used the crisis as another opportunity to lead on multilateral diplomatic forums and voice strong support for multilateral cooperative frameworks. Baku has initiated online summits within the Turkic Council and the Non-Aligned movement to foster cooperation and coordination, rallying countries behind specific objectives. These summits once again showed Azerbaijan as a country willing to cooperate with all sides, without attaching itself to any military or economic blocks.



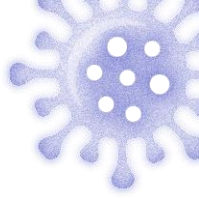
Conclusion

Although the South Caucasus has been the center of geopolitical rivalry for 30 years since the collapse of the Soviet Union, the Covid-19 crisis and its impact on energy markets are showing an initial effect on the balance of power shifts in the region. Russia, Iran, and Gulf nations will likely find that the exercise of assertive policies will be harder at the currently subdued oil prices. At the same time, new opportunities emerge for the peaceful resolution of regional conflicts and rapid domestic economic and political reforms.

Turning to its domestic political agenda, Azerbaijan will need to focus on extensive economic reforms through renewed privatisation of state assets, rapid deregulation, the attraction of foreign direct investment, and the promotion of joint ventures with regional partners to maintain macroeconomic stability. Recent contracts with energy companies from the Gulf countries to start producing renewable energy in Azerbaijan is a good example of the way forward.

From an international development standpoint, more emphasis should go on the One Belt-One Road initiative. Both the Georgian and the Azerbaijani government should take coordinated steps to attract Chinese engagement, capitalising on their geographic location to bolster the region's potential as a transit and logistics hub. The focus should be on harnessing an attractive investment ecosystem in commerce and transport, focusing specifically on paving a route to Central Asia. In creating an attractive value proposition, the region must pursue a process of regional economic integration to the benefit of all stakeholders.

But in the short run, governments in the region will have to work closely with each other and international organizations to prevent future pandemics and reduce health risks, investing in research and public healthcare, while putting in place new crisis management cooperative frameworks.



Chapter 3: Lessons from the Pandemic and Future Imperatives

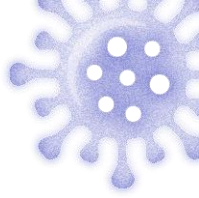
Sodiyq Safoev – Uzbekistan, Senator

Covid-19: Rise of a new geopolitical reality

The coronavirus pandemic has put the world in disarray. But it has also made abundantly clear that Central Asian states have come a long way since their independence. Countries in the region have been found lacking neither in terms of social and health service provision nor more generally in crisis management capability. For every state across the world, this was a litmus test of capacity and competence, and the regional response suggests most of these countries have developed needed capacity.

Specifically, Uzbekistan demonstrated that its governance system has achieved remarkable progress and can engage civil society to address the challenge. The country has not only averted the worst-case scenario but extended humanitarian assistance to eleven states in the wider region. Though the cumulative population of five Central Asian states is over 74 million, none of them appeared globally, with the reported number of confirmed infection cases of more than 10,000 persons. The death ratio was also among the lowest in the world. As of 5 March, Uzbekistan reported ten deaths from the 2,160 confirmed cases of infection. The country's response to this crisis reflects a new reality: the state-building process of the states that gained their independence nearly 30 years ago is now complete. The countries in the region and particularly Uzbekistan are ready and able to assume a new geopolitical role, moving away from a periphery of obscurity and political irrelevance to claiming a role in international affairs and global markets.

This message of optimism does not mean that the coronavirus pandemic transpired without negative consequences for the region as a whole.



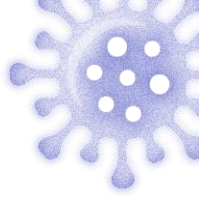
Preventive measures taken by governments to slow the spread of the virus, such as lockdowns, social distancing, extensive testing, and strengthening healthcare infrastructures and systems, are coming at a very high price – economic activity has been shrinking. According to the National Central Bank's forecast, Uzbekistan's GDP growth in 2020 is expected to be the lowest in many years – around 2 percent. A decrease in demand for key goods and services such as natural gas, transport, and logistics, tourism, retail, and hospitality has brought them to a standstill. Inevitably, this will exacerbate the region's most acute problem – unemployment and underemployment.

