THE MIDDLE CORRIDOR: A PERCEPTIBLE REALITY OR A PIPE DREAM?

by
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The Northern Trade Corridor, beginning in China's north-east and traversing the Russian landmass to Europe, had long been a staple of east-west trade. However, with the strict sanctions imposed on Russia by the European Union (EU), China has had to rely on alternative means to transport its goods to the lucrative European market. This has breathed new life into the Trans-Caspian International Transport Route (TITR), also known as the Middle Corridor.

Long ignored in its secondary position to the Northern Corridor, the TITR as a trade project began in 2013 through multilateral agreements between Georgia, Azerbaijan, Kazakhstan, and Türkiye. Tangible infrastructure projects were begun to strengthen trade efficiency across these regions such as the Trans-Kazakhstan railway in 2014 and the Baku-Tbilisi-Kars (BTK) railway in 2017. Despite almost a decade elapsing since the beginning of the project, by 2022 almost 90 percent of EU-PRC land-based trade still occurred via the Northern route. The question remains on whether the Middle Corridor can capitalize on global trade reorientations and assert itself as the primary route between east and west.

The Role of Conflicts

Following the Russian invasion of Ukraine, the global community came to understand that the once familiar world order was undergoing a significant reorientation. Europe became emboldened, weaned itself off Russian natural gas exports, and imposed significant sanctions and trade restrictions on the Russian Federation. This made any imports traversing through the territory of the Russian Federation illegal within Europe.

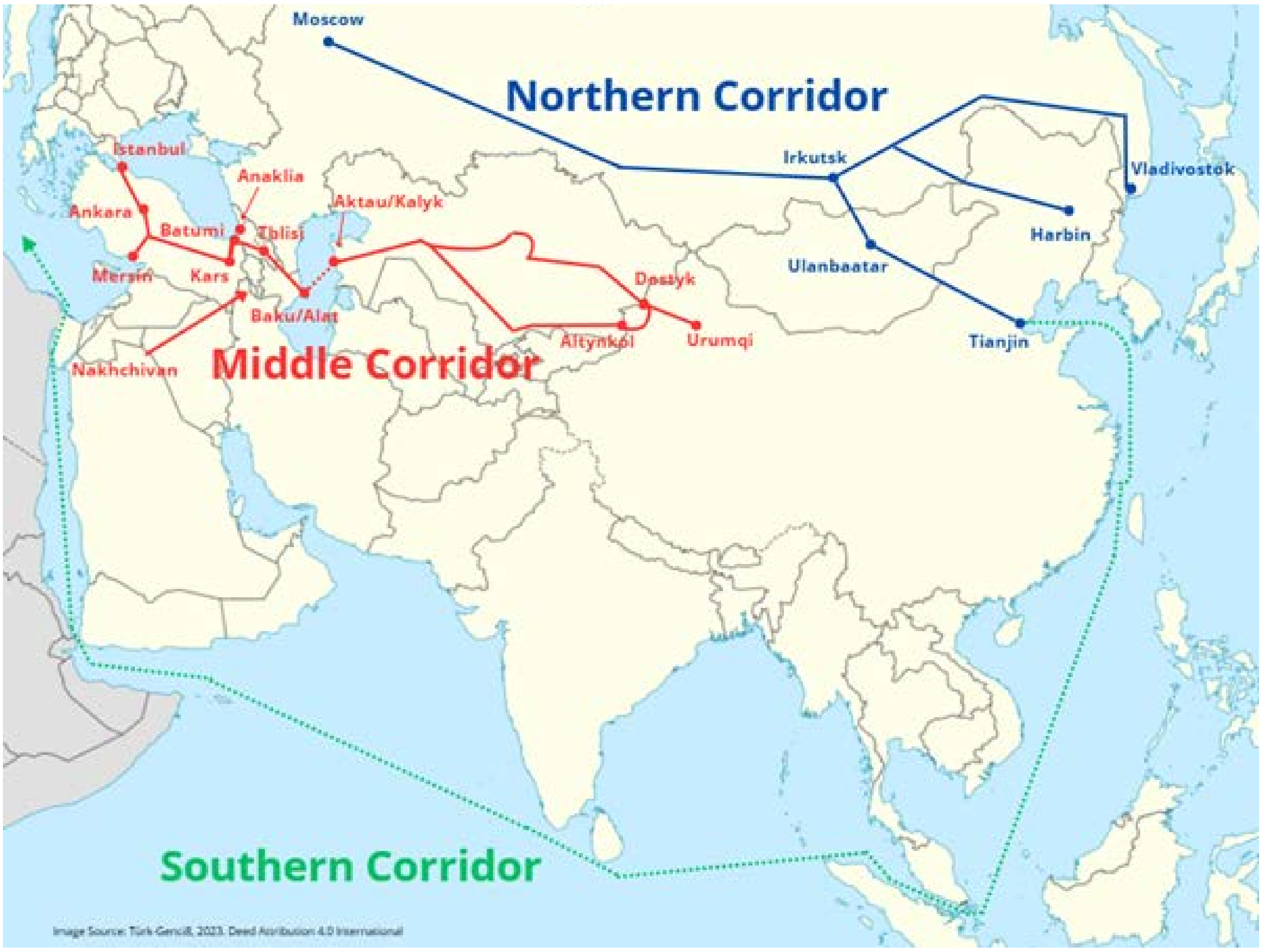
As one war ignited, another was extinguished as the decades-long Nagorno Karabakh conflict between Armenia and Azerbaijan seemingly reached a conclusion following the 2nd Karabakh War in 2020 and the subsequent 2023 offensive, which saw Azerbaijan assert full control over the region. The risk averse Chinese policy makers had always been skeptical of the South Caucasus as a trade realm due to these ongoing territorial issues. However, the peace talks between the two nations bring with it the possibility of further stabilization of the region which will undoubtedly boost overall investor confidence.

