



POLICY BRIEF

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Implications of Russia's invasion of Ukraine for the emergence of the Middle Corridor as a viable route for East-West trade

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Executive Summary

Russia's invasion of Ukraine and the ensuing Western sanctions on Moscow destabilized the traditional rail routes linking China to Europe through Russian territory and pushed major logistics companies to seek alternative modalities for intercontinental trade. Among few options, the Middle Corridor passing through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and Turkey (or the Black Sea) emerged as a possible alternative, with capacity to divert a share of cargo traffic away from the northern corridor. The Middle Corridor countries used this opportunity to step up efforts to bolster the hard and soft infrastructure capacity of the route that not only helps them benefit from growing cargo transit but also affords them opportunities to strengthen geopolitical linkages with alternative power poles. In the fast-changing yet complex geopolitical landscape of wider Eurasia, the South Caucasus and Central Asian republics need to use intercontinental rail transportation networks as a strategic tool to

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strengthen domestic resilience, boost long-term growth, and cement their position as pivotal players in regional affairs.

With the growing demand for the route, the Middle Corridor countries should come up with policy solutions such as deeper customs cooperation, regulatory approximation, better tariff coordination, and more IT solutions to enable the smoother transit of cargo from China to Europe or vice versa. The participating countries also need to coordinate efforts to increase transparency in transactions along the route and liberalize inter-regional and intra-regional trade to attract freight volumes away from the northern corridor. The EU and China should provide financial and technical assistance to the Middle Corridor countries to further develop this route as it will offer a viable intercontinental rail connection in an otherwise highly destabilized neighborhood.

Key words: Russia-Ukraine war, sanctions, Middle Corridor, connectivity, European Union, China

Introduction

Russia's military invasion of Ukraine since February 24 has paralyzed global supply chains and caused huge uncertainty in containerized trade between the EU and China. From the outset of the Russia-Ukraine war, the US and EU levied unprecedented sanctions against Russia, severely damaging its position as one of the key players in intercontinental rail trade. The number of large logistics companies diverting cargo transport away from Russia to other modalities has been increasing since February 2022. Although Russia's railway system faced relatively less strict restrictions compared to air and sea transport, it is still losing its attractiveness as the most reliable rail route between Asia and Europe. At the time writing, the sanctions do not yet prevent logistics companies from working with the Russian railways but many still prefer to avoid this route due to ethical considerations and growing uncertainty caused by the war in Ukraine.

With Russia's market share in Asia-Europe rail connectivity diminishing, alternative routes such as the Middle Corridor, have gained momentum. Also called the Trans-Caspian International Transport Route (TITR), the corridor offers the shortest rail link between the EU and China and currently accounts for 3-5 percent of intercontinental rail trade (Railfreight 2022).

Since its launch in the early 2010s, it has seen remarkable growth as the number of train services gradually increased year on year. However, major stakeholders have been wary of committing to large investments due to weaker demand and a lack of attention from the EU and China. Now that Russia's invasion of Ukraine has compromised the main route, the Middle Corridor countries have stepped up efforts to offer a viable alternative to European logistics companies and Chinese rail operators. Already, there has been a noticeable increase in the amount of freight moving along the route during the first half of 2022. This policy brief analyzes the Middle Corridor's growing role in EU-China trade in the context of Russia's invasion of Ukraine. It discusses major stakeholders' reactions to remarkable shifts in the regional connectivity architecture and lays out policy recommendations for TITR countries, the EU and China on how to make better use of the opportunity provided by the sanctions on Russia to establish the Middle Corridor as a viable route for intercontinental trade.

The Middle Corridor as an alternative to the northern route?

The Middle Corridor is a multimodal transport route that connects China with Europe through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and Turkey (or the Black Sea). It was established in 2013 mostly with an aim to connect with China's flagship Belt and Road Initiative (BRI) and gradually became one of the pillars of the Silk Road Economic Belt, the land component of the BRI (Calabrese 2019). Subsidies provided by Chinese local governments played an essential role in lowering the cost of intercontinental freight services and making them competitive with maritime shipping (Jakobowski et al. 2018). The 2015 vision and strategy document for the BRI envisioned building rail routes to Europe with serious financial backing from the Chinese government, which prompted Middle Corridor countries to coordinate to enhance the viability of the new route. Azerbaijan, Georgia, and Kazakhstan launched the TITR in 2015 to find transport solutions such as the lowering of taxes and transit fees to facilitate container trade between China and Europe, and offer a genuinely competitive alternative to the Trans-Siberian corridors passing through Russia. As the major supporter of the route, Turkey also put its weight behind the project, signing a memorandum of understanding with China on aligning the BRI with the Middle Corridor during the G-20 summit in November 2015 (Yilmaz 2022). Consequently, the emergence of the Middle Corridor became a win-win scenario for involved parties, with the participating countries positioning themselves as pivotal players in

Eurasian connectivity and the EU and China getting an alternative route in case the northern corridor is destabilized.

