



RUSSIA'S WAR AGAINST UKRAINE: CONNECTIVITY AND DISRUPTION IN THE SOUTH CAUCASUS

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Russia's War against Ukraine: Connectivity and Disruption in the South Caucasus

Introduction by Special Editor Stefan Meister (German Council on Foreign Relations, DGAP)

Russia's invasion in Ukraine and the Second Nagorno-Karabakh War in 2020 have a huge impact on security, connectivity and the conflict zones in the South Caucasus. With the comprehensive Western sanctions against Russia, Europe's interest in the Middle corridor towards Asia through the South Caucasus (circumventing Russia) is growing. For Russia, the North-South corridor via Iran to the Middle East and transit routes to Turkey via the South Caucasus are becoming more important. For the EU, connectivity is the new catchword in its Eastern Neighbourhood Policy: beside resilience and energy security, it will become a key element of the policy towards the wider Eastern neighbourhood. There is not only an interest to replace Russia as the main land trading route between Asia and Europe, but also an increasing interest in oil and gas purchase from Central Asia and the Caspian region. All of this will necessitate huge infrastructure investment in the South Caucasus coming from international banks, but also more China-EU cooperation and coordination.

Besides the huge opportunity for the countries of the South Caucasus to become a key segment in Asia-Europe trade flows, there are also growing risks posed by the increasing insecurity in the region, where no functioning security mechanism currently exists. With the ceasefire agreement after the Second Nagorno-Karabakh war, a corridor between Azerbaijan and its exclave Nakhichevan through the territory of Armenia was agreed. But the conditions for access to this corridor are contested and have the potential to undermine the sovereignty of the Armenian state, as well as its connection to Iran. At the same time, Azerbaijan is increasingly questioning the free access from Armenia to Nagorno-Karabakh through the Lachin Corridor. Azerbaijan, Russia and Turkey have an interest in transit through Southern Armenia. But to use or threaten with force to extort the Armenian government into an agreement on the conditions of the corridor would undermine the very idea of connectivity and sustainable peace.

Connectivity and disruption are key elements in analysing the impact of the Russian large-scale war against Ukraine on the South Caucasus. Connectivity is here understood in a wider sense than just physical infrastructure and trade routes, also including societal ties, transnational networks, interactions that embody a networked connectivity among societies. Laurence Broers analyses the simplified, securitised and conservative thinking about connectivity in the South Caucasus. Instead of understanding it in a holistic way which could help to create peace through interdependence, it is rather focused on a state-centric approach. Exactly this state-centric understanding of connectivity cannot guarantee peace in the absence of a wider political transformation in state and society relations or change of key power asymmetries. For Katja Kalkschmied, with the de facto closing of the northern transit route between Europe and China through Russia, China's interest in the Trans-Caspian International Transport Route has increased. Despite Chinese infrastructure investment in this corridor in the past 20 years, there is still a need to enhance infrastructure to increase the volume of goods flowing along this route. This will only work if China and the EU improve their coordination and cooperation in infrastructure and regional stability is provided. Both are rather unlikely. Vali Kaleji argues that, with the Second Nagorno-Karabakh war and Russia's 2022 full-scale invasion of Ukraine, the security balance in the South Caucasus has shifted away from Iran. While Iran is not part of the Middle Corridor, it is actively participating in the INSTC and ITC corridors and aims to create a 'transit balance' in the South Caucasus in the framework of its balancing foreign policy approach.

With a focus on Armenia and Azerbaijan in the context of the increased Russian aggression against Ukraine since 2022, Stefan Meister argues that there is an ongoing reshuffle of the regional security balance and geopolitical interests in the South Caucasus. While Russia has an increasing interest in the North-South transit route, Europe and China are interested in the Middle Corridor connecting Central Asia with the Black Sea. The author argues that, without solving the regional conflicts in an internationalised framework, connectivity is embedded in geopolitical and power competition, rather than serving the interests of the societies and nations of the region.

The Connectivity Debate in the South Caucasus Reconsidered

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Abstract

This article considers the connectivity debate in the South Caucasus, which was catalysed by the prospective opening of borders and transit routes after Azerbaijan's victory in 2020's Second Karabakh War and further foregrounded by Russia's invasion of Ukraine in 2022. The article discusses how this debate has to date been flawed by simplistic, securitised and conservative thinking about connectivity. Rather than generating new interdependencies conducive to peace, securitised connectivity risks the exclusion of actors and spaces beyond the state, the weaponisation of trade corridors and continuing regional fracture to the benefit of external actors and detriment of regional resilience.

