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The Middle Corridor Initiative

Where Europe and Asia Meet

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Abstract

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Over the past two years, geopolitical shifts in Eurasia have significantly impacted global supply chains, alongside various political and economic dynamics. The repercussions of Russia's invasion of Ukraine and Houthi attacks on merchant ships in the Red Sea have led to serious discussions on the liability of different transport routes. There has been a visible redirection of cargo flow from northern to southern routes in the East-West direction, [rendering](#) traditional transport paths less relevant and sought for. Amidst the diminishing significance of the New Eurasian Land Bridge (NELB) or 'Northern Corridor,' a demand for alternative transport routes has emerged, with particular attention drawn to the Trans-Caspian International Transport Route (TITR), also called the 'Middle Corridor.'

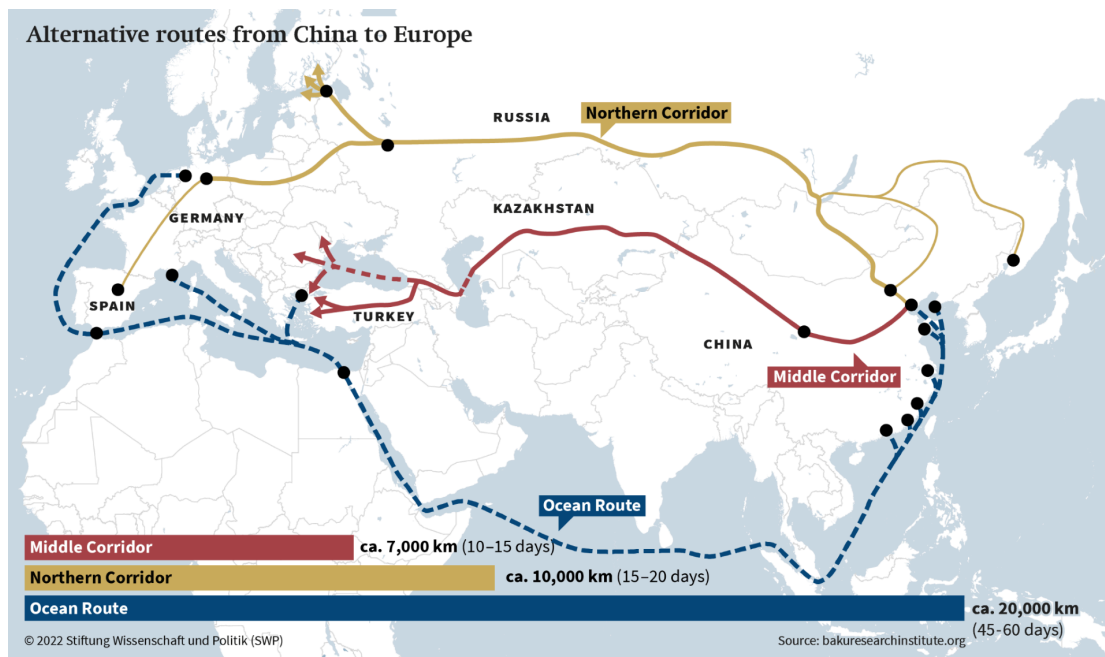
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The Middle Corridor **Where Europe and Asia Meet**

Over the past two years, geopolitical shifts in Eurasia have significantly impacted global supply chains, alongside various political and economic dynamics. The repercussions of Russia's invasion of Ukraine and Houthi attacks on merchant ships in the Red Sea have led to serious discussions on the liability of different transport routes. There has been a visible redirection of cargo flow from northern to southern routes in the East-West direction, [rendering](#) traditional transport paths less relevant and sought for. Amidst the diminishing significance of the New Eurasian Land Bridge (NELB) or 'Northern Corridor,' a demand for alternative transport routes has emerged, with particular attention drawn to the Trans-Caspian International Transport Route (TITR), also called the 'Middle Corridor.'

The Middle Corridor is a multimodal land and sea transport route starting in China, crossing through Central Asia, the Caspian Sea and extending into the South Caucasus and Türkiye before reaching Europe. One of the most significant advantages of the Middle Corridor is its [shorter total length](#), which is approximately 3,000 km less than the Northern Corridor going through Russia. The route not only decreases transit durations but also tackles concerns related to sanctions compliance by bypassing Russia, making it an appealing choice for businesses exploring new trade routes and markets. The Middle Corridor [experienced](#) a remarkable increase in cargo transit volume, totalling 1.9 mt (million tonnes) in the first nine months of 2023 (an 89% year-on-year increase from the same period in 2022). While its current annual capacity stands at 5.8 mt — considerably [less](#) than that of the Northern Corridor — there is room for expansion through the implementation of more effective measures, including advancements in [digitalization](#), [railways](#), [ports](#), and [tariff policies](#).

In this regard, the South Caucasus is becoming one of the most important geostrategic regions, which is developing into a progressively attractive transport node between Europe and Asia. In this context, Azerbaijan is increasingly [recognised](#) as a principal transport and logistics hub along the Middle Corridor. In addition, it borders Russia in the north and Iran in the south — both of which are sanctioned by many countries — making it a compulsory crossing on the land route between Europe and China.



Source: [Stiftung Wissenschaft und Politik](#)

Prospects and Challenges

Prospects for the Middle Corridor's expansion present a crucial opportunity for the countries of the region to shift from the periphery to the centre in the evolving landscape of trans-Asian trade. Transit via Central Asia, the Caspian and the South Caucasus has always been a viable commercial option but has long struggled to compete with other well-established routes like the Northern Route and shipping routes through the Red Sea and Suez Canal. If the Middle Corridor is to stand a chance in rivalling these routes, it will be imperative to [increase](#) its capacity. However, this will not be possible without the necessary investments and regional/international cooperation.

As tensions are heightening globally, shipping capacity through the Red Sea is estimated to have [decreased](#) by 20% at the end of 2023, with ships being routed around the Cape of Good Hope and experiencing significantly increased transit times and costs. Similarly, since the onset of Russia's invasion of Ukraine, transit via the Northern route has [decreased](#) by around 40%, as sanctions and regional instability take their toll.