To mitigate these challenges, the Uzbek government announced three clusters of anti-crisis measures aimed at the immediate socioeconomic effect of the pandemic, including a fiscal stimulus package the channels direct financial support to entrepreneurs and farmers with a particular emphasis on job retention and creation. The months to come will demonstrate the real effectiveness of these programs. To a large extent, the success of Central Asian countries in the post-crisis world will depend on their incorporation into Eurasian geopolitical and geo-economic processes.

[Is this the beginning of de-globalization?](#)

Today, the global community is seeking to project the main consequences of this pandemic. Each country aims to apply this foresight to model an economic response that fits its own circumstances. The underlying question is how the global political and financial landscape is affected, although to answer this, it must be realised that Covid-19 is an unprecedented non-military disaster not witnessed for the last 100 years. Comparisons to the 9/11 attacks or the 2008 financial crisis are largely irrelevant and unhelpful. Neither of these two events resulted in billions of people being isolated at home, the shutting of state borders, and practical paralysis of the world economy. If the aforementioned crises led to the consolidation of even longstanding rivalries, this virus alienated even most loyal allies.

This time the U.S. was not able to play its usual role of global leadership; more significantly, Washington has failed to meet expectations. Numerous developed



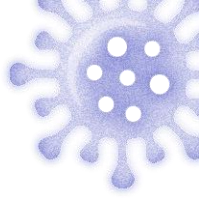
countries have unexpectedly shown that their institutional frontline in this battle – social and health services – is failing their citizens' expectations. In the same vein, international organizations have demonstrated a lack of readiness to weigh in on the crisis, due to the absence of actionable legal and institutional levers. Diplomacy was mostly conspicuous by its absence, failing to set the agenda, formulate demands, or forge alliances ready to resolve emerging problems, fading into the background and being of little consequence to the resolution of the unfolding crisis.

One factor repeatedly mentioned as driving the rapid and all-encompassing spread of the virus was globalization. Subsequently, various analysts concluded the pandemic should lead to de-globalization. Following this line of thinking, governments should take steps to reduce external dependence for strategic goods and services, pursue a strategy of self-reliance and aggressive import-substitution, and curtail global value chains.

Yet, globalization is a long-term process historically rooted in human beings' very nature. It is impossible to ignore, postpone, or stop it even with the most stringent government decrees. Governments will not be able and should not strive to limit the rights of people for information, the right to seek the best education possible, from the best universities, and to seek employment where they are best rewarded. The mobility of labor, capital, goods, and information opens up unprecedented prospects for increasing economic efficiency and human development. Resistance to globalisation is counterproductive.

The abundance of resources and technologies necessary to enhance people's well-being is higher than ever before, and that can only be attributed to globalisation. It has resulted in the creation of unprecedented wealth, the democratization of consumption, and a period in history in which we have unparalleled opportunities to substantially improve quality of life.

At the same time, the coronavirus pandemic has demonstrated the degree of irreversible interdependence between all states. It is necessary to learn how to use the opportunities provided by globalisation and harness international synergies while also exploring how to counter transnational threats. Governments, international



organisations, and experts' communities are obliged to forge mechanisms for the survival of humanity during such global challenges. Hence, connectivity, dialogue, and their derivative – trust – remain the most important objectives.

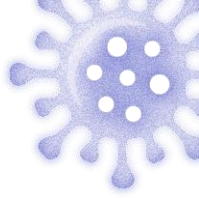
Connectivity has exceptional importance for Central Asia – a landlocked region located at the very heart of Eurasia, which lost its historic role as a hub of international routes around five centuries ago. New kinds of technological innovations are now helping the world to rediscover Central Asia. As Peter Frankopan recently argued, Europe can restore its connection with this part of the world, with which it shares goods, ideas, religions, and occasionally disease.[1] The routes between China and the Mediterranean Sea need no longer be perceived quintessentially "far" and "dangerous," but as the plains where religions, arts, crafts, and technologies mingled and contested, to give rise to unique civilizational fusions.

Reforms matter

The second lesson from the ongoing Covid-19 pandemic is that to address emerging challenges, political and economic reforms must be accelerated, not reversed.

