

Greater consensus on improving the Middle Corridor

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With Russia’s war against Ukraine set to continue for the foreseeable future, the appeal of the Middle Corridor for East–West trade has grown. Large and small countries along the route (see Figure 1) now appear committed to making the investments needed to reduce transit times by improving railway, port and road infrastructure and facilitating border crossings. Georgia, for example, has attracted new attention from China given its geographical position.

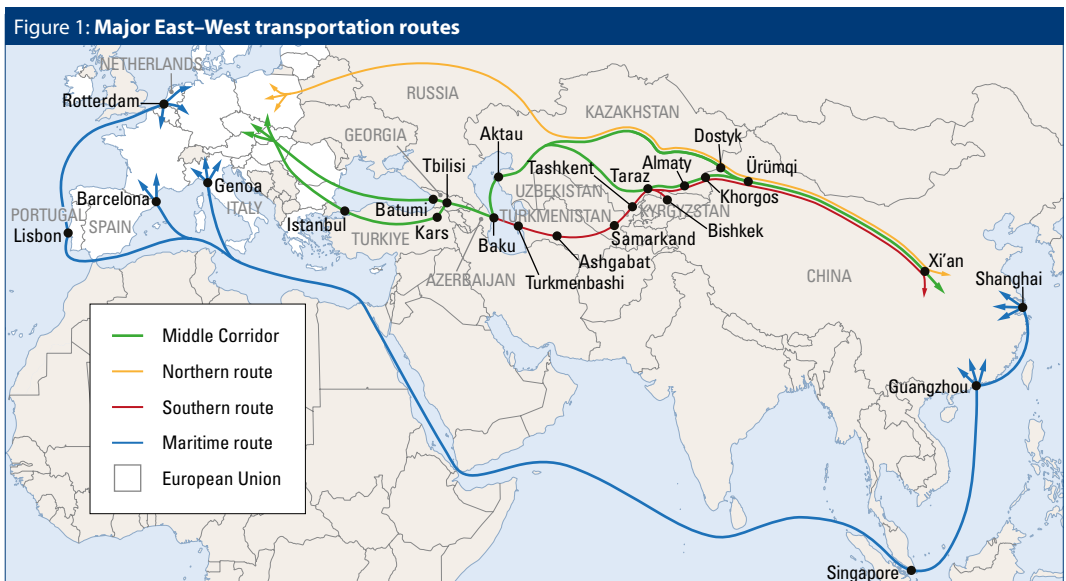
Before the war in Ukraine, China seemed ambivalent about the promise of the Middle Corridor. Reaching the European Union via the traditional northern route through Russia was three times faster. That route, though geographically longer, featured better rail infrastructure, fewer customs checks and no need to ship cargo across the Caspian Sea. Beijing thus saw the new corridor as, at best, complementary. Meanwhile, Türkiye and the countries in the South Caucasus and Central Asia that stood to benefit from infrastructure

improvements and, eventually, transit tariffs lacked the resources to make the investments needed to invigorate the route.

In 2022, however, container transit via the Middle Corridor grew by 33% compared to the prior year. This is because China rerouted much of its EU-bound export traffic away from the northern route – due to Western sanctions – to both the maritime route via the Malacca Strait and the Suez Canal and the Middle Corridor. Transit along these routes took roughly the same amount of time, but the former was constrained by limited Chinese and European port capacity.

Geopolitical context

Russia has largely turned away from the South Caucasus and Central Asia due to its focus on Ukraine, and this has created an opening for China and others to forge closer political, economic and security ties with these regions. The EU, for example, has pushed



This article has been corrected with minor changes. These changes do not impact the academic content of the article.

to create an underwater cable linking the European and South Caucasus electricity systems, and it signed a significant natural-gas contract with Azerbaijan to replace the gas it had formerly received from Russia. It also recognised Georgia's view regarding the significance of the Middle Corridor, and it supported the route by investing in Azerbaijan's infrastructure and adding a notional Georgian port on the Black Sea (Anaklia) to its Global Gateway Initiative. Indeed, flanked by Russia and Iran, two sanctioned states, the Middle Corridor is essentially now the only accessible route by which Europeans can trade with the Caspian Sea region and Central Asia. Türkiye is a major supporter of the route, given its geographical position as the major land bridge between Europe and the East. Meanwhile, Georgia has intensified work on constructing the East–West highway connecting its existing Black Sea ports of Batumi and Poti to the Caspian Sea, adding new terminals due to increased transit demand.