In this context, the November 2023 [World Bank report](#) highlighted the Middle Corridor as a crucial link and a mitigating element in geopolitical risk management. Indeed, traffic along the Middle Corridor is witnessing significant growth, primarily propelled by rising bilateral trade between Central Asian and South Caucasus nations on the one hand and the European Union and Türkiye on the other. The World Bank [estimated](#) that by 2030, travel times between the western border of China and Europe will halve, and freight volumes will triple to 11 mt. However, transit between the EU and China via the Middle Corridor has experienced slower growth than anticipated, with approximately 33,000 TEUs [transported](#) in 2022. While this marks an improvement, it [falls short](#) of the anticipated potential of 50,000 TEUs.

In comparison, the Northern Corridor — despite the dampened dynamics — managed to [transport](#) 410,500 TEUs in 2022. This volume is markedly higher than that of the Middle Corridor but is dwarfed by the traditional maritime route between Europe and Asia, which [handled](#) a staggering 24.2 million TEUs.

Given the strong interest from freight forwarders in [using](#) this route, the TITR is optimistic about its performance in 2024, anticipating a significant increase in cargo shipments. The 2023 European Bank for Reconstruction and Development (EBRD) [‘Sustainable transport connections between Europe and Central Asia’](#) report projects that the Middle Corridor could achieve a transit capacity of 130,000 TEUs by 2040 in a ‘business as usual’ scenario. This traffic could expand to as much as 1.4 million TEUs, plus an additional 470,000 TEUs of container traffic between the region’s countries if existing bottlenecks are removed.

The complexities arise at the China-Kazakhstan border, where containers undergo platform changes due to the differing track gauges as Kazakhstan utilises a wide track of 1520 mm, while China and most European nations adopt a standard track of 1435 mm. Another transfer occurs at Kazakhstan’s ports on the Caspian Sea (Aktau or Kuryk), where goods are loaded onto ships. These goods are then offloaded at the port of Alat in Azerbaijan and transported to Georgia via truck or train. Beyond the Caucasus, various route options exist within the Middle Corridor. Goods may travel overland to Türkiye, necessitating further transshipment if taking the Baku-Tbilisi-Kars (BTK) railway due to differing track gauges in Georgia (1520 mm) and Türkiye (1435 mm). Alternatively, goods and containers can be shipped from the Georgian ports of Poti and Batumi across the Black Sea and so further via the Mediterranean Sea to the major European ports.

Realising the expansion of the Middle Corridor would therefore require a substantial investment amounting to 18.5 billion EUR. Moreover, a pivotal aspect in [enhancing](#) the route’s efficiency involves a harmonisation of customs fees and the implementation of a unified consignment note. A significant development in this regard is the trilateral agreement between Azerbaijan, Kazakhstan, and Georgia. Negotiated during a series of visits by Kazakh Prime Minister Alikhan Smailov to these countries in June 2023, the agreement [aims](#) to establish a joint logistics company. This venture seeks to standardise tariffs, streamline cargo regulations, and simplify customs procedures, thereby eliminating numerous operational bottlenecks that have historically impeded the flow of goods along this route.

Together, the three countries are actively progressing towards this objective, with digital consignment notes currently undergoing [testing](#) on the BTK railway (Türkiye section). These enhancements in the organisation and administration of the route are expected to significantly expedite transportation, rendering the Middle Corridor a more appealing and competitive future choice for Eurasian trade. The EBRD [recommends](#) regional countries to ratify and implement the e-CMR electronic consignment note for road transport, which is [slated](#) to be operational in the EU from August 2024, along with the eTIR. These improvements are anticipated to greatly accelerate transportation, further enhancing the attractiveness and competitiveness of the Middle Corridor for Eurasian trade. While the Caucasian countries have completed the process of joining the eTIR systems, the same cannot be said for other ones. For instance, countries in Central Asia have initiated efforts to join the e-CMR, but none of them have [implemented](#) it yet. All countries must undergo a legal

assessment before implementing e-CMR to evaluate their readiness for adopting the software solution. Azerbaijan is the only country in the area that has already [finalised](#) the process and is ready to implement the e-CMR and eTIR systems.

The logistical challenges [faced](#) by the Middle Corridor are notably intricate due to the necessity for multiple transshipments, which result in elevated costs and heighten the risk of cargo damage. Consequently, the Middle Corridor is still less competitive compared to the Northern Corridor via Russia, with transport costs currently averaging about 6,000 USD to 7,000 USD and an average transit time of 10 to 14 days. Despite a significant surge in freight rates from China to Europe, [escalating](#) from 800 USD - 900 USD in November 2023 to approximately 5,400 USD in January 2024 due to the recent Red Sea crisis, the traditional sea route remains more price-competitive than the Middle Corridor.

The uneven quality of the rail infrastructure is a significant shortcoming of the Middle Corridor. The countries crossed by the Middle Corridor view the need to [develop](#) and modernise their railway lines to transport goods more efficiently as essential for the route's growth. In particular, Kazakhstan is prioritising the development of its railways. Over the past decade, the country has [invested](#) about 30 billion USD in its transport and logistics sector, constructing over 2,500 new railway lines. In the South Caucasus, the railway systems [remain](#) generally underfunded and outdated, even after the introduction of the BTK railway. As there is also not enough rolling stock to operate the route, relevant issues to address [extend](#) beyond just infrastructure.

Finally, the Caspian Sea faces [challenges](#) in shipping due to a lack of vessels suitable for its relatively shallow and periodically freezing waters, with some areas only 5-6 metres deep, especially in its northern part. Additionally, climate change is [causing](#) a steady decline in the sea's water level, further hindering the development of transport initiatives in this region. This also limits the tonnage of goods that can be carried on barges and ferries. Overall, there is a shortage of vessels to cross the Caspian Sea, and those that are available operate at low speeds. Currently, their construction is primarily [conducted](#) by the Baku Shipyard LLC, but the development of a fully operational fleet capable of managing the projected surge in cargo across the Caspian Sea is [expected](#) to require several more years.

Future Perspectives

Despite its challenges, the outlook for the Middle Corridor appears more promising due to a strategic convergence in the objectives of major global stakeholders, particularly the EU and China.