Introduction

On 11 February 2023, five trucks carrying 100 tonnes of aid crossed the land border from Armenia into Turkey, in response to the cataclysmic earthquakes in southern Turkey five days previously (Kucera 2023). It was the first time that the border had been opened since 1993, when Turkey closed it in response to Armenian forces' capture of Azerbaijan's Kelbajar region in the First Karabakh War (1992–94). The border crossing was also the first breakthrough in the South Caucasus after more than two years of animated discussions about the opening of the region's borders following the Second Karabakh War in 2020 that saw Azerbaijan retake its occupied lands.

The story of the Armenian-Turkish border is symptomatic of wider dynamics surrounding connectivity in the South Caucasus. Although the region is typically evoked as a historical crossroads on the fabled Silk Route, the post-Soviet South Caucasus has been more noteworthy as a bottleneck gridlocked by contested borders, frontlines and blockades. The Second Karabakh War appeared to offer a resolution of this impasse, ending the occupation of Azerbaijani lands that was the primary obstacle to restoring connectivity. The much-discussed Article 9 of the 9 November 2020 ceasefire statement explicitly committed signatories Armenia, Azerbaijan and Russia to opening all economic and transportation links.¹ Connectivity subsequently became the primary theatre for the discussion of peace narratives, evoking both the region's history as a meeting point and marketplace and an extensive literature affirming the pacifying effects of trade.

Rather than new connections, however, over the interceding two years the Armenian-Azerbaijani context was convulsed by repeated escalations of violence, fierce contestation over the meaning of Article 9, and more

recently the blocking of the Lachin Corridor connecting Nagorno-Karabakh to Armenia. Connectivity is in crisis, and some observers of the region have expressed fears of new conflict driven by the issue of corridors. How, in just two years, has connectivity shifted from a panacea for the region's ills to a prospective *casus belli*?

This article identifies three interlinked features of the connectivity debate as it has unfolded in the South Caucasus over the last two years that can account for this outcome. These are its tendencies to simplification, securitisation, and conservatism. When viewed through these prisms, we see that, far from heralding a new dawn for peace and prosperity in the region, current approaches to connectivity enable both old and new forms of regional fracture to persist.

The Simplification of Connectivity

The connectivity discussion in the South Caucasus has largely focused on the unblocking of key routes and corridors through the region. Since the 1990s, reciprocal blockades between Armenia and Azerbaijan have cut through-transit by road and rail from Russia to Armenia, Iran and Turkey, disconnected road and rail transit between mainland Azerbaijan and its exclave Nakhchivan, and limited the feasibility and attractiveness of north-south and east-west transit through the region (de Waal 2021).

Yet, while transit is important, a fuller definition of connectivity embraces not only access and transit, but also the nature and density of other kinds of connection: the civic ties, transnational networks, everyday interactions and communities of practice that embody a networked connectivity between and among societies and social spaces (Ohanyan 2022). The South Caucasus connectivity debate has unfortunately remained overwhelmingly focused on a 'thin' conception of connectivity focused on large, state-directed infrastructural

¹ Заявление Президента Азербайджанской Республики, Премьер-министра Республики Армения и Президента Российской Федерации [Statement by the President of the Republic of Azerbaijan, the Prime Minister of the Republic of Armenia and the President of the Russian Federation], 10 November 2020, kremlin.ru. Available at: <http://kremlin.ru/events/president/news/64384> (accessed 22 February 2023).

projects, rather than a ‘thicker’ conception of connectivity encompassing actors and spaces beyond the state.

An important implication is that the resulting advocacy for connectivity heavily simplifies its presumed impact, essentially arguing that increased economic interdependencies will as a matter of course have pacifying effects. Yet numerous conflict settings have demonstrated that connectivity is no guarantee of peace absent a wider political transformation in relations or transformation of key power asymmetries. For example, by the late 1980s, some 40% of the Palestinian workforce was employed in Israel, while the Israeli economy was in turn dependent of this substantial source of cheap and precarious labour. Yet this highly asymmetric economic relationship did little to restrain the onset of the First Intifada, which would begin in December 1987 and last six years (Black 2017: 274).

