

The Middle Corridor: Perspectives and opportunities after the war in Ukraine

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In the past, Central Asia was the site of one of the main trade routes in the world, known as the Silk Road. This linked China with the Middle East and the Roman Empire. Today, China is seeking to revive that road with the Belt and Road Initiative (BRI). The Middle Corridor is the shortest way from China to Europe, but the Russian and maritime routes are easier to use due to the ready-made intermodal infrastructure. The Trans-Caspian International Transport Route (TITR) countries have invested in infrastructure such as roads, railroads, ports and airports, but much more must be done, for example, the creation of effective intermodal transfer services and establishing cooperation in minimizing tariff obstacles. There are many political issues, including conflicts and a lack of developed multimodal infrastructure, that inhibit making the TITR an effective transport route that can bring participants in the project revenues from cargo fees and foreign investments. Increased China West antagonism, and competition among Türkiye, Iran and Russia for regional supremacy in the South Caucasus, could interfere with efforts to make the Middle Corridor an efficient transport route. Tariff barriers must be cut or adjusted for smooth movement of goods across state borders. The US and the EU show some interest in investing in the Middle Corridor, but the extent of that involvement remains unclear. Meanwhile, the war in Ukraine has created new momentum for Kazakhstan, Azerbaijan, Georgia and Türkiye in terms of reinforcing the TITR. The aim of this article is to assess the current political and economic environment and challenges related to the effective use of the Middle Corridor transport route that have to be deal with.

Key words: Middle Corridor, Central Asia, Trade, Azerbaijan, Ukraine, Transport



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Background to the Middle Corridor

The Middle Corridor derives its name from the fact that it is situated between the Northern Corridor, a trade route through Russia, and the maritime trade route across the Indian Ocean. It designates a trade route that connects China, Central Asia, the South Caucasus, Türkiye and Europe. Countries along the Middle Corridor – China, Kazakhstan, Turkmenistan, Azerbaijan, Georgia and Türkiye – have a great opportunity to advance their economic position in light of the ongoing war in Ukraine. The Northern Corridor route passing through Russia and Belarus was heavily used as a land connection between China and Europe before the war in Ukraine. However, as both Russia and Belarus have now been hit by a strong sanctions regime, the route’s capabilities have decreased, with a fall of 40% in the second half of 2022. The level of goods transported through the Middle Corridor was rather small; before the war in Ukraine, it was only 8% of the Siberian Railway level, and the amount of goods moved along the corridor increased from 350,000 tons in 2020 to 530 000 tons in 2021. But in 2022, that quantity grew to 3.2 million tons.¹

In fact, early initiatives aimed at opening this route started in 2009. Türkiye proposed the Middle Corridor as an alternative multimodal route from China to Europe² and plans to develop cooperation with countries of the Organization of Turkic States (OTS). These states share language and historical links with Türkiye. One of the main arguments for the route is that it is the shortest land route from China to Europe, and OTS member states can profit from the transit of goods between China and the EU. To achieve that goal, they have to advance their own transport infrastructure, including through investing themselves and attracting further investments.

There is also a need to improve coordination of transit rules among countries on the TITR for the smooth movement of goods. Tariff barriers still vary

1 Chang, F.K., “The Middle Corridor through: Trade and influence ambitions”, *Foreign Policy Research Institute*, February 23, 2023, available at: <https://www.fpri.org/article/2023/02/the-middle-corridor-through-central-asia-trade-and-influence-ambitions/> (Accessed: June 16, 2023)

2 Tuba, E., “Russia’s War on Ukraine and the Rise of the Middle Corridor as a Third Vector of Eurasian Connectivity. Connecting Europe and Asia via Central Asia, the Caucasus, and Turkey”, *Stiftung Wissenschaft und Politik*, October 28, 2022, p. 2, available at: <https://www.swp-berlin.org/en/publication/russias-war-on-ukraine-and-the-rise-of-the-middle-corridor-as-a-third-vector-of-eurasian-connectivity> (Accessed: June 14, 2023)

significantly due to different customs regimes in the countries along the corridor's route and prolong the duration of cargo movement along the Middle Corridor. For many years, representatives from Azerbaijan, Georgia, Kazakhstan and Türkiye have met to discuss how to solve this issue. In November 2022, they finally accepted a road map to make customs and tariff controls less burdensome.³ According to the road map, full implementation of a common customs regime will take five years.