At the peak of the pandemic, some made the case that democracy was crushingly defeated, whereas authoritarianism was more prepared to implement emergency measures. Yet there is nothing new here. In times of crisis, the craving for strong power always emerges. Such an atavistic reflex quest for over-centralization of governance is an expression of fear that does little to address the challenge's root.

To begin with, many democracies in Europe and Asia were quite successful in the fight against the Covid-19. The greatest challenges were faced by the very countries that could not gain public confidence due to government institutions' failure and inability to engage with civil society. That is why a number of states failed to create a national action protocol in the face of an acute crisis. One may expect that the crisis and its ruthless consequences will expose many corrupt systems and punish inefficient economies and governments.



During these trying times, the reformist government of Uzbekistan has taken confident and timely action. A National Action Program was formulated, mobilizing all public and private healthcare facilities and resources, to counter the imminent threat posed by the virus. In collaboration with the civil society institutions, a Social Protection System was implemented, and strict social distancing and quarantine regimes were introduced. The number of recipients of social benefits increased by 10%.

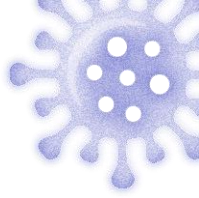
Special attention was given to mitigating the impact of the situation on the national economy. To cushion the impact on businesses, the government has earmarked USD 3.3 billion in assistance measures, that is, a comprehensive package that includes interest-free loans, additional credit, tax benefits, deferred debt payments etc.

There is no doubt that the effectiveness of these anti-crisis measures was expected. Since 2016 and under the leadership of President Shavkat Mirziyoyev, Uzbekistan has embarked on an ambitious reforms path aimed at ensuring genuine political and economic modernisation. The programme was spearheaded by measures that bolster transparency and accountability at all levels.

Younger, open-minded, and reform-oriented individuals, including the graduates of the world's top universities and with international experience, have been appointed to key positions in government. Particular attention is being paid to the establishment of a truly independent judicial system, as well as the protection of human rights and freedoms. The main economic objectives of the reform program are liberalization, support of entrepreneurship, and the improvement of the investment climate.

In parallel with Uzbekistan's dynamic transformation, its foreign policy has seen a radical and substantial shift. Proactive steps are taken towards building strong partnerships with their immediate neighbours, including Afghanistan.

Understanding that trust is crucial for viable regional cooperation, the government has initiated an intensive and far-reaching political dialogue. As a result, the political atmosphere in Central Asia has dramatically improved. Mistrust, suspicion, rivalry, and hidden hostility have been replaced by goodwill, trust, and strive for collaboration.



Being well aware that the pandemic by definition requires coordinated international action, the President of Uzbekistan Shavkat Mirziyoyev took the lead in aligning the efforts of the country's regional partners. During the first days of the coronavirus outbreak in Central Asia, he initiated a systematic consultation process with all the leaders of neighbouring states. On 10 April 2020, he came forward with a number of initiatives at the online Summit of the Cooperation Council of the Turkic Speaking States. This initiative included the creation of a joint epidemiological surveillance system, the exchange in rolling out preventive measures, the procurement of diagnostic tests and the alignment of treatment protocols for Covid-19 patients, as well as the formation of a "green corridor" to ensure uninterrupted transportation of essential goods under quarantine.

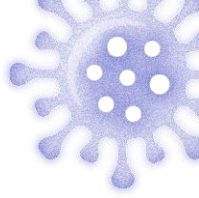
Crisis creates new opportunities

From times immemorial, the region, as the center of the Great Silk Road, had developed trade relations with many parts of the world – from Chinese Nanjing to Italian Venice. The roads and cities running through the region were not only the primary infrastructure for trading goods, but more importantly, the Great Silk Road was a web facilitating the exchange of scientific breakthroughs, enlightening ideas, diverse cultures, and spiritual values.

As Frederick Starr argues in his monumental book - *The Lost Enlightenment*, "All the great civilizations on the Eurasian landmass are accessible *from* Central Asia, and those same civilizations are accessible to one another by land only *through* Central Asia".[2] The significance of this was cultural as well as economic and geopolitical.

It would be no longer inaccurate to consider that the overarching geopolitical importance of Central Asia and the South Caucasus is mainly determined by the geographical proximity to major regions and great powers – the region's significance is becoming more ostensive today.