The history of India and Pakistan is also instructive. Part of the same economic space prior to partition, India and Pakistan enjoyed deep trade relations, with India being Pakistan’s largest trading partner, in their early independence period. Yet this did not contain their descent into war over Kashmir in 1965. Trade subsequently continued throughout the two countries’ enduring rivalry, continuing even after 164 people were killed in the Mumbai attacks in November 2008.²

More recently, Russia’s invasion of Ukraine has interrogated the foundational premise of Germany’s *Wandel durch Handel* (‘transformation through trade’) policy. This policy assumed that trading with authoritarian regimes would over time induce political change, leading Germany to uphold a strategic relationship with Russia in the field of energy (specifically through the Nord Stream 2 gas pipeline project) despite growing international criticism. Russia’s invasion, however, forced upon Germany a watershed moment (*Zeitenwende*) and the discrediting of the *Wandel durch Handel* notion (Blumenau 2022).

These examples in different ways suggest that more caution and complexity are needed when thinking about trade’s transformative potential for Armenia and Azerbaijan. The privileging of ‘thin’ connectivity as an instrument for geopolitical ambitions, its separation from a wider mindset that cooperation should bring benefits for all, and its embedding—rather than transformation—of asymmetric power relations can all dilute or block trade’s pacifying effects. Economic relations can transform conflict when mutually embedded with commitments to a set of values and rules. This is evident in the history of the world’s most successful trading bloc: the European Union (EU). While the EU is widely understood as an economic community, it is also a mnemonic community founded on the collective memory of the Second World War and

the Holocaust, and a consensus on the inadmissibility of war, conquest and genocide (Subotić 2019: 34–36).

The Securitisation of Connectivity

Rather than being linked to a political transformation or commitments to certain values or rules, connectivity in the South Caucasus has instead become mired in coercive tactics and pressure (Broers 2021). This accounts for a second feature of connectivity debates: the securitisation of connectivity as a public good in which fundamental, even existential, security is implicated, isolating connectivity from positive sum calculations of benefits for all. This played out in a highly securitised vision of connectivity that could be understood, at its most reductive, as ‘a corridor for a corridor’ as applied to the two key routes that have been the focus of Armenian-Azerbaijani disagreements.

These are, firstly, the Lachin Corridor connecting Nagorno-Karabakh to the Republic of Armenia, the existence and status of which have a constant agenda item since talks began due to Karabakh’s enclave geography. The Lachin Corridor is referenced as such in the ceasefire statement, where it was allocated to the supervision of the Russian peacekeeping force. This provision thereby embedded a diminished Azerbaijani sovereignty over the corridor for as long as the Russian peacekeeping mission is present (its first term ends in 2025 and is subject to automatic renewal unless Azerbaijan or Armenia request the termination of its presence—which Baku has indicated it may do). That situation drove Azerbaijani concerns over the lingering compromising of its sovereignty, leading to Azerbaijan’s establishment of a checkpoint at the entrance to the corridor on 23 April 2023 and, in effect, its dissolution as a corridor strictly understood.

The second route, alluded to in Article 9 in the reference to ‘unimpeded movement of citizens, vehicles and goods in both directions’ between mainland Azerbaijan and its exclave Nakhchivan across southern Armenia. In Azerbaijan, this route has been dubbed the ‘Zangezur Corridor’, with ‘unimpeded movement’ assumed to imply an element of extra-territoriality.³ The idea of an Azerbaijani easement across southern Armenia is not new; it was first brought up as part of negotiations in the 1998–2001 period. Current disagreements focus on whether this second route would constitute a corridor with elements of extra-territoriality diminishing Armenian sovereignty, or provide for secure transit within the framework of Armenian sovereignty.

The ‘Zangezur Corridor’ became a new national cause in Azerbaijan. President Ilham Aliyev hailed the

2 In 2015–16, Indian-Pakistani trade was estimated at US\$2.2 billion (Zaidi et al. 2017).

3 Zangezur is a historical place-name used in both Armenia and Azerbaijan.

notional corridor as a historic achievement, while his threat to take it by force further elevated the 'Zangezur Corridor' to an issue of national security. Another explanation is that the 'Zangezur Corridor' is a 'bait and break' negotiating gambit, threatening Armenia with a worse outcome if it does not concede on the core issue of Karabakh's status (Ahmadzada 2023). Armenian perspectives, conversely, highlight that access to Karabakh cannot be equated with access to Nakhchivan, since the latter is neither under a total blockade nor has it been the site of active warfare (Libaridian 2023).