Significant questions remain as to how best to increase trade efficiency within the region. A full incorporation of Armenia into a broader trade union would be the most efficient, but would require the opening of borders with Azerbaijan, a possibility that appears far too optimistic. Long discussed has been the creation of the Zangezur Corridor. This would entail connecting Azerbaijan with its enclave Nakhichevan, which borders Türkiye, creating an uninterrupted land-based trade route across the South Caucasus, Türkiye, and into the EU.

This has also been met with opposition as Armenia and Iran both have geopolitical reasons to do so. For Armenia, this proposal is seen as directly strengthening their two historical adversaries. A corridor into Nakhichevan would create a direct land route between Azerbaijan and Türkiye, which is seen as a threat to Armenian sovereignty. In the case of Iran, having uninterrupted access to Armenia benefits the regional balance of power as it has had issues with both Azerbaijan and Türkiye. To be cut off from Armenia would mean that the entirety of the Northern Iranian border would be controlled by Turkic countries, a geopolitical threat that Iran cannot afford to ignore.

The Middle Corridor's Limitations

Significant limitations remain that prevent the full implementation of the TITR. Firstly, having multiple nations involved adds a level of complexity that affects trade efficiency. Due to different customs procedures, tariffs, and trade regulations, there are numerous bottlenecks at border checkpoints. Lack of uniform regulations, technical standards, and



digitalization along with a lack of modern logistics hubs have added to the difficulties in efficient transit, consolidation, and storage of goods.

Secondly, the multimodal nature of the TITR has led to it being far more expensive than the Northern Corridor. A lack of modern cargo infrastructure has led to slowdowns when cargo is moved from ships to trains and vice versa. Traversing the Caspian Sea has also added a level of difficulty as the weather is often extremely windy and ice formations develop in the winter which ships must take special note of.

Third, the ports in the Caspian Sea do not currently have the capabilities to efficiently absorb the large amount of cargo stemming from the TITR. The ports of Baku, Aktau, and Kuryk have all had notable issues. It has been reported that cargo ships have had to wait for extended periods of time, creating significant trade bottlenecks outside the Caspian ports. This has been attributed to outdated port infrastructure and slow handling processes. With Baku being the only major seaport on the western Caspian Sea, the Azeri government has attempted to offset this by investing more in hard infrastructure and financing a large expansion of port capabilities by building the port of Alat, located south-east of Baku. The Kazakh government followed with significant expansions to Aktau and Kuryk in late 2024.

Too Important To Be Ignored?

Even with these shortcomings, there is still a will to develop TITR infrastructure. China has increased bilateral relations with all countries involved and have begun tangible material projects to strengthen development of the Middle Corridor. In late 2023, China and Kazakhstan agreed to build the Tacheng-Ayagoz railway as well as invest in a shipping container hub at Aktau, a key processing center, to enhance Caspian Sea trade efficiency. In May 2024, Georgia announced that a Chinese business group was the sole bidder for constructing a deep-sea port in

Anaklia, located strategically on the Black Sea.

Along with China, there has been substantial interest in the TITR from both the EU and Russia. Europe has recognized that relations with the Russia will not be going back to their pre-war levels and the importance of finding alternative trade routes which circumvent it.

Through its Global Gateway initiative, the EU has allocated €10 billion to trade related infrastructure projects in the South Caucasus and Central Asia. As the EU has continued to signal that they are unwilling to relax diplomatic and economic sanctions on Russia, it is essential that it diversifies its trade routes to circumvent Russia. Relying solely on the Southern Corridor poses a risk due to the lessons learned from the 2021 Suez Canal obstruction and the ongoing conflict occurring in the Red Sea. A secondary route through the Middle Corridor would help to offset any potential issues occurring that relate to the Southern Corridor.

With Russia cut off from European markets, it now must find other destinations for its exports. Though still involved in its war against Ukraine, Russia could make use of Middle Corridor infrastructure following the cessation of hostilities–by linking its planned International North-South Transport Corridor (INSTP), a trade project with Iran and Azerbaijan, to existing TITR trade infrastructure so as to give its exports a clear route to the Indian Ocean. For Europe, the Middle and Southern route is good to circumvent Russia and diversify, but also keep pressure on Russia.

It remains unknown to what extent the TITR will grow. The growing stability of the region will continue to fuel further investment. However, it must be seen what kind of peace will be reached in the Russia-Ukraine War, and possibility of sanctions being relaxed. For the Central Asian/South Caucasian countries to capitalize on this opportunity, there must be significant cooperation and possibly even the creation of a unilateral body between the participating states that ensures the efficient transit of goods. What remains clear is that the continual growth of investment within the region will be a key indicator in predicting the future viability of the TITR.

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