For the EU, there is a momentum as the enhancement of the Middle Corridor represents not only an opportunity to access critical resources but also to bolster regional connectivity and its presence in the region. By providing Central Asia and the South Caucasus with an alternative to Russian transit routes, the EU aims to reduce Russian influence in these regions. This initiative aligns closely with the EU's [Global Gateway](#) strategy, which seeks to achieve strategic objectives and strengthen global economic ties through enhanced infrastructure connectivity and coordinated investments.

These topics have been discussed, among others, at the first '[Global Gateway Investors Forum on Sustainable Transport Connectivity between Europe and Central Asia](#)' in Brussels on 29-30 January 2024. Although the Forum intended to serve as a discussion platform to attract private funding, the EU demonstrated its active commitment to financing the development of the Middle Corridor. For instance, the EBRD [announced](#) an investment of 100 million USD in Kazakhstan's railway infrastructure. In October 2023, a significant portion of Georgia's East-West highway, specifically the Ubisa-Shorapani section, was officially [opened](#) with the assistance of loans from the European Investment Bank (EIB), totaling approximately 1 billion EUR, supplemented by EU grants exceeding 42 million EUR in total. The successful completion of this highway section signifies a major milestone in the project, as it improves connectivity within Georgia and strengthens links with its neighbouring countries, aligning with the extended [Trans-European Transport Network \(TEN-T\)](#). Following this, in November 2023 the EU Commission [committed](#) 16 million EUR for safety enhancements on the above-mentioned highway and is further supporting various national connectivity initiatives with annual grants amounting to 85 million EUR. Additionally, in recent years, the EU has been instrumental in [fostering](#) the development of the Baku port strategy.

On the other hand, China is interested in deepening infrastructure connections with Central Asia and the South Caucasus to reach new export markets, all while maintaining its strategic "no limits" relationship with Moscow. Therefore, at the [Third Belt and Road Forum for International Cooperation \(BRF III\)](#), held in Beijing on 18 October 2023, China [showed](#) a strong desire to build a multidimensional network of Belt and Road Initiative (BRI) connections and to establish a new logistics corridor on the Eurasian continent that integrates the maritime Silk Road. China's approach can be [attributed](#) both to the Northern Corridor's maxed-out infrastructure capacity, as it now caters mostly to the rapidly expanding China-Russia bilateral trade, and to Beijing's ambitions to shape the post-Soviet space independently. Furthermore, the Middle Corridor may motivate domestic stakeholders in China to geographically diversify their supply chains and possibly subsidise transport along the route.

With the strategic alignment established, the advancement of the Middle Corridor could accentuate the cooperation between China and EU, particularly in the administration of the infrastructure spanning the route. While the EU is prepared to contribute to funding the corridor's progress, it will insist on maintaining standards of transparency, equitable access, and the implementation of market-driven mechanisms. Conversely, China may express interest in playing a significant role in managing logistical operations within the Eastern section of the Middle Corridor, utilising it as a means to expand its economic footprint, particularly in Central Asia and the South Caucasus. The convergence in the overarching objectives of both the EU and Beijing concerning the Middle Corridor may result in a constructive complementarity between the EU's Global Gateway and China's BRI. Still, despite their divergences, the potential for enhanced coordination and identifying synergies between the two initiatives remains worthwhile exploring as there is a real complementarity between the two initiatives and a clear potential for a constructive cooperation benefitting all the countries involved in the Middle Corridor.

The growth of the TITR could help [play](#) crucial roles in facilitating trade between Asia and Europe via and from Central Asia. Overall, something is brewing in the region. Continued dialogue between countries from Europe, the Caucasus, and Central Asia

suggests that the political climate is changing. New synergies are growing, and recent developments are helping to unite Europe with Asia and bring them closer together through these enhancing transportation routes. These relations may ultimately lead to greater economic prosperity, and strengthen the national and energy securities of these respective regions and countries. Even though there is still much work to be done, the potentialities are high for EU, Central Asian and trans-Caspian connectivity through the Middle Corridor.

The EU's Global Gateway: Connectivity to Central Asia via the Middle Corridor

In the evolving landscape of regional cooperation, a series of agreements have been forged in alignment with the objectives laid out in the 2019 [EU Strategy for Central Asia](#). This strategy marked a significant moment in the EU's diplomatic and economic relations with the region, initiating a shift towards tighter collaboration. With a focus on trade, energy, security, and connectivity, the strategy highlights the importance of establishing sustainable transportation links and fostering regional integration, as well as economic development and stability in Central Asia. Aligned with these policy goals, EU investments directed towards the TITR are positioned to enhance regional connectivity and cooperation. Furthermore, the EU's Global Gateway aims to strengthen global economic ties by enhancing infrastructure connectivity and coordinating investments. The initiative plays a crucial role in establishing efficient transport and trade connections between the EU and Central Asian nations, with the strategic geographic location of the South Caucasus serving as a key facilitator in bolstering interregional connectivity.

In and around the Caspian Sea there are abundant natural gas reserves that constitute a potential medium to long-term source of supply for Europe. Currently, there is one main corridor, the [Southern Gas Corridor](#), combining the South Caucasus Pipeline (SCP), the Trans Anatolian Natural Gas Pipeline (TANAP) and the Trans Adriatic Pipeline (TAP) that bring gas from the Caspian Sea to Europe, while the oil is exported through the Baku–Tbilisi–Ceyhan (BTC) pipeline. There is also a [proposed](#) subsea pipeline in the Caspian Sea, the Trans-Caspian Gas Pipeline. The project's concept aims to link Turkmenbashi and Baku to facilitate the transportation of natural gas from Turkmenistan and Kazakhstan to EU countries, avoiding routes through Russia and Iran. By aligning with the Southern Gas Corridor, this pipeline has the potential to access significant Turkmen gas reserves and provide Türkiye and Europe with a new gas supply, making it a particularly compelling venture. In the South Caucasus, Azerbaijan in particular has become strategically important as an EU supply chain link with the East. Relations between the EU and the country often [focus](#) on energy cooperation, as it proved to be a reliable commercial partner to Europe during its unprecedented energy crisis.