Discussions of the 'Zangezur Corridor' have unfolded in Azerbaijan in parallel to a mainstreaming of wider irredentist narratives that in varying versions lay claim to the south-eastern parts or the whole of Armenia. These claims are not new, having been developed since around 2010 in a mirroring response to Armenian irredentist claims on large parts of western Azerbaijan, but have accelerated in scope and dissemination since Azerbaijan's victory in 2020 (Jafarli 2022). Rather than a supportive wider politics embedding connectivity in a transformation of regional relations, the result is an ambivalent, dualistic approach combining a new discourse of connectivity and interdependencies as a pathway to peace with an old discourse of irredentism and historical claims that inevitably securitise new transit infrastructure as a source of threat and encroachment.

The potential for connectivity to be weaponised under these conditions was demonstrated in the civilian blockade of the Lachin Corridor that began on 12 December 2022 and ended five days after the establishment of the Azerbaijani checkpoint on 23 April 2023. While claim and counterclaim surround the reasons for the blockade, its practical impact has been to isolate the civilian population in Nagorno-Karabakh, which according to the International Committee of the Red Cross (2023) is experiencing shortages of medicines, baby formula and basic foodstuffs, reduced healthcare necessitating medical evacuations, and separation from family in Armenia. The result is the 'humanitarianisation' of the Karabakh Armenian population, whereby continued existence in the territory is dependent on humanitarian mediation, access and aid. The Lachin Corridor blockade underlines the ambivalence of connectivity in the South Caucasus today, framed discursively as a benefit for all but securitised in state practice to target particular groups.

In the longer term, a key stakeholder in connectivity will be Azerbaijan's returnee population. After decades in displacement, these communities will return to what are the most remote parts of mainland Azerbaijan geographically and economically, given the concentration of the country's development on the Abshehon peninsula. Secure connectivity will be an essential component of establishing viable, long-term commu-

nities in what will likely be, at least initially, a precarious, frontier existence.

The Conservatism of Connectivity

A third feature of the current approach to connectivity in the South Caucasus that needs consideration is its conservatism, meaning its preservation of geopolitics of great power overlay. If the arrangements foreseen in the 9 November 2020 ceasefire statement were to come to fruition, then it is Russia that would emerge as a key beneficiary, since it is Russian security agencies—its peacekeeping mission in Nagorno-Karabakh and the Russian Border Service, respectively—who are designated as the guardians of the two key transit routes stipulated in the statement through the Lachin Corridor and southern Armenia. This would establish Russian control over two of the key routes in the South Caucasus, the significance of which for Russia's own connectivity having grown tremendously as a result of its war in Ukraine, its increased dependence on Turkey and its growing strategic intimacy with Iran.

Russia's role as the 'policeman' of securitised Armenian-Azerbaijani transit is predicated on continued conditions of insecurity and, by implication, adversarial relations between the two nations. The underlying approach assumes the preservation of the fragmented geography inherited from colonial rule, and the need for compensatory 'safe corridors', rather than the building of an inclusive regional governance infrastructure that would diminish the political salience of adversarial identities and their associated territorial boundaries.

This is a fundamentally conservative approach, reviving a neo-imperial geopolitics of the South Caucasus rather than advancing a post-colonial emancipation of the region from external influences. The logic of Russian-supervised corridors essentially assumes that no bilateral, sovereign or civil framework exists for territorially fragmented communities to communicate with one another. Their access to each other is instead to be mediated by a distant metropole. This perspective highlights the ironies underlying current discussions of connectivity in the South Caucasus. Connectivity, framed as a new horizon of peace-inducing interdependencies, may instead deliver a securitised connectivity that is the base enabling condition for increased Russian presence and, potentially, the embedding of the South Caucasus in a new post-Ukraine war network of limited and hegemonic connectivity.

Conclusion

Two different visions and logics of connectivity are in play in the South Caucasus today. The predominant vision, detailed in the ceasefire statement and discussions of corridors, emphasises risk, danger and a need for safe passage across enemy territory, necessitating security guarantees of

neighbouring powers. The key actors in this vision of connectivity are states, and it is a thin form of connectivity between ‘state spaces’—between mainlands and exclaves/enclaves, between buyers and suppliers of core commodities, between allied states in special relationships, and between former metropole and peripheries—that is emphasised.