To improve the infrastructure capacity of the new route, the TITR countries allocated significant resources to developing domestic and inter-state transport infrastructure with a specific emphasis on railroads and ports. Among these, the construction of the Baku-Tbilisi-Kars railway and Trans-Kazakhstan Zhezkazgan-Saksaulskaya-Shalkar-Beyneu line decreased the transport time along the route to a great extent (Kenderdine and Bucsky 2021). At the same time, the emergence of new ports on the Caspian Sea such as the Alat port in Baku with first-phase capacity of 10-15 million tonnes of cargo a year, and the growing number of roll-on-roll-off (RoRo) vessels between the ports highly contributed to smoother passage over the Caspian. This has led to the number of Chinese containers using the TITR to reach European markets increased by 111 percent in 2019 compared to the previous year. According to ADY Container, a subsidiary of Azerbaijan Railways, 19,000 TEUs of cargo passed through the Middle Corridor in 2020 and this number jumped to 29,000 TEUs (52 percent increase) in 2021. With this sharp increase in demand for the route, the TITR Association expects sixfold growth in cargo transshipment in 2022, to a level of 3.2 million tons and 50,000 TEUs of cargo containers (Railfreight 2022).

Despite this optimism, the Middle Corridor still suffers from serious infrastructural capacity problems which need to be overcome in the nearest possible future to make the route attractive for rail operators and logistics companies. Unlike the northern corridor, the TITR is a multimodal route with a relatively underdeveloped transport network in the Caspian Sea and the Black Sea. Underinvestment in the hard infrastructure potential of the corridor leads to the emergence of bottlenecks in different sections along the route, causing delays in the timely delivery of cargo. In December 2021, it took 23 days for container cargo from China's Xian province to reach Baku due to bad weather and a lack of vessels in the Caspian Sea (Railfreight 2022). It takes only 15-18 days to transport cargo from China to Europe through the northern route. The Middle Corridor also faces soft infrastructure constraints such as the lack of a shared customs environment, weaker tariff coordination, and lower IT solutions that prevent the smooth transit of cargo through the route (Railfreight 2022). While Russia, Kazakhstan, and Belarus are all members of the Eurasian Economic Union, which means the northern route operated under a shared customs regime, in the TITR, the containers have to pass through 6 different customs checks that create delays and other related challenges. Member countries will have to deal with this issue soon if they are serious about making the route a serious long-term competitor to the northern route. In this context, Russia's invasion of Ukraine and the ensuing

comprehensive package of Western sanctions on Russia open up certain avenues for the Middle Corridor countries to seize the moment and bolster the position of the route in intercontinental rail trade. The abovementioned infrastructural weaknesses mean that the TITR cannot absorb all cargo traffic diverting from the northern corridor. But it does not mean that it cannot accommodate a meaningful share (up to 15 percent) of east-west rail trade and decrease dependence on Russia. (Report 2022)

Middle Corridor countries coordinate efforts to provide high-quality intermodal services

Turkey, Georgia, Azerbaijan, and Kazakhstan were already deepening connectivity cooperation before February 24 2022. This process was part of a larger geopolitical shift in the region with the growing role of Turkey and China in regional economic interactions. After Azerbaijan's victory in the so-called 44-day war in 2020, Turkey, in cooperation with Azerbaijan, went on to boost its influence in Central Asia both in military and economic terms. The Middle Corridor provided a range of opportunities to reach Central Asian markets and China. In December 2020, the first freight train carrying goods from Turkey to China used the Middle Corridor to arrive at its destination in Xian city. At the same time, the Covid-induced shock to global cargo shipping in 2020 made China Railway Express a highly attractive alternative to air and sea routes. Growing demand for "Made in China" products such as medical supplies (masks, protective suits, ventilators), fitness, and home office equipment nourished a rail boom in Europe-Asia logistics, pushing many shippers to reconsider their supply chains (Contessi 2021). The TITR countries used this moment to open new rail lines to China and increase investment into improving their hard infrastructure capacities.