The EU's partnership with Azerbaijan is currently based on two crucial programs, the 1999 [Partnership and Cooperation Agreement \(PCA\)](#) and the [EU Strategy for the South Caucasus](#), as part of the [Eastern Partnership \(EaP\)](#) initiative since 2010. The EU is the country's foremost trading partner, [representing](#) approximately 52% of the nation's overall trade, while their trade relationship yields a positive trade balance, amounting to 29 billion EUR in trade surplus. Azerbaijan has also [signed or adopted](#) declarations on strategic partnerships with nine EU member states.

Regarding gas, since July 2022 the two have a [Memorandum of Understanding \(MoU\)](#) in place according to which they ought to double the Azeri gas exportation to the EU by 2027, to 20 bcm (billion cubic metres), and expand the Southern Gas Corridor with the EBRD. When the agreement had been reached, European Commission President Ursula von der Leyen [underscored](#) the EU's enduring partnership with Azerbaijan, labelling it as 'a trustworthy partner.' Furthermore, her visit to Azerbaijan emphasised its importance within the Middle Corridor initiative for the EU.

Recently, at the COP28 in Dubai, President Ilham Aliyev [said](#) that Azerbaijan could meet the target of doubling natural gas exports to Europe, but it has yet to secure the long-term sales deals and investments needed to boost production. Furthermore, the Azeri Energy Minister Parviz Shahbazov and EU Energy Commissioner Kadri Simson met to [discuss](#) the Southern Gas Corridor expansion, the implementation of the [Turkish Gas Hub \(TGH\)](#) or 'Solidarity Ring,' and the '[Caspian-Black Sea-European Green Energy Corridor](#)' project. According to the EU Commissioner Azerbaijan holds the potential to upgrade itself from being a 'pan-European gas supplier,' to a 'pan-European energy supplier' through the green energy transition.

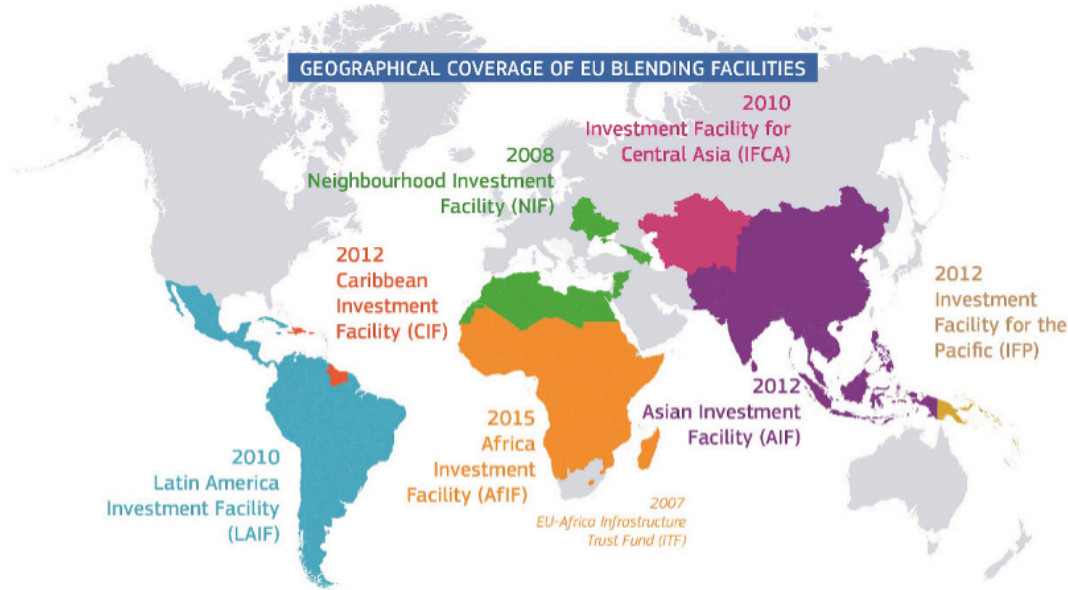
Moreover, cooperation in the field of transport and logistics is also proving to be fundamental, as the EU has a strong need to differentiate not only its gas suppliers but also its transport routes. The first [High-Level Transport Dialogue between the Republic of Azerbaijan and the European Union](#) was held in Baku on 2 February 2019. The dialogue aimed at upgrading cooperation in the areas of aviation, maritime, railway, and road connectivity, as well as the 'Transport Investment Plan,' and digital tachographs. During the meeting, the EU emphasised the importance of the BTK railway, Baku International Sea Trade Port, and the 'EU-Azerbaijan Common Aviation Area Agreement' and discussed the expansion of the EU's TEN-T project further East. To extend TEN-T, the EU [foresees](#) investing 12.8 billion EUR up to 2030, of which approximately 1.1 billion EUR will be allocated towards infrastructure building. This will include the construction or rehabilitation of a total of 4,800 km of road and railroads, six ports, and 11 logistics centres. For Azerbaijan, transport dialogue with the EU is [forecasted](#) to help diversify its economy, which is majorly dependent on hydrocarbon resources. It also serves its aspiration of becoming a connectivity hub linking East and West, South and North in energy, transport, and the digital sphere.

While the TEN-T is a separate scheme, it is closely related to the EU's EaP initiative within the framework of the [European Neighbourhood Policy \(ENP\)](#), designed to engineer various economic, social, and political frameworks to harness globalisation in the EU's eastern neighbourhood. In the EaP vision, the South Caucasus plays a pivotal role in promoting connectivity and infrastructure development. By investing in transportation networks like roads, railways, and ports, the EU aims to enhance trade flows, economic integration, and regional stability in the South Caucasus and beyond.

Aligned with the ENP's Eastern dimension, the EU's Global Gateway encourages links with countries on the Eurasian continent, with a budget of 300 billion EUR for connectivity projects between 2021 and 2027, notably in the digital, climate, energy, and transport sectors. Moreover, the 2024 Investors Forum deepened this effort with 10 billion EUR in support and investments towards sustainable transport connectivity

in Central Asia, decisively fostering the establishment of direct transport links through the Black Sea and the Caucasus region. This could serve as an entry point for the South Caucasus to increase its role in bridging Europe and Central Asia.