An alternative vision of connectivity would emphasise de-securitisation and the advancement of a regional governance infrastructure predicated on rights and citizenship. Alongside states, this alternative vision emphasises the necessity of including societal actors to generate thicker, multi-sectoral and networked forms of regional connectivity beyond state-managed linkages in key commodities and infrastructural projects. This

vision calls for greater attention to be paid to the agency of communities of practice in social spaces beyond the state, allowing for thick connectivity at multiple levels to take hold (Lehti/ Romashov 2022).

Connectivity in the South Caucasus lies at an impasse between these different horizons, between neo-imperial, sovereign and civic forms of agency, between thick and thin understandings of who or what needs to be connected, and their implications for regional hegemony and political incumbency. This impasse has blocked breakthroughs on connectivity over the last two years, leaving it to the devastating human tragedy of the earthquakes in Turkey to finally account, after three decades of desuetude, for the opening of a border.

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China's Infrastructure Investment in the South Caucasus before and after Russia's Invasion of Ukraine

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Abstract

Russia's invasion of Ukraine has shifted China's interest in the *Trans-Caspian International Transport Route* from being a complementary side corridor to becoming a main corridor for trade with Europe. Thanks to Chinese investment in the last twenty years, a network of rail, road, pipeline, and ship infrastructure exists to transport goods and energy from Asia through the South Caucasus to Europe. Yet, the existing physical and economic infrastructure needs to be enhanced in order to enable the transportation of a much larger volume of goods than initially intended at a faster speed. This requires transnational cooperation among the South Caucasus states that may become infeasible due to resurgent instabilities within the region also resulting from Russia's invasion of Ukraine.

Introduction

Benefitting from strategic integration into world markets, China has risen to become a major economic power and an important trade, investment, and development partner for the South Caucasus states. From 2010–2020, total regional trade with China almost tripled from 1.33 to 3.7 billion USD, China's direct investment stocks increased fivefold from 0.16 to 0.82 billion USD, and 1 billion USD of Chinese official finance was used for development projects in Armenia, Azerbaijan, and Georgia.¹ For China, the South Caucasus states are more than export markets for consumer goods and import markets for oil, gas, and metals that have to be developed: the South Caucasus states are gateways to much larger European markets that offer profitable infrastructure investment opportunities.

A large fraction of China's infrastructure investment in the South Caucasus flows under the umbrella of the Belt and Road Initiative (BRI), established by China in 2013 with the declared goal to enhance connectivity among countries for mutual benefits.² The connectivity approach is multidimensional, but requires the building of physical infrastructure as a basis.³ From 2013–2022, Beijing channeled via the BRI around 962 billion USD into construction contracts and investment worldwide (Nedopil Wang 2023). About 23% of construction projects and 15% of investment were focused on six Central and Western Asian trade corridors that together constitute the *Silk Road Economic Belt*.⁴ The cor-

ridors connect countries within and across the Asian and European continents. The most advanced and heavily trafficked corridor is the *New Eurasian Land Bridge* that takes cargo from China to Europe via two routes: the first route connects China (various cities, Urumqi, Alashankou)–Kazakhstan (Dostyk, Mointy, Nur-Sultan, Petropavl)–Russia (Yekaterinburg, Moscow)–Belarus (Brest)–Poland (Małaszewicze)–Germany (Duisburg). The second route connects China (various cities, Urumqi, Khorgas)–Kazakhstan (Altynkol, Almaty, Shu, Zharyk, Zhezqazghan, Saksaulskaya, Shalkar, Beyneu, Aktau)–Azerbaijan (Baku/Alyat, Ganja, Beyuk Kesik)–Georgia (Gardabani, Tbilisi, Akhalkalaki)–Turkey (Kars, Istanbul).

Until recently, 80–90% of cargo traffic between China and Europe took the first route via Russia that is often called the *Northern Route*. It is well and broadly developed and allows the transport of large volumes of freight between China and Europe via a direct rail service and relatively few border crossings. The second route is also known as the Trans-Caspian International Transport Route or the *Middle Corridor*. It was intended as a complementary route that is faster in reaching Turkey and Southeast European countries, but requires ships to cross the Caspian Sea (Devonshire-Ellis 2021). Russia's invasion of Ukraine was a game changer in the China–Europe transportation strategy. Immediately after Russian troops invaded Ukraine, 50% of the transport operations on the Northern Route were suspended by the

1 See statistics in the appendix on the growing importance of China for South Caucasus states' economies.

2 Armenia and Azerbaijan joined the BRI in 2015 and Georgia joined in 2016.

3 'Vision And Actions On Jointly Building Silk Road Economic Belt And 21st-Century Maritime Silk Road', Belt and Road Portal, 30 March 2015, <https://eng.yidaiyilu.gov.cn/qwyw/qwfb/1084.htm> (accessed 8 February 2023).