In this context, Russia's invasion of Ukraine and the disruption of the northern route opened up new avenues for Middle Corridor countries to become a connectivity hub in east-west trade. According to Kazakhstan Railways, the first quarter of 2022 saw a 123 percent increase in the amount of cargo passing through the route compared to the same period of the previous year (Azernews 2022). Growing attention to the route laid the ground for better customs coordination, regulatory alignment, and infrastructural development. On March 31, Azerbaijan, Georgia, Turkey, and Kazakhstan signed a quadrilateral statement on the establishment of a Middle Corridor joint venture in early-to-mid 2023 (Railfreight 2022). The joint venture will provide high-level intermodal transport and logistics services, harmonize cargo rates, and

introduce a unified IT platform to fully automate cargo transport services from China to the EU and vice versa. On May 10, Turkey and Kazakhstan signed an agreement on an Enhanced Strategic Partnership with a focus on cooperation in transport, logistics, and cargo transit via the Baku-Tbilisi-Kars railroad. Azerbaijan, Turkey, and Kazakhstan signed the Baku Declaration on June 27 that envisions deeper cooperation on customs coordination between the countries and the smoother transit of cargo along the Middle Corridor (Caspiannews 2022). During Kazakhstan President Kassym Jomart Tokayev's visit to Baku on August 24, transport companies from the two countries signed deals not only on cargo transportation but also on the creation of production facilities that will facilitate their integration into regional and global supply chains.

A viable Middle Corridor is a strategic objective for TITR countries to deepen politico-economic ties between themselves and to create new linkages with major economic powerhouses such as the EU and China. Most importantly, it is a vital tool to increase their resilience vis-à-vis potential Russian pressures, as the latter has been evolving into an increasingly unpredictable player in the region. For Azerbaijan, the growing role of the Middle Corridor means broader cooperation with Western countries, and a stronger western vector in its foreign policy. EU leaders' visits to Baku to discuss energy and connectivity and the US president's messages to the Azerbaijani leadership hailing the country's strategic importance for east-west trade expands Azerbaijan's maneuvering space in a highly uncertain external environment. In the case of Georgia, Tbilisi benefits from additional revenues emanating from increasing freight turnover in the Middle Corridor. In geopolitical terms, it also brings Tbilisi closer to both its regional trade partners – Azerbaijan and Turkey – and its global trade partners – the EU and China. The fact that Azerbaijan and Georgia launched two new vessel services linking Georgia's ports of Poti and Batumi to the port of Constanta in Romania attests to Tbilisi's growing transit role in intercontinental trade. For Kazakhstan, where Russian influence has traditionally been highest, the Middle Corridor offers a smaller but valuable alternative to transit via Russian territory. When Russia restricted Kazakhstan's access to global markets due to its refusal to support Moscow's war, the Caspian Sea route to Azerbaijan gained further importance in Kazakhstan's diversification plans. For Turkey, the Middle Corridor opens up different avenues to extend its economic reach to the South Caucasus and Central Asia, challenging Russian influence in the region. On the one hand, Ankara benefits from easier access to these markets. On the other hand, it may use its growing presence in the region to push Russia into making concessions in more geopolitically vital issues.

Reactions from the EU and China

The EU's Transport Corridor Europe-Caucasus-Asia (TRACECA) program has long been one of the main policy instruments to develop transport corridors between Europe and Asia. Since 1995, the EU has funded 14 transport projects in the region (Kenderdine and Bucsky 2021). After Russia's invasion of Ukraine, EU officials signaled the importance of the Middle Corridor in regional and intercontinental trade and encouraged the participating countries to take essential measures to boost railway interoperability. On June 15, 2022, Harvey Rouse, head of the international relations unit at DG MOVE, said, "the Middle Corridor is very important in the search of alternatives to the trade routes going through Russia" (Euractive 2022). During her visit to Baku in July 2022, the president of the European Commission, Ursula Von der Leyen, said that the EU wants to work with Azerbaijan to build connections with Central Asia and beyond (European Commission 2022).

Brussels' growing interest in the Middle Corridor means the EU may increase financial and technical investments to help build sustainable, comprehensive, and rules-based east-west connectivity as mentioned in Connectivity Strategy adopted in 2018 (European Commission 2018). The urgent need for alternatives to the Russian route provides opportunities for the EU and TITR countries to step up cooperation and create synergies in planning for transport connectivity and in laying down the necessary regulatory frameworks, including connecting the Trans-European Transport Network (TEN-T) with networks in Central Asia through the South Caucasus region. At the same time, railroad connectivity through the Middle Corridor has a higher chance of attracting EU investment as it is a more environment-friendly mode of transport for intercontinental connectivity. Most importantly, with a more viable Middle Corridor, the EU can help bolster TITR countries' economic resilience against a host of challenges arising from Russia's invasion of Ukraine. Since the adoption of the EU Global Strategy in 2016, resilience-building has been the building-block of the EU's approach to the neighborhood and bringing the region closer to European value and supply chains would be a remarkable step forward in this regard.

China also views the intercontinental rail connection as an essential component of east-west trade and sees it, in part, as an alternative to sea transportation amid its growing rivalry with the US in the wider Indo-Pacific region. In this context, the Middle Corridor has long been viewed as an alternative option for rail trade with Europe in case the main line passing through Russia and Belarus becomes less viable or desirable (Jakobowski et al. 2018). China was

reluctant to focus on developing alternative rail routes due to possible repercussions for its relations with Russia. But since Russia's war against Ukraine began on February 24 2022, China has been left with no option but to look for more reliable alternate transport routes.