Due to the recent reforms, the whole of Central Asia has become more open and predictable. In Uzbekistan, the state's increased connectivity and openness have led to the growth of foreign trade by almost one third. Moreover, regional trade has expanded



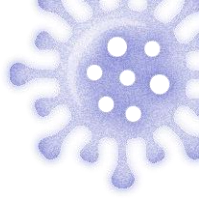
by 50 percent. The common goal of states in the region is to transform Central Asia into a single, capacious market that will attract foreign investors.

The region's relative demographic weight is on the rise: population growth rates remain quite high, with young people under the age of 30 representing two-thirds of the population and the labor force being sufficiently educated and motivated. Considering that natural resources of international importance are concentrated here, the energy potential of Central Asia is an important factor in the global balance of hydrocarbon raw materials. While the dynamically growing economies of China, India, and Pakistan, as well as Europe, are in search of the new sources of energy, Central Asia, with its natural resources' deposits represents a vibrant option.

The expansion of the region's network of internal and international infrastructure contributes to the creation of a modern global transport system, connecting South and Southeast Asia with the markets of Europe and China over land. These efforts by Uzbekistan and Central Asian countries can only succeed by harnessing multiple synergies at every level, as the region must progress en bloc, together with all their Eurasian partners.

Today, Central Asia and the South Caucasus are reclaiming their potential to create an enormous transit, transport, and communication corridor, capable of providing the shortest link between the East and West, Asia and Europe. In this context, the cornerstone of Uzbekistan's national strategy is to develop transport infrastructure and form a robust connectivity network.

This plan can be evidenced by the high priority afforded to the construction of the first-ever railway in Afghanistan, connecting the cities of Hairatan to Mazar-i-Sharif, which was completed by Uzbek specialists and put in operation in 2010. Furthermore, the two countries recently agreed to extend this line up to Herat, adding an extra 657 km and opening access to Central Asia's access to the Persian Gulf. Likewise, Uzbekistan, Afghanistan, and other regional stakeholders are working on a new trans-Afghan corridor through the construction of the Mazar-i-Sharif-Kabul-Jalalabad-Peshawar railroad, leading to ports of the Indian Ocean.



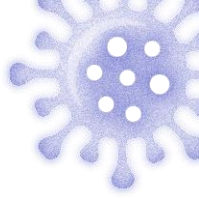
These projects will not only increase the transit potential of all Central Asian states, granting them access to the nearest seaports, but they will also facilitate the economic recovery and peace process in Afghanistan. It preordains the fact that Central Asia appears as an important factor in global sustainable development.

In a broader sense, creating transport corridors is not only about constructing a network of railroads. It demands to apply the holistic vision and systemic approach in governance. These corridors comprise of a complex of interconnected elements, such as urban agglomerations, zones of intensive agriculture, industrial development, and services. The big picture also requires the simultaneous development of telecommunications, financial services, energy and water supplies, and trained labour.

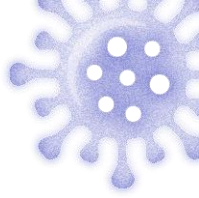
This process is also about forming a harmonized system of laws and norms regulating international transport ties. In sum, transport corridors are forward-looking platforms that go far beyond the logistics to define "development corridors" that can transform the entire Eurasian landscape. To this end, it is noteworthy that EU member states are already among Uzbekistan's major trading partners. Throughout 2019, the volume of bilateral trade between the EU and Uzbekistan has increased by 33 percent, reaching \$3.3 billion. Both sides are currently working on an Enhanced Partnership Agreement, which will hopefully be signed soon and subsequently open new prospects for expansion of relations.

Central Asia is of great importance for inter-civilizational dialogue. Apart from being one of the regions with a predominantly Muslim population, it is a historically salient center of the Islamic world. At the same time, those countries in the heart of Asia are direct participants of the European process through their involvement in the Organization for Security and Co-operation in Europe.

There is no doubt that the post-crisis world will be different. The aftermath of any crisis opens new opportunities for Greater Eurasia, both in the political and business spheres. Hence, to capture the momentum, it is essential to intensify political dialogue among politicians, academia, technocrats, and civil society.