The Caucasus and Black Sea region is located at the crossroads of Europe and Asia. Azerbaijan is seen as a key partner for Europe in this axis because of its oil and gas fields which, combined with those of Kazakhstan, provide a counterweight to Russia's energy supply to Europe.⁴ Azerbaijan also plays an important role as a hub for the transit of freight and fossil fuels from Asia to Europe. The Heritage Foundation's New Cold War Strategy depicted Baku as an important location to check Chinese ambitions in Central Asia and to control the Middle Corridor as an alternative means of moving goods from East Asia to Three Seas Initiative countries in Central and Eastern Europe.⁵

In recent months, China has become much more active in Central Asia, in addition to the Belt and Road investments made in the past few years. Although the Middle Corridor is one of the six official routes of the BRI, Chinese involvement in Middle Corridor investments is minor.⁶ China has been trying to secure its position as a main power

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3 Chang F.K., "The Middle Corridor through: Trade and influence ambitions", *Foreign Policy Research Institute*, February 23, 2023, available at: <https://www.fpri.org/article/2023/02/the-middle-corridor-through-central-asia-trade-and-influence-ambitions/> (accessed: April 12, 2023)

4 Sadler B., Di Pane J., Robinson N. and Diaz, J., "Promoting U.S. Security Cooperation from Eastern Mediterranean to the Caucasus", *The Heritage Foundation*, March 7, 2023, available at: <https://www.heritage.org/defense/report/promoting-us-security-cooperation-the-eastern-mediterranean-the-caucasus> (accessed: April 19, 2023)

5 Carafano, J.J., Pillsbury, M., Smith, J. and Harding, A., "Winning the New Cold War: A Plan for Countering China", executive summary, *The Heritage Foundation*, March 28, 2023, available at: <https://www.heritage.org/asia/report/winning-the-new-cold-war-plan-countering-china> (accessed: April 20, 2023)

6 Colakoglu, S., "The Middle Corridor and the Russia-Ukraine War: the Rise of New Regional Collaboration in Eurasia?", *The Central Asia-Caucasus Analyst*, January 31, 2023, available at: <https://www.cacianalyst.org/publications/analytical-articles/item/13744-the-middle-corridor-and-the-russia-ukraine-war-the-rise-of-new-regional-collaboration-in- Eurasia?.html> (accessed: June 14, 2023)

in Central Asia, in light of the weakening position of Russia not only in Ukraine, but also in the world. Russia's declining global political position and the shrinking trade balance between Russia and China strongly back China's interests. This situation presents an opportunity for the former Soviet republics in Central Asia and the Caucasus to develop cooperation with partners from Western countries, as well as with Türkiye and China.

The Middle Corridor could be used more extensively by China as a part of its BRI project, as China seeks alternative ways to transfer its goods to Europe, because the Western sanctions imposed on Russia have effectively hampered the operability of the Northern Corridor. The main route from China to Europe is the maritime way through the South China Sea, Malakka Strait, Indian Ocean, Red Sea and Suez Canal to Mediterranean ports in South Europe. The second route is the Northern Corridor including the Trans-Siberian Railway which, due to many years of development, has much better multimodal infrastructure (such as railroads, and storage and cargo handling facilities) than that currently available in the countries of the Middle Corridor.

Improvements in infrastructure will facilitate increasing capacity from 3.2 million tons in 2022 to a projected 10 million tons, given Türkiye's completion of the Marmara Railway under the Bosphorus Strait. Meanwhile, Kazakhstan has spent US\$35 billion on new roads, railroads and airports in the past 15 years.⁷ Russia's route has the advantage of decades of infrastructure development, therefore the Middle Corridor needs much more investment to make mass cargo transport feasible and to preserve its competitiveness in relation to the Russian and maritime routes. The BRI was seen by the countries of the Middle Corridor as an opportunity to build this necessary infrastructure. However, because of low Chinese investment in the Middle Corridor trade route and trouble with BRI undertakings in other countries such as Sri Lanka and Pakistan, that means of financing these investments looks much less attractive. As a result of the cautious approach by countries along Middle Corridor to BRI investments, Chinese investors have become sceptical about their investments in TITR transport infrastructure,⁸ even

7 Carrafano, J.J., "Central Asia's Middle Corridor gains traction at Russia's expense", *Geopolitical Intelligence Services AG*, August 29, 2022, available at: <https://www.gisreportsonline.com/tr/middle-corridor/> (accessed: June 14, 2023)

8 Ibid.

though making the Middle Corridor economically feasible for China's exports, due to the volume and set of products, is an indispensable part of the BRI.