The region's middle and small powers have also increased their diplomatic engagement with one another. In July 2023, Georgian Prime Minister Irakli Garibashvili visited Kazakhstan and Uzbekistan to establish closer political links and facilitate infrastructure construction. During his visit to Kazakhstan, he and his counterpart there, Alikhan Smailov, praised the countries' cooperation and emphasised the need to develop the Middle Corridor further. In June, Azerbaijan, Georgia and Kazakhstan announced that they would sign an agreement on a joint Middle Corridor railway venture. Earlier, in November 2022, Azerbaijan, Georgia, Kazakhstan and Türkiye agreed to develop corridor infrastructure by signing several documents that outlined the steps needed to decrease congestion along the route.

China turns to Georgia

In April 2023, the Chinese ambassador to Georgia made an uncharacteristically clear statement supporting the Middle Corridor and emphasised the need for China to find an alternative trade route that avoids Russian territory. Then, on 31 July, China and Georgia signed a strategic-partnership agreement to elevate bilateral collaboration in trade, infrastructure, political relations and even the education sphere. This move followed other important agreements between Beijing and Tbilisi, including a free-trade agreement in 2017. Since then, Georgia has been the only country in the region to enjoy free-trade preferences with both China and the EU. Yet, despite high hopes for China's engagement with Georgia in the 2010s and an increase in bilateral trade (dominated by Chinese goods exports offset by some Georgian

raw-material exports), significant Chinese investments and geopolitical interest in the country did not follow.

The strategic partnership signed in July 2023 marked a fundamental change in China's approach to the South Caucasus. Tbilisi and Beijing both expressed readiness to promote cooperation in transport, communications, infrastructure modernisation and, most of all, the development of the Middle Corridor.

In October, Georgia hosted the Fourth Tbilisi Silk Road Forum, which had been delayed due to the coronavirus pandemic. The forum's theme was 'Connecting Today, Resilient Tomorrow', and it hosted around 2,000 participants. Tbilisi's goal via the conference was to leverage its strategic positioning, lucrative trade policies and network of free-trade agreements with both the EU and China. One of the results, and another step towards further developing the Middle Corridor, was Georgia's announcement of the creation of a joint venture – Middle Corridor Multimodal – with Kazakhstan and Azerbaijan. The joint venture aims to facilitate intergovernmental cooperation between the railways of the three countries, and it followed a decision in June in which the countries agreed to establish a joint logistics operator.

The prospects for Georgia within the expanding Middle Corridor are especially favourable. In 2021, trade from Azerbaijan, Georgia and Kazakhstan constituted about two-thirds of the Middle Corridor's flows, and this doubled in 2022. For instance, Kazakhstan and Georgia saw a 45% increase in trade turnover, while Azerbaijan experienced a 72% rise compared to 2019–21.

Various projections estimate a substantial growth (about 30%) in trade between China and the EU by 2030. Trade between Azerbaijan, Georgia and Kazakhstan is likewise predicted to increase by 37% by the same year, and trade interactions between these countries and the EU are anticipated to grow by 28%. From 2021–30, the cumulative increase in cargo for these three nations is expected to reach 90 million tonnes (a 44% increase).

Georgia possesses two Black Sea oil terminals, Supsa and Kulevi, in addition to its cargo ports at Poti and Batumi. In 2022, Poti (operated by APM Terminals) and Batumi (operated by the Kazakh company KazTransOil) handled 11.3m and 4.5m tn of cargo, respectively. Poti is operating close to its estimated annual capacity of 13m tn and 650,000 twenty-foot equivalent units (TEUs). Meanwhile, Batumi has a much larger annual capacity of 20m tn and 200,000 TEUs but utilises only a fraction of this.