4 The six trade corridors are (i) the New Eurasian Land Bridge, (ii) the China–Central Asia–West Asia Corridor, (iii) the China–Mongolia–Russia Corridor, (iv) the China–Pakistan Economic Corridor, (v) the China–Myanmar–Bangladesh–India Corridor, and (vi) the China–Indochina Peninsula Corridor.

rail and logistics providers.⁵ As the European Union (EU) put economic sanctions on Russia, the Northern Route became practically inoperable. A redirection of trade through the Trans-Caspian International Transport Route is in the focus of not only China, but also the EU, which seeks substitutes for Russian oil and gas imports. Although ports on both sides of the Caspian Sea and a complex system of railways, roads, and pipelines exist and are operable throughout the South Caucasus, the infrastructure in its current state does not allow the transportation of merchandise and energy in the volume, at the speed, and at the costs as the Northern Route did.

China's Changing Roles and Interests

China and Russia had a clear division of labour in Central and Western Asia over the last twenty years: China provided the finance, material, and labour to carry out large-scale infrastructure projects, while Russia positioned troops to ensure stability and security in the region (Yang 2022). Insufficiencies in infrastructure, stability, and security in Central and Western Asian economies proved important bottlenecks to development not only for the respective countries but also for the trade-reliant regional hegemony. The Sino-Russian strategic partnership to direct regional development was applied in particular in Kazakhstan, which borders both regional hegemony and through which both routes of the New Eurasian Land Bridge pass.

China also had a clear vision of economic cooperation with the South Caucasus states. With infrastructure investment, China aimed at turning Georgia into a hub for distributing Chinese manufacturing products to European markets. Chinese finance was used for enhancing railway inspection and customs inspection equipment, but also for establishing the Hualing International Special Economic Zone in Tbilisi and the Hualing Free Industrial Zone in Kutaisi. Chinese direct investment in Georgia intensified after the EU-Georgia Deep and Comprehensive Free Trade Area entered into force in 2016. The agreement allows Chinese-owned companies in Georgia to engage in free trade with EU member states. New aspirations formed to develop Georgian industries that match Chinese components with Turkish and Caucasian manufactured parts, especially in the automotive sector, and sell the products on European markets (Devonshire-Ellis 2022a). Correspondingly, China established its first free trade agreement with Georgia in 2018.

In Azerbaijan, Chinese efforts focused on energy projects. China funded the enlargement of the natu-

ral gas production in the Shah Deniz gas field and the building of the South Caucasus gas pipeline from the Caspian Sea to the Turkish-Greek border, which were necessary investments to establish the *Southern Gas Corridor*. China also provided official finance to build the Baku-Tbilisi-Ceyhan oil pipelines to Turkey's Mediterranean coast (Kalkschmied 2022). Chinese finance for energy projects came in the form of loans. The loans were offered at standard market rates and were thus highly profitable for the involved Chinese financial institutions.

Chinese official finance flows to Armenia were much more restricted. They came in the form of aid to acquire buses and customs equipment and to build schools and housing for the elderly. The *North-South Road Corridor* that will connect Armenia with Georgia and Iran is financed with loans from Asian Development Bank (ADB), the European Investment Bank, and the Eurasian Development Bank. Yet, the Talin-Lanjik and Lanjik-Gyumri sections of the corridor were implemented by the Chinese hydropower engineering and construction company Sinohydro International. Thus, in all three South Caucasus states, China profited from infrastructure projects by earning interests and by creating demand for Chinese construction materials, industrial output, and labour (Malik et al. 2021: 23–36).