As the European Neighbourhood Policy concludes in Azerbaijan, this indicates a gap and investor risks for EU investments in the countries along the Middle Corridor beyond this point. The positive aspect for EU investors and companies is that Azerbaijan is covered by ENP instruments such as the [External Investments Plan \(EIP\)](#) and the [Neighbourhood Investment Facility \(NIF\)](#) which mitigate exactly these investor risks.



Source: [European Commission. International Partnership - Guarantees and blendings](#)

The BRI and AIIB

The [Asian Infrastructure and Investment Bank \(AIIB\)](#) was created in 2016 to promote economic cooperation among its present 109 members and to finance promising projects. With an initial authorised capital of 100 billion USD, the AIIB offers sovereign and non-sovereign financing for sound and sustainable projects in energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, as well as urban development and logistics across Asia. For example, in the year of its inception, the bank [offered](#) a total of 1,71 million USD in loans for nine projects aimed at improving transport, logistics and transit infrastructure, energy construction, and urban development initiatives. In particular, in December 2016, the AIIB [decided](#) to provide a 600 million USD long-term loan for the construction of the TANAP. As a component of the Southern Gas Corridor initiative, TANAP facilitates the transportation of natural gas sourced from the Shah Deniz 2 field in the Caspian Sea to Türkiye and onward to Europe. Given the pipeline’s strategic importance, the AIIB is providing support for the initiative alongside the World Bank, while collaborating with other financial institutions such as the EBRD, and EIB. 19 EU Member States,

as well as most nations in Central Asia and the Caucasus, are members of the AIIB. While Turkmenistan has yet to join the initiative, Armenia is a prospective one.

Meanwhile, Chinese investments in Central Asia might intersect with EU investments along the Caspian Sea shore in the Caucasus region. This convergence could introduce opportunities for collaboration between EU and Chinese initiatives, impacting regional development dynamics. With an important number of European countries being a member of the AIIB, this multilateral development bank initiative demonstrates its potential as a platform of mutual complementarity between the EU and China for the regional development along the Middle Corridor.

Given its strategic location at the crossroads of Europe and Asia, with significant energy resources and extensive infrastructure development, Azerbaijan has emerged as a key facilitator in connecting the interests of both the European Union and China across the region, particularly in fostering cooperation between the BRI and the Global Gateway initiative, underscoring its significance in regional development efforts.

Azerbaijan's participation in the BRI is a strategic choice that [aligns](#) with the state's long-term goals of expanding its regional influence and promoting economic development. The BRF III offered an opportunity to further delve into the transformative potential of regional connectivity. The 'Memorandum of Understanding between the Ministry of Energy of the Republic of Azerbaijan and the National Energy Administration of the People's Republic of China' was [signed](#) on the occasion. The document outlines plans for enhancing bilateral relations in the energy sector between the two countries. It includes collaboration on implementing new technologies, upgrading energy infrastructure, fostering mutual investment and business endeavours, sharing expertise in renewable energy sources, and organising joint conferences, forums, and training sessions. For Azerbaijan, BRI infrastructure projects translate into a substantial opportunity for economic expansion. To enhance bilateral relations and further the impact of multilateral cooperation on the BRI in Central Asia and the South Caucasus, the Middle Corridor is considered a priority and a vital BRI component. The recent meeting between representatives of the Qingdao Port and the Baku International Sea Trade Port on 29 January 2024, following the signing of a 'Memorandum of Understanding on Sister Ports' in April 2023, is a key step in [strengthening](#) this partnership. It includes the development of port infrastructure, an increase in cargo volumes and an enhancement of the transit flow, opening new opportunities for transporting goods from East Asian countries.

The memorandum follows the signing of the 'Framework Agreement between the Ministry of Economy of the Republic of Azerbaijan and the National Development and Reform Commission of China' during the visit of Azerbaijan's Minister of Economy Mikayl Jabbarov to China on 4 September 2023. This agreement is positioned to [strengthen](#) investment cooperation and enhance production capacities, driving positive developments across various industries, particularly in high-tech sectors. It is anticipated to facilitate the expansion of trade and economic ties while creating opportunities for collaboration within the Azeri segment of the Middle Corridor.

The country's commitment to the BRI is also evident in its focus on energy security. As a significant energy producer, it [acknowledges](#) the necessity of diversifying its energy export routes. Through its involvement in the BRI, it aims to gain access to new markets and reduce its dependence on a single transit route. This diversification not only fortifies the country's energy security but also mitigates risks associated with relying too heavily on a sole route. Furthermore, the [High-Forum on Green Silk Road for Harmony with Nature](#) at BRF III dovetails with Azerbaijan's ambitions in the energy sector. [By focusing](#) on sustainable, eco-friendly practices, this aspect of the BRI aligns with its vision of becoming a more responsible and environmentally conscious energy producer. Additionally, it has become a key strategic priority, which has been awarded the opportunity to host COP29 in 2024, its '[Green World Solidarity Year](#)'.

In addition to energy networks, the railway connection stretching from China to the EU, via the Middle Corridor serves as a critical artery for enhancing cross-continental connectivity. Through the Middle Corridor, Europe not only forges links with Central Asia but also facilitates seamless trade and transportation across the region. While the BRI primarily concentrates on infrastructure investments in Asia, the EU's Global Gateway strategy could complement and intersect with the BRI, particularly in terms of railway connectivity in the region. By strategically utilising the Middle Corridor and aligning with the objectives of the Global Gateway, the EU endeavours to deepen its involvement in advancing railway infrastructure, thereby fostering increased trade and economic collaboration between China, Central Asia, the Southern Caucasus, and Europe. This concerted effort not only amplifies regional connectivity but also reinforces the EU's strategic significance in global trade dynamics and infrastructure development.

The Organisation of Turkic States - OTS

The advantages and geographical coverage of the Middle Corridor allow it to serve as the main transport artery of the newly established Organisation of Turkic States (OTS), comprising Azerbaijan, Kazakhstan, Kyrgyzstan, Türkiye, and Uzbekistan. What was at the beginning an informal consultation mechanism is now focused on concrete projects, such as the establishment of an investment fund, simplification of customs procedures, promotion of the Middle Corridor and many others that have geostrategic significance beyond the borders of the Turkic states. At the [8th Summit of the OTS](#) in Istanbul on 12 November 2021, leaders adopted the '[Turkic World Vision – 2040](#).' According to the document, the OTS countries aim to strengthen cooperation towards ensuring the free movement of goods, capital, services, technology and people among Member States and encouraging intra-regional investments. In 2023, the turnover of goods between the OTS countries exceeded 22 billion USD. Members also created a road map for the 'implementation of the transformation communication for 2023-27.' The program will seek to modernise and diversify transportation routes from Central Asia to Türkiye and the Mediterranean.