The average container dwell times in Georgia's ports are relatively high, primarily due to poor connectivity to yards and inadequate road and

rail transfers. Notably, container processing times in these ports are longer than in modern ones. To address container congestion in Poti, APM Terminals has proposed an expansion project, including constructing new breakwater and deep-water berths. The project aims to increase the port's capacity to 1m TEUs annually, accommodating larger container vessels and dry bulk cargoes. KazTransOil, however, has no plans for increasing container capacity at Batumi, mostly because of geographic constraints and a high level of urban development.

Georgia's growing transit ambitions are reflected in the renewed construction of the major deep-sea port of Anaklia. Once completed, the port is expected to handle larger container vessels than either Poti or Batumi. The project, expected to commence in 2024, will enhance the transport corridor's appeal and spur economic growth by generating jobs and stimulating local industries.

The possibility that Chinese companies might be involved in the construction of the port further signals China's growing interest in the Middle Corridor and Georgia's transit capabilities. Indeed, among the two main contenders for the construction project, one is a Chinese-Singaporean company and the other is based in Switzerland and Luxembourg. The Georgian authorities hinted in numerous veiled statements that the government would accept Chinese investors for the port. Given the realities of the strategic partnership signed with Beijing, the probability of a Chinese company winning the tender is quite high. On numerous occasions, Georgian officials have complained that Western companies are unwilling to invest in the port; meanwhile, the Chinese side has funds readily available and has signalled that it is open to implementing the project.

Challenges

The multimodal nature of transport along the Middle Corridor makes the route slower and poses other challenges. Trans-Caspian shipments have not met

expectations in terms of the quantity shipped, and work on infrastructure has been slow. Meanwhile, Kazakhstan's and other Central Asian states' road and railway infrastructure is currently not capable of greater throughput. Though China has made progress in developing East-West connectivity in Central Asia by advancing the construction of the long-stalled China-Kyrgyzstan-Uzbekistan railway, the project has experienced multi-decade delays and it is unclear whether it will be completed. Russia could seek to put pressure on Kyrgyzstan or Uzbekistan to stymie or abandon the railway project, as it appears to have done in the past.

Much will also depend on the course of the war in Ukraine. If Russia wins decisively, it could direct resources towards disrupting the corridor. For example, Russia's military bases in Abkhazia and South Ossetia in Georgia are a short distance from the East-West highway, a critical link in the transport corridor. Likewise, Russia's recent decision to build a new permanent naval base in occupied Abkhazia will put it within striking distance of a new port at Anaklia.

Setting aside Russian opposition, Georgia failed in prior attempts to build the Anaklia port due to political infighting; this suggests the plan might go awry once again, given conflicts between the ruling party, the opposition and investors in Georgia. Indeed, though the Middle Corridor is an initiative embraced by all significant actors in Eurasia except Russia, China and the West have diverging visions of how implementation should proceed. The main issue is which side will control critical infrastructure. In Central Asia, where the EU's influence is minimal, it is evident that China will be the leading investor. The EU is better established in the South Caucasus, however, and is more likely to participate in port and railway projects there. This suggests that something like a geographical division of labour might emerge, but at Anaklia, for example, China and the EU are both leading potential investors.

Outlook

The EU is a major partner of Georgia, which obtained an EU candidate-status recommendation on 8 November 2023, with a formal recommendation expected in mid-December. Tbilisi will find itself in a difficult position regarding its EU partners if it favours Chinese investments in Anaklia or railway infrastructure. Elsewhere in the South Caucasus, Beijing will likely find it difficult to manoeuvre in Azerbaijan, where Turkish business interests are widely present.

Broader geopolitical developments regarding the war in Ukraine and the trajectory of China-EU trade relations will either serve as a driving force or undermine cooperation and development of the route. In the coming months, Georgia will announce the winner of the tender to construct the Anaklia port and will try to begin reconstruction of the Tbilisi-Akhalkalaki section of the Baku-Akhalkalaki-Kars railway. The country will also continue its

work on enhancing the Middle Corridor by establishing a consistent system for prioritising investments. The creation of a logistics and industrial park near Poti and a logistics centre

in Akhalkalaki are under discussion, and progress in this area will further contribute to the expansion of the route and a reduction in transit times.