Political environment along the Middle Corridor

The political situation in Central Asia and the South Caucasus is complicated by the intersecting interests of the countries along the Middle Corridor and powers such as Russia, Türkiye and China. This multipolar world presents opportunities for regional powers to increase their sphere of influence. Russia, China, Türkiye and Iran are competing for influence in Central Asia. Russia was the dominant power in the past, but its position diminished during the war in Ukraine. Türkiye, with its strong cultural and language ties to the region, can be a strong player.

China, with the world's second-largest economy and growing military power, may be the future dominant power in Central Asia, but as of now it is not ready to fulfil that role because it has not achieved a sufficient level of military power and skills. Iran, which has close relationships with Russia and China, could also be a part of a new regional equilibrium. Like Russia, Iran has its own problems in the form of heavy sanctions imposed by the international community on its economy and an internal political crisis with huge social unrest⁹ directed against its authority. That diminishes Iran's capacity to compete with other powers.

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The South Caucasus has its own complicated political situation. Even after the Second Karabakh War in 2020, tension still exists between Armenia and Azerbaijan and needs to be reduced to allow stability along the Middle Corridor's geography. Meanwhile, Georgia also has its own problems with a Russian occupation and military presence in its Abkhazia and South Ossetia (Tskhinvali) regions. Moscow could leverage that advantage to disrupt the transport of goods to Türkiye, however the possibility of such a scenario depends on the condition and capability of Russian military forces after the war in Ukraine. A

9 Loft, P., "2022 Iran Protests: Human rights and international response", *House of Common Library*, May 26, 2023, available at: <https://commonslibrary.parliament.uk/research-briefings/cbp-9679/> (accessed: June 14, 2023)

significantly weakened Russian Army could limit Moscow's ability to disrupt activity in the South Caucasus.

The US and the EU have in recent years developed a superficial interest in Central Asia and the South Caucasus. After the disastrous US abandonment of Afghanistan in 2021, that region was left to China, and regional powers such as Russia and Türkiye were allowed to fill the void left by the Western powers. The war in Ukraine has changed that situation through the EU's emerging zeal to find alternative sources of oil and gas. Kazakhstan and Azerbaijan are among the countries best placed to decrease Europe's dependence on Russia's fossil fuel reserves.

In 2022, the volume of cargo moved along the Middle Corridor grew six-fold in comparison with the situation in 2021. Many logistic firms started to use this transport route, for example, Denmark's Maersk, Finland's Nurminen Logistic, Germany's CEVA Logistic, Azerbaijan's ADY Container and a group of Chinese rail operators.¹⁰ That demonstrates the increased interest in using the Middle Corridor as a supplement to the Northern Corridor and the maritime route from Asia to Europe.

In this context, the Southern Gas Corridor is one of the best examples of such diversification. Pipeline connectivity is the most cost-effective means of cooperation between the Central Asian and South Caucasus states and the EU. The Southern Gas Corridor has kept functioning even amid political tensions and bureaucratic problems. Diversification of the sources and routes of energy, and cooperation with like-minded partners are critical in the current unstable and multipolar world situation, and in a complex geopolitical environment.

There is also a possibility of enhanced cooperation between the states that are party to the Three Seas Initiative for economic and security cooperation based on common interests (Austria, Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Hungary) and some of the countries located along the Middle Corridor, especially Georgia and Azerbaijan. Both of these could provide a bridge between Eastern and Central Europe and Central

10 Tuba, E., "Russia's War on Ukraine and the Rise of the Middle Corridor as a Third Vector of Eurasian Connectivity. Connecting Europe and Asia via Central Asia, the Caucasus, and Turkey", *Stiftung Wissenschaft und Politik*, October 28, 2022, available at: <https://www.swp-berlin.org/en/publication/russias-war-on-ukraine-and-the-rise-of-the-middle-corridor-as-a-third-vector-of-eurasian-connectivity> (accessed: June 16, 2023)

and Eastern Asia. The field of energy cooperation fits this bridge best, due to the existing pipelines and the EU's increasing demand for oil and gas after severing connections with Russia.