To achieve these goals, efforts are underway to streamline the transport sectors, including transit regulations, along the Middle Corridor. This initiative involves integrating existing and potential regional transport routes into the TITR in order to integrate those countries into global supply chains. Additionally, steps are being

taken to standardise customs and transit procedures across borders, increase investments in interconnected infrastructure projects, and harmonise transport policies and technical standards to ensure seamless freight transportation along the Middle Corridor.

These issues were also at the centre of the discussions at the [10th OTS summit](#) in Astana on 6 November 2023, resulting in the adoption of the [Astana Declaration](#). Aligned with the updated 'Turkic World Vision,' the Declaration underscores the imperative of enhancing collaboration among OTS members and observers (Hungary and Turkmenistan) to advance both physical and digital transport infrastructure projects, with a specific focus on the Middle Corridor. Notably, it highlights the importance of key transportation routes such as the BTK line and the potential opening of the 'Zangezur Corridor,' alongside railway connections like the China-Kyrgyzstan-Uzbekistan one. The parties also reaffirmed their willingness to conclude agreements and instruments previously discussed within the organisation. For example, important discussions were [made](#) to create favourable conditions and remove obstacles to trade, including the 'Freight Transport Agreement,' 'Simplified Customs Corridor Agreement,' and 'Trade Facilitation Strategic Document.'

Previously, at the [11th Ministers of Economy meeting](#) in Samarkand on 9 November 2022, it was agreed to implement new generation instruments to strengthen economic and commercial cooperation between the countries, such as the signing of the 'Digital Economy Partnership Agreement' between Member States and the establishment of the '[TURANSEZ' Special Economic Zone](#). The key objective at this stage is to [expand](#) regional trade volume to 10% of the overall trade volume of the OTS members. Regarding economic and sectoral cooperation, the declaration [commends](#) the signing of the agreement establishing the Turkic Investment Fund (TIF) in Ankara on 16 March 2023, still waiting to be signed by all members. The fund will mark the inaugural and principal collaborative financial institution established by the OTS. It will serve as an international financial institution entrusted with implementing investment initiatives to finance projects for enterprises, as well as development projects spanning various sectors, including but not limited to industrial production, infrastructure, and transportation.

The Role of the South Caucasus as a Logistic and Energy Hub

Situated at the crossroads of Europe and Asia, the South Caucasus and especially Azerbaijan's strategic geographic location has emerged as a catalyst for bolstering interregional connectivity and assuming a pivotal role in facilitating Eurasian connectivity from the EU to Central Asia through the Middle Corridor.

Azerbaijan is becoming a central player in the emerging regional framework as well as a significant regional force, acting as a crucial link between West and East, also through the OTS. Throughout the years, the country has pursued an ambitious path of strategic planning and infrastructural enhancement in anticipation of the growing significance of this trade route. It has made substantial investments in the development and modernisation of its infrastructure, such as roads and railways, to ensure it can effectively manage the anticipated surge in trade activities. Indeed, it views the development of the Middle Corridor as a chance to boost its role as a major

logistics and energy centre. Furthermore, it has undertaken an expansion of its ports to accommodate larger volumes of cargo and facilitate efficient movement of goods.

The country has also [established](#) the largest logistics fleet in the Caspian, further highlighting its readiness to handle increased trade traffic. A significant step towards the realisation of its strategic plan is the commencement of oil transportation using the country's locally produced oil tankers. This move not only demonstrates the country's operational readiness but also [underlines](#) its capacity to handle high-value commodities, a crucial factor in its potential role as a major conduit in the proposed Middle Corridor.

Azerbaijan has been making significant progress in addressing its infrastructural weaknesses and reinforcing regional transportation platforms. The 2016 '[Strategic Roadmap for development of logistics and trade in the Republic of Azerbaijan](#)' was developed as an integral part of the initiatives to bolster a competitive, diversified, inclusive, and sustainable economy. It set short, medium and long-term prospective directions for its economic development in logistics and trade until 2020, 2025, and after 2025. As outlined in the document, the fulfilment of three significant infrastructure endeavours in the country is poised to fortify the nation's integration with global transportation networks, thereby facilitating smooth intermodal and multimodal operations.

Substantial efforts have already been [undertaken](#) to enhance its transportation infrastructure, spearheading significant projects such as the BTK railway and the development of the new Baku International Sea Trade Port complex in Alat, situated 80 km south of Baku, where the establishment of an Alat Free Economic Zone (AFEZ) has injected fresh momentum into cargo transportation. These projects are integral components of both the International North-South Transport Corridor (INSTC) and the Middle Corridor. Moreover, as the only nation bordering both Russia and Iran, Azerbaijan plays a crucial role in guaranteeing the viability of connectivity across Eurasia. Additionally, the prospective establishment of the Zangezur Corridor promises to not just streamline but also substantially enhance trade between China and Europe.

Becoming a significant transport hub is not solely an economic ambition but a strategic goal with long-term implications. This objective is in harmony with the nation's [vision](#) for economic diversification and reducing its dependency on oil revenues in the evolving post-oil era. Moreover, this crucial pivot holds considerable importance for national security. By positioning itself as a vital player in global trade routes, it stands to gain substantial geopolitical influence, thereby reinforcing its global standing and contributing to state security.

The shortest and most reliable route [connecting](#) Europe with Asia across the South Caucasus is the BTK railway, which has been operational since 2017. Significantly [reducing](#) the overland journey time between China and Europe to just 15 days, compared to 25-45 days by sea, the 829 km BTK railway offers substantial time and cost savings. The BTK railway holds potential as a fresh conduit to Turkish ports of the Mediterranean Sea, notably the port of Mersin, and as such to Europe from the Caspian Sea shores. To achieve this potential, the railway infrastructure linking the BTK railway up to the Turkish ports still needs large upgrades.