In the post-February 24 period, Beijing is yet to show serious commitment to the further development of the TITR to adapt it to the new realities in regional connectivity. Attending the China + Central Asia (C+C5) Foreign Ministers' Meeting in Nursultan on June 8 2022, Chinese Foreign Minister Wang Yi said China will "promote the simplification of customs procedures, optimize green corridors for cargo transport, speed up the resumption of flights, ensure the integrity of production chains and the continuity of supply chains in the region" (Railfreight 2022). With subsidies being phased out in 2023, the Middle Corridor could benefit from China's active involvement in the development of a commercially viable trade route built mainly on supply chain optimization and resilient logistics solutions.

Conclusion and Recommendations

Western sanctions on Russia over its invasion of Ukraine led to a critical juncture in EU-China rail trade where the role of alternative transport corridors increased substantially. The Middle Corridor passing through the South Caucasus and Central Asia rose to prominence even if it still lacks the essential hard and soft infrastructure capacity to meet skyrocketing demand. In the context of the strategic vacuum left by Russia's aggression in Ukraine, the Middle Corridor's emergence as a viable route in east-west trade not only provides opportunities to bolster the participating countries' domestic economic resilience vis-à-vis possible external shocks but also enables them to forge closer ties to a wider variety of economic partners, sidestepping Russia. It should come as no surprise that after Russia's invasion of Ukraine, the Middle Corridor countries increased multilateral contacts both with each other and with other major stakeholders such as China and the EU to deal with existing infrastructural weaknesses and to attract more cargo to the route. However, in order to further increase the viability of the route, TITR countries, the EU, and China should consider several recommendations.

For the TITR countries

- To create new partnership frameworks under the auspices of the TITR for market-driven, profitable, and environment-friendly projects that are capable of winning

support from the EU and China. The participating countries should coordinate efforts to improve the hard infrastructure capacity of the route to meet growing demand. There already are plans to increase the number of ships in the Caspian Sea and Black Sea, and expand the capacity of ports and railroads but existing congestion along different parts of the route demands much faster action.

- To establish a shared customs environment that coordinates customs operations along the Middle Corridor. This has long been the TITR's main weakness vis-à-vis the northern corridor which benefits from a shared customs territory as part of the Eurasian Economic Union. Harmonizing and simplifying customs procedures and tariffs will facilitate the smooth transit of rail cargo, decreasing transit time and preventing delays in ports. Cutting delivery time is the main advantage of rail transportation over sea freight and a shared customs environment is one of the main tools to attract cargo from sea to rail.
- To increase transparency and open access to infrastructure and services that will boost the reliability of the route for both customers and private investors interested in the further development of the route.

For the EU

- To proactively involve itself in the development of different sections of the Middle Corridor, signaling to China and the TITR countries that the EU remains an engaged stakeholder. Now is the time to realize initiatives aimed at bringing these countries closer to the EU and also at strengthening their resilience against possible external supply shocks.
- To use the frameworks of the Central Asia Strategy, Global Gateway Strategy and Economic and Investment Plan for the Eastern Partnership countries to shore up financial assistance for sustainable, comprehensive, and rules-based connectivity in the region. As these programs were established before Russia's invasion of Ukraine, the new connectivity realities of the region require greater EU involvement.
- To offer its financial and technical assistance to develop a regulatory and customs regime based on international standards and best practices. The EU has such programs for Georgia, Azerbaijan, and Kazakhstan, and increasing demand for the Middle

Corridor incentivizes these countries to take urgent steps in this regard, hence opening up more room for cooperation with the EU.

- To engage China, both bilaterally and multilaterally, to better coordinate actions aimed at boosting the transit potential of the Middle Corridor. After February 24 2022, Brussels and Beijing found themselves in different camps which was expected to negatively affect bilateral trade. But the two powers remain major trade partners and, therefore, are interested in the emergence of reliable and viable land connections. In this context, the EU can cooperate with China to enhance synergies between its approach to connectivity, including the Global Gateway strategy, and China's BRI. The EU-China Connectivity Platform established in 2015 could provide a platform for such cooperation.

For China

- To foster multilateral frameworks to work more effectively with the EU, TITR countries, or private stakeholders rather than relying on unilateral mechanisms. This will decrease the unpredictability associated with Europe-Asia land routes in general, and the Middle Corridor in particular, and alleviate debt-trap concerns about BRI.
- To support TITR countries' efforts to create supply and value chains along the Middle Corridor through increased industrial investment and cooperation in the banking sector.

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