However, the East-West trade route is not the only focus of regional players. There is also a northsouth trade route that is important for Russia and, to some degree, India. Competing with the Middle Corridor project is Russia's International NorthSouth Transport Corridor (NSTC). Russia is trying to diversify its trade links, decouple from the West and drive trade flows towards the Indian Ocean and East Asia. The NSTC could make that idea feasible. This link is vital in preventing RussiaIndia trade being prone to any interruptions by Western countries. The route is shorter and quicker than traditional sea route via the Suez Canal, the Mediterranean Sea, the Atlantic Ocean and the Baltic Sea. It reduces the time needed to move goods to 18 days, twice as fast as the Suez Canal route, as well as lowering transport costs.¹¹ Currently, 70% of scheduled NSTC work is complete.¹² Only a section of some 35 km is required to finish the construction work completely. That is, however, in question because of the current AzerbaijanIran political tensions.

The NorthSouth connection could be profitable for India, as a swing state between global powers and a rival to China. New Delhi sees partnership with Russia as a useful tool to counterbalance China's expansion, and the NSTC is one of many projects India is interested in to balance Chinese influence in Central Asia. India's policy towards the NSTC includes cooperation with Azerbaijan and Armenia as parts of the broad coalition of countries that have invested in the project.¹³ India has, like China, ambitions to become a great power. The NSTC is seen as one of the ways to fulfil that intention. India may desire an additional link with Russia to keep open the option of balancing

11 Avdaliani, E., "The Expansion of the International North-South Transport Corridor: Geopolitical Updates", *Silk Road Briefing*, April 4, 2023, available at: <https://www.silkroadbriefing.com/news/2023/04/04/the-expansion-of-the-international-north-south-transport-corridor-geopolitical-updates/> (accessed: June 15, 2023)

12 Dezan Shira and Associates, "Azerbaijan, Russia to Move Ahead with Completing Vital Rasht-Astara INSTC Rail Link Through Iran", *Silk Road Briefing*, March 1, 2023, available at: <https://www.silkroadbriefing.com/news/2023/03/01/azerbaijan-russia-to-move-ahead-with-completing-vital-rasht-astara-instc-rail-link-through-iran/> (accessed: April 14, 2023)

13 Blank, S., "INSTC: India makes its move in Central Asia and Beyond", *Trends Research and Advisory*, January 13, 2023, available at: <https://trendsresearch.org/insight/instc-india-makes-its-move-in-central-asia-and-beyond/> (accessed: April 14, 2023)

China's influence through Russia–India cooperation, similar to the situation in the Cold War.

Azerbaijan could use the NSTC as a source of additional revenues and in bargaining with Western partners on Middle Corridor projects. It is an indispensable part of the Middle Corridor, so it gives Azerbaijan leverage during negotiations with partners in both the Middle Corridor and NSTC projects. The NSTC is in some ways in competition with the Middle Corridor, especially while Russia and Iran are on the opposite side to the West. The problem with the NSTC is a lack of the capital needed to complete the project due to the economic problems of the main parties. Russia and Iran have been under heavy sanctions, and their readiness to invest huge sums of money is doubtful. India has its own internal economic and financial problems, and the ongoing conflict with Pakistan over Kashmir prevents India from financing major undertakings such as the NSTC. Central Asian countries are unable to fill the financial gap left by bigger participants like India and Russia. The lack of a common tariff regime and many barriers on the borders of Azerbaijan and Iran also do not facilitate the proper environment for achieving the full capacity of the NSTC, which with proper investment could reach roughly 30 million tons of freight by 2030.¹⁴

Poland, EU and US perspective

Poland's interest in the South Caucasus and Central Asia region is twofold. The first consideration is energy cooperation. Azerbaijan and Kazakhstan could increase their share in Poland's imports of oil and gas, as part of EU cooperation with these countries. The second is the Middle Corridor, seen by Poland's government and the EU as a means to bypass Russia for freight transportation from Asia. Current cooperation, however, is limited mainly to the energy domain.