Since Russia's invasion of Ukraine, the traditional division of labour between Russia and China no longer works. This has had severe consequences for security in the South Caucasus, where Russia positioned peacekeeping forces to end the Second Nagorno-Karabakh War between Armenia and Azerbaijan in 2020. As Russia became increasingly embroiled in its invasion of Ukraine and redeployed more experienced peacekeepers to the front lines, Azerbaijan rekindled its efforts to reclaim territory by force in Nagorno-Karabakh (Bushuev 2022). Resurgent conflicts jeopardize the new economic endeavors of China and the EU with the countries of the South Caucasus. Already in the course of the Second Nagorno-Karabakh War, Armenian shells were hitting the Tovuz area of Azerbaijan as well as the Azerbaijani city of Ganje, far from the front line and close to the Baku-Tbilisi-Ceyhan oil pipeline and the gas pipeline of the Southern Gas Corridor. This move was interpreted as an open Armenian provocation against oil and gas trade that was in the national interest of Azerbaijan and Turkey. Prior to this move, Azerbaijan and Turkey had made efforts to exclude Armenia from regional projects (including the Baku-Tbilisi-Kars railway project) and to install a transport blockade to harm the economic development of Armenia (Mammadov 2020). The reawakened territorial fights have created

5 'The Belt and Road in Europe: Between Tragedy in Ukraine and Hope in Serbia', Brixsweden, 20 March 2022, <https://www.brixsweden.org/the-belt-and-road-in-europe-between-tragedy-in-ukraine-and-hope-in-serbia/> (accessed 8 February 2023).

insecurities that hinder cooperation within the region. As a result, new transnational infrastructure investment deals could become infeasible.

While China declared that it will work with the international community to make constructive efforts to de-escalate Armenia-Azerbaijan border tension, the EU has sent three foreign ministers to the South Caucasus to signal its willingness to take on a more active role. Chinese and EU efforts to restore peace not only aim to end the humanitarian crisis that has resulted from Azerbaijan's blockage of the Lachin corridor, which cuts Armenian residents in Nagorno-Karabakh from a regular supply of food and medicines: Chinese and EU efforts to restore peace also aim to secure their own interests to turn the region into a functioning trade corridor. The Trans-Caspian International Transport Route remains the second-best way to connect European with Asian markets. It is less costly and more secure compared to land routes via Iran, a country under heavy US-led sanctions (Devonshire-Ellis 2022b). Additionally, the exclusive reliance on the sea route via the Suez Canal would contradict China's strategy to diversify both trading partners and trading routes in order to decrease dependencies. In the course of resurgent trade-related disputes with the United States, China fears that it may use its military presence in the Mediterranean and Persian Gulf to block the Suez Canal and disrupt China-EU trade.

While Chinese and EU interests lie in maintaining the East–West trade connection, Russia may seek to enhance the North–South trade connection to Iran, the Middle East, and North Africa as the war continues and Russia remains sealed off from Western markets. The East–West and the North–South trade routes cross in the South Caucasus. This gives the South Caucasus states a critical geopolitical and geoeconomic position. A functioning North–South trade route connecting Russia with Iran may be a thorn in the side of Western countries a priori. China, which has intensified trade with Russia since Russia's invasion of Ukraine, will be indifferent to Russia's trading through the South Caucasus as long as this does not disrupt China's ambitions for East–West trade through the region. Yet, such disruptions may arise due to the limited trading infrastructure: competition for access to the infrastructure may become heated.

China-EU Cooperation in Infrastructure Investment

It requires cooperation and coordination of domestic and foreign actors to build functioning economic and energy

corridors through the South Caucasus. Until recently, EU bodies remained highly sceptical and distanced themselves from the BRI. In a 2021 briefing, the European Parliament described the BRI as a 'foreign policy tool of China to expand its economic and political influence across the world that challenges the Western-led rules-based international order' (Grieger 2021: 2). In reaction to the BRI's success, the EU formulated the Europe-Asia Connectivity Strategy in September 2018 and launched the Global Gateway in December 2021 as an alternative. Yet, within the first year of the latter's existence, efforts remained fragmented and slow, and details on Global Gateway projects have not been provided yet (Lau/ Moens 2022). Under the pressure of energy scarcity and trade disruptions resulting from Russia's invasion of Ukraine, the EU has become more friendly towards the BRI and signals more willingness to cooperate with China.

On 14 July 2022, the European Commission signed a deal with Azerbaijan to double natural gas imports by 2027.⁶ Significant EU funding can be expected to expand facilities at Romania's Constanta port and Bulgaria's Burgas and Varna ports at the western end of the Black Sea, as well as ports in Greece, Italy, and Malta at the Mediterranean to prepare EU ports for integration with trading infrastructure in Georgia and Turkey.⁷ Azerbaijani gas will be delivered to the EU via the Southern Gas Corridor. The enlargement of the Shah Deniz gas fields was financed by a consortium of Eastern and Western financial institutions including Bank of China, ADB, European Bank of Reconstruction and Development (EBRD) and European commercial banks.