A much more promising alternative is the railway link to the Georgian ports in the Black Sea, Poti and Batumi, from which the container transport can happen directly via shipping lines to all major EU ports, thereby amplifying connectivity and trade prospects. This direction would not only bypass the existing infrastructural challenges in South-East Europe and Türkiye but also reduce the impact of Türkiye's infrastructure on the trade routes. This shows the importance of Azerbaijan for the EU as the real nodal point on the Middle Corridor between Central Asia and Europe.

One of the other important ongoing projects is the development of the Rasht-Astara railway. This railway along the Caspian coast is [expected](#) to increase trade turnover not only between Iran and Azerbaijan but also further afield because the railroad is part of the transcontinental INSTC, which extends from India to Europe. Rail has already been [laid down](#) from Azerbaijan's Astara station to the Iranian city of Astara across the border, but the entire route is not expected to be [completed](#) until 2028. The realisation of this project presents the possibility of superior cost-effectiveness and time efficiency compared to maritime routes along the INSTC.

On 6 December 2023, it was [announced](#) that the cross-country railroad linking Baku to the Georgian border in the west had been fully reconstructed to facilitate faster freight transportation. The remarkable increase in train speeds on the BTK railroad was highlighted, now reaching 120 km per hour compared to the previous 50-60 km per hour. Reportedly, around 1.5 mt of cargo has been [transported](#) via the BTK railway since its launch. The total amount of goods delivered via the BTK amounted to 432,284 t in 2022, showing a nearly 30% increase from 2021, highlighting its increasing significance and efficiency in freight transportation. Not only domestic railroad reconstruction projects have experienced a surge, but there has also been the [investment](#) of more than 100 million USD in the expansion of the BTK route in Georgia which is soon to be completed. This expansion aims to boost the segment's capacity from 1 million to a maximum of 5 mt within a short timeframe.

The BTK can be considered in parallel with the possible opening of the Zangezur Corridor. Such a corridor would connect the Zangilan district to the Nakhchivan Autonomous Republic via Armenia's Syunik Province, and it would provide unimpeded access in compliance with the provisions of Article 9 of the Trilateral Statement [signed](#) in 2020 between Azerbaijan, Armenia, and Russia relating to the unblocking of transport connections in the region. In the event of its opening, some of the traffic currently headed to Georgia could be redirected via this route. This would [facilitate](#) a partial reduction of bottlenecks and delays and would make transport smoother by reducing the barriers related to multimodality. Furthermore, the opening of the corridor can help foster stable peace in the South Caucasus.

Once the network of railroads and roads is completed, nations across the Gulf, Southeast Asia, Central Asia, and the Caucasus will become more interconnected with Europe. Consequently, the emergence of these new international and regional transport and logistics corridors, such as the Middle Corridor and INSTC will significantly drive the advancement of infrastructure in the region.

The establishment of the port of Baku at Alat will create a modern and cohesive port facility, serving as a cornerstone in propelling economic advancement across diverse sectors. Historically, the [port of Baku](#) has been the largest on the Caspian Sea, handling about 80% of freight in transit. In 2007, the government initiated the

construction of the new Alat port to centralise all freight activities and alleviate congestion at the Baku port. The construction is being carried out in three phases, with the first phase completed in 2018, enabling the port to commence operations with an annual capacity of 15 mt and 100,000 TEUs (Twenty-foot Equivalent Units) in containers. Upon the conclusion of the second phase, it is anticipated that cargo handling capacity will increase to 25 mt of general cargo, including 500,000 TEUs in containers, although a specific date for completion has not been announced thus far. Both ports are well [connected](#) to the country's railway network, allowing for easy multimodal connections.

The opening of the AFEZ, an export-focused industrial zone encouraging the country's economic diversification away from oil, on 1 July 2021, concurred with an [executive order](#) defining the legal regime for the AFEZ. In July 2023, 60 hectares were opened for business. The government thereby [aimed](#) to establish one of the largest free economic zones (covering a total area of 850 hectares) in the Caspian Sea region. This initiative is geared towards bolstering high value-added, export-oriented production while also enticing investors. These investors are expected to offer innovative technology services, thus fostering dynamic and sustainable economic growth in the country. Companies investing in this zone are mandated to export a minimum of 75% of their produced goods. This free economic zone operates under unique government-approved legislation, granting it the ability to provide a range of incentives and advantages unparalleled in other parts of the country. These benefits include exemptions from taxes and customs duties, along with a self-regulated arbitration process. Additionally, the government has established the Alat Free Economic Zone Authority (AFEZA) to oversee various aspects such as promotion, client facilitation, approvals, licensing, and client development within the zone.