There is growing interest in the EU in buying more oil and gas from Azerbaijan and Kazakhstan. That approach increases the chance of

14 Dezan Shira and Associates, "Joint Azerbaijan, Iran Logistics Operator Proposed For Western INTSC Routes to Russia and Europe", *Russia Briefing*, October 31, 2022, available at: <https://www.russia-briefing.com/news/joint-azerbaijan-iranian-logistics-operator-proposed-for-western-instc-routes-to-russia-and-europe.html/> (accessed: April 18, 2023)

combining EU funds to further increase the volume of oil and gas exported from Azerbaijan and Kazakhstan to Europe. The fact that the pipelines are functional even when political tensions in the South Caucasus remain high provides at least some assurance that delivery of these commodities is not going to be disrupted. Poland and Lithuania currently cooperate with Azerbaijan in a safe roads project that could make the transit of goods along Azerbaijan's roads safer and smoother. This project is directed towards safety improvements on Azerbaijani roads. Lithuanian and Polish experts will support Azerbaijan in introducing new regulations to improve the safety of travel along Azerbaijan's roads.¹⁵

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US and EU engagement in Middle Corridor projects could increase financing opportunities, thereby making it easier for TITR countries to create the required intermodal infrastructure. The difficult part of that situation for TITR states is manoeuvring between the contradictory interests of the US, EU, China, Russia and Türkiye. Each of these players would want to dominate the TITR. Participants in that route should carefully assess how to keep doors open to the other side in case a former partner loses its position or capabilities, in the way that Russia has after its poor performance in the war in Ukraine.

Conclusion

When we take into consideration wide-ranging points of view, the current changes in the international political and economic order are simultaneously an opportunity and a danger for Central Asian and South Caucasus countries. China, through its Belt and Road Initiative, started the process of rebuilding links between countries positioned along the ancient Silk Road. The BRI is simultaneously a political and an economic project. China, through its economic projects, also wants to increase its influence in the states situated along the BRI, just as other investors do. At the same time, the EU's interest in oil and gas from

¹⁵ Ministry of Infrastructure, "Polish-Azerbaijani talks on transport, logistics and road safety" (translation from Polish), News, March 5, 2023, available at: <https://www.gov.pl/web/infrastruktura/polsko-azerskie-rozmowy-o-transportcie-logistyce-i-bezpieczenstwie-ruchu-drogowego> (accessed: June 15, 2023)

Central Asia, mainly from Kazakhstan and the South Caucasus, with Azerbaijan as the leading deliverer of those goods, offers an additional way to bring investment to these regions.

Geopolitical rivalry among the great powers has become one of the most important factors in today's international policy. The US is focusing its attention in these regions as places of geopolitical rivalry with both China and Russia. American investment in the Central Asia and South Caucasus transport infrastructure will depend on the profit to the US of that rivalry. India sees the opportunity to shape its geopolitical surroundings. US and India cooperation, taking into account their good political relations, could be manifested in Middle Corridor projects. Meanwhile, rivalry among the great powers could be used by countries along the Middle Corridor to skilfully attract investment from them, as these powers will be interested in realizing their interests in the Middle Corridor. This became much more attractive for China after war broke out in Ukraine last year, as it provides an additional route to move cargo to the Middle East and Europe. That route needs significant investment in intermodal infrastructure, otherwise it will be unable to immediately supplement the Siberian route.

As a result of the war in Ukraine, the EU found itself in a vulnerable position in terms of transit of oil and gas sources from Russia. European countries started to seek new sources of and routes for these fuels. Poland is a special case in Eastern Europe, due to its historic experience with Russia, including wars and Russian occupation. Any new source of oil and gas independent of Russia has important value for the Polish government. Azerbaijan and Kazakhstan are therefore going to benefit more from the current level of trade in fossil fuels to Europe, as European trade links with Russia are virtually cut off. Fossil fuel trade is now one of the main aspects of the EU's activities in Central Asia and the South Caucasus. Pipelines like the Southern Gas Corridor,¹⁶ including the Trans-Adriatic Pipeline and the Trans-Anatolian Natural Gas Pipeline,¹⁷ are deemed the most reliable way of doing business in the region currently.

16 Ministry of Energy of Republic of Azerbaijan, main page projects, "The Southern Gas Corridor", May 31, 2023, available at: https://minenergy.gov.az/en/layiheler/cenub-qaz-dehlizi_2196 (accessed: June 16, 2023)

17 TANAP Home, available at: <https://www.tanap.com/en/tanap-project> (accessed: June 16, 2023)

Transport of goods requires huge investment in ports, roads and railroads. Therefore, the realisation of Middle Corridor projects would take some time. The war in Ukraine creates motivation to attract investors such as the EU or China to finance that trade route. The Middle Corridor has the potential to supplement the Northern Corridor as an AsiaEurope multimodal cargo route. It is for countries situated along the Middle Corridor to skilfully take advantage of that circumstance.