In the upcoming years, we will likely see more EU-China cooperation in setting up the physical infrastructure that is needed for developing the region's energy and economic corridors. This cooperation may not take place under the roof of the BRI or the Global Gateway initiative, but rather run unlabeled via multilateral financial institutions. One such project has already taken place in 2021, when the Asian Infrastructure Investment Bank and the EBRD approved a syndicated loan for the construction of a high-speed railway line from Istanbul to the Bulgarian border (Devonshire-Ellis 2021). Similar cooperations may lie ahead for investments in Georgia. The ADB has announced the financing of 50 million USD to develop the Baku–Tbilisi–Kars rail route from Azerbaijan via Georgia to Turkey and the Georgian Black Sea ports Batumi and Poti. An involvement of the EU to develop the Baku–Tbilisi–Kars rail route would

6 'EU agrees deal with Azerbaijan to double gas exports by 2027', Euronews, 19 July 2022, <https://www.euronews.com/my-europe/2022/07/18/von-der-leyen-heads-to-azerbaijan-to-secure-new-gas-import-deal#:~:text=The%20European%20Commission%20signed%20a,of%20natural%20gas%20by%202027> (accessed 9 February 2023).

7 'Kazakhstan, Azerbaijan and Georgia To Establish "Eurasian Rail Alliance" Joint Venture', Silk Road Briefing, 10 May 2022, <https://www.silkroadbriefing.com/news/2022/03/10/kazakhstan-azerbaijan-and-georgia-to-establish-eurasian-rail-alliance-joint-venture/> (accessed 23 March 2023).

be a strong sign that, under the new circumstances, the EU chooses to partner rather than compete with China.

Conclusions

China's interests in turning the South Caucasus into a trade hub predated Russia's invasion of Ukraine. With the closing of the Northern Route, new interests emerged. The Trans-Caspian International Transport Route is envisaged to become the new main land corridor for China-EU trade. Thanks to Chinese investment in the last twenty years, there exists an infrastructure network to transport merchandise and energy from Asia through the South Caucasus to Europe. Yet, the infrastructure needs to be enhanced in order to enable the transportation of a much larger volume of goods than initially intended. Given the free trade agreements of Georgia with both China and the EU, the EU's energy deal with Azerbaijan, and new individual and joint infrastructure projects in Georgia and Turkey, we can expect more China-EU coordination and cooperation in infrastructure investment in the South Caucasus in the coming years. Stability within the region is a prerequisite.

Azerbaijan has already profited from the changed geopolitical situation with new energy deals and rapidly increasing cargo traffic at Baku's port. Khudayar Hansasli, head of strategic planning and development at Baku International Sea Trade Port, announced plans to build new terminals and expand the port to keep up with rising shipping demand.⁸

Georgia's wins from the enhanced interests in the region are less immediate and more insecure. Chances to be integrated into European economic structures are

rising, so are China's direct investment and development projects in Georgia. What remains unclear is how this will affect the Georgian economy. Georgia needs to carefully manage the new investment offers that come with the free trade possibilities to ensure that a maximal proportion of the gains from trade liberalization accrue to domestic firms and workers rather than Chinese and European ones. Some of the previous Chinese direct investment inflows went into projects that proved unproductive for the Georgian economy. Whether Georgia gets its piece of the pie now will depend on who will own and operate the new trade and logistics infrastructure, whether industries that create value-added products and generate jobs and income for locals will develop, and whether local firms and workers will receive technical training and upskill.

For Armenia, which is not directly on the Trans-Caspian International Transport Route, the consequences of new Chinese endeavors are most unsure. China's interests and investment in Armenia have been far more restricted as compared to the other South Caucasus states, among other reasons because China relies on good relations with Azerbaijan and Turkey to make the corridors work. What we can expect for all South Caucasus states, given that sufficient regional security allows the corridors to come into full operation, is enhanced access to European and Chinese markets and reduced economic dependency on Russia. The economic effects will vary among the South Caucasus states for sure. In their fight for limited foreign funds, not all of them can come out on top. Moreover, coming out on top in collecting foreign funds is no guarantee to come out as a winner from trade liberalization.

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