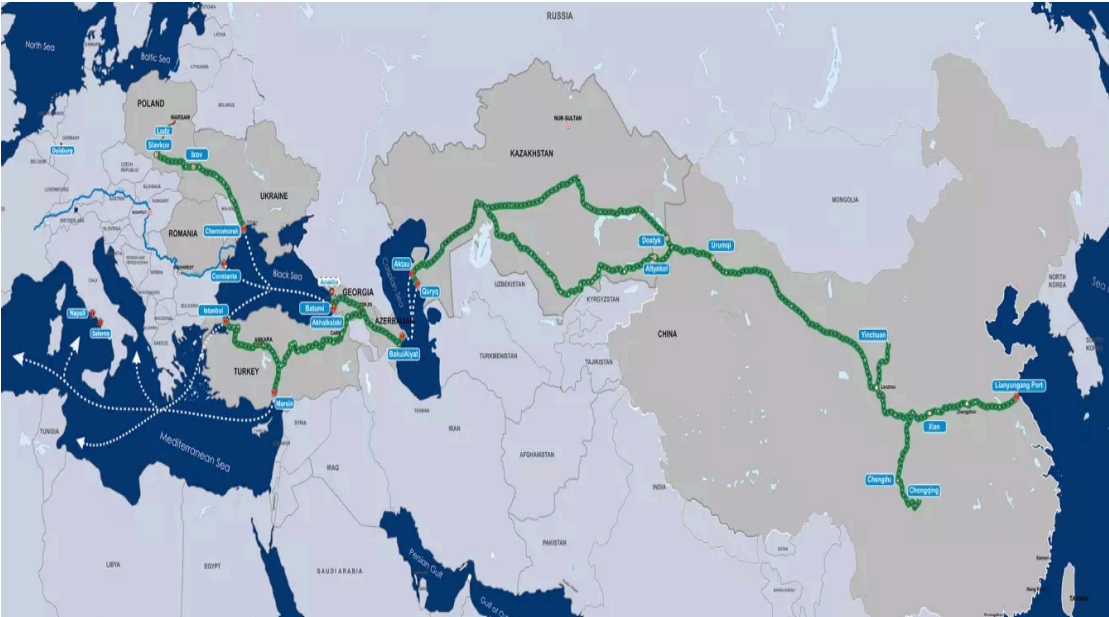
The AFEZ is unlikely to [face](#) significant competition from preexisting free economic zones in other countries in the region. Similar zones are found within a 1,000 km radius, but several of them have not demonstrated noteworthy success or are situated at considerable distances. Although Iran boasts a larger number of such economic zones compared to other regional nations, the competitiveness of these ports has been diminished due to United States sanctions and ongoing tensions with the West. On the opposite shore of the Caspian Sea, the current activities of Kazakh Seaport Aktau special economic zone (SEZ) of the ports Aktau and Atyrau [seem](#) to be complementary to the AFEZ, rather than create competition.

The location of the AFEZ at that intersection of North-South and East-West international transport corridors creates rich economic potential for the associated new Baku port, which is offering efficient, fast transit for cargo crossing the Caspian. Indeed, the aim is to [establish](#) a comprehensive logistics network in Alat, spanning across the northern, southern, eastern, and western directions, encompassing land, water, and air transit routes.

Towards a new era of East-West connectivity

In today's rapidly evolving geopolitical landscape, the emergence of the Middle Corridor stands as a transformative force, reshaping traditional trade and connectivity

routes. Substantial infrastructural investments are enticing private companies, with the potential to significantly enhance the livelihoods and well-being of the populations. In this context, the [‘International Association “Trans-Caspian International Transport Route” \(TITR\)’](#) serves as a catalyst for advancing investments along the route, while Kazakhstan and Azerbaijan play pivotal roles as main facilitators for this project. This involves fostering partnerships between public and private sectors and ensuring sustainable development opportunities for all stakeholders involved.



Source: [International Association “Trans-Caspian International Transport Route” \(TITR\)](#)

At the heart of this evolution lie the South Caucasus region and Central Asia, strategically positioned to serve as linchpins in this new era of Eurasian connectivity. As the Middle Corridor gains prominence, it offers an alternative route that bypasses the conventional pathway through Russia, offering superior cost-effectiveness and time efficiency compared to maritime routes along the transcontinental INSTC. This shift in trade routes not only underscores the strategic importance of the South Caucasus but also elevates Azerbaijan’s role as a pivotal player in shaping regional dynamics through the ports of Baku and Alat.

Looking ahead, the trajectory of the Middle Corridor will profoundly shape the geopolitical dynamics of the region. Amidst this evolving landscape, the position of the South Caucasus as a nexus between Europe and Asia assumes heightened significance. It becomes a crucial node point where the interests of global powers converge. For instance, the BRI spearheaded by China seeks to develop its connectivity across Central Asia, while the EU, as outlined in the Global Gateway and the EaP initiative, strives to bolster its presence in the region. In addition, by leveraging its geographical position and promoting intra-regional trade and connectivity, the OTS holds the potential to become a central enabler of stability and prosperity not only in the South Caucasus but also in neighbouring regions. The convergence of BRI, EU initiatives, and other interests in Central Asia and the Southern Caucasus creates a complex landscape where strategic alignments coexist. Rather than engaging in competitive endeavours, coordinating efforts to foster greater collaboration stands as a mutually beneficial approach.

Setting aside the interests of major geopolitical actors like the EU and China, or potential future ones like the OTS, the implementation of the Middle Corridor and its potential should bring substantial benefits to all the countries along its route, whether or not they are part of regional integration projects or organisations. For example, Tajikistan is not part of the OTS, while Armenia is not part of the AIIB. Yet, the Middle Corridor can be a binding factor for them to be fully included in the new regional infrastructure and connectivity plans. And perhaps the EU can make the most of this scenario by actively engaging and becoming a leading force in enhancing connectivity by its investment in this Middle Corridor initiative.

Given this situation, the South Caucasus and Central Asia find themselves at a crossroads where different economic aspirations intersect. It is therefore essential to consider the numerous challenges related to the TITR project, spanning from transshipment and capacity expansion issues to bureaucratic, tariff-related, and logistical hurdles, as well as environmental concerns regarding the Caspian Sea's waters.

The countries in Central Asia and the South Caucasus should address shared challenges and capitalise on mutual opportunities more effectively. By pooling resources, expertise, and diplomatic efforts, they can overcome obstacles related to infrastructure development, regulatory harmonisation, and geopolitical tensions, thus creating a more conducive environment for sustainable connectivity and prosperity. To counterbalance external influences, they should prioritise initiatives aimed at fostering economic integration, infrastructural development, and enhanced diplomatic cooperation.

Recognizing the inherent benefits of cooperation over competition, the countries along the Middle Corridor have a vested interest in finding common ground and forging strategic partnerships. By capitalising on their complementary strengths and aligning their interests, they can pave the way for a new era of collaborative connectivity that benefits not only themselves but also the broader global community.

Ultimately, the European Union has to recognize the paramount importance of actively engaging in the realisation of infrastructural projects in the South Caucasus, with a particular emphasis on the railways and ports situated along the Caspian Sea. Given Azerbaijan's role as a strategic and logistical hub, the EU must prioritise its involvement in facilitating the region's connectivity. **Without the requisite logistic infrastructure and standardisation, the vision of EU's connectivity to Central Asia remains unrealised.** Therefore, it is crucial for the EU to take urgent action to guarantee the successful advancement of the Middle Corridor, which will in turn promote strengthened economic and logistical connections between Europe and the wider Central Asian and Caucasian areas.

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