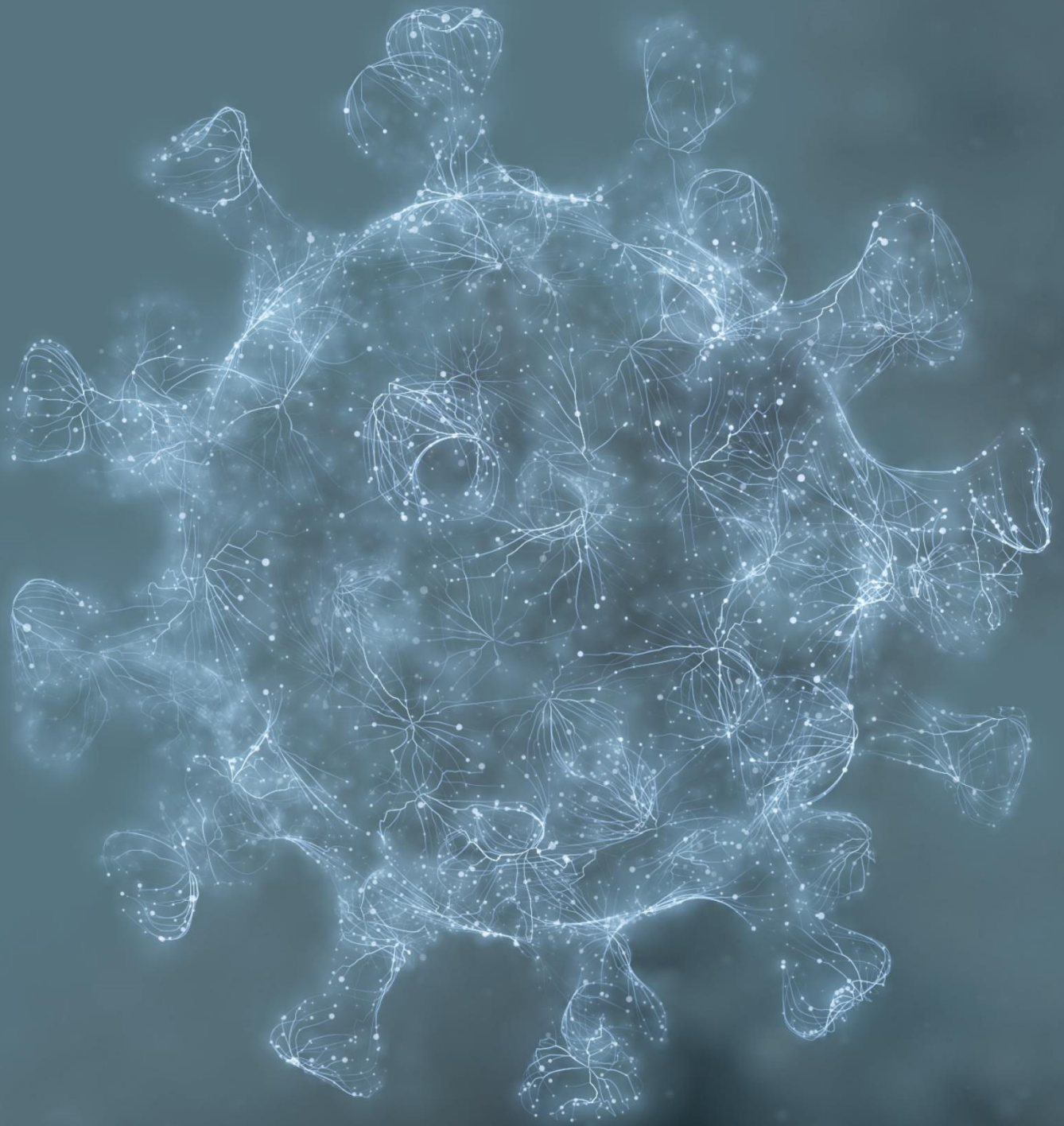


A new Greater Central Asia – modernized, integrated, and open to the world – will be an imperative factor in building the new post-crisis world. It presents a much more lucrative opportunity for investment, with the macro-region not only possessing vast energy resources and good-quality labor but also profound political stability, openness to trans-border projects, and a growing market with a well-developed transport system. Today, Greater Central Asia is prepared for large-scale regional projects that become cost-effective investments, as the region emerges as a modern-day East-West and North-South logistics and trade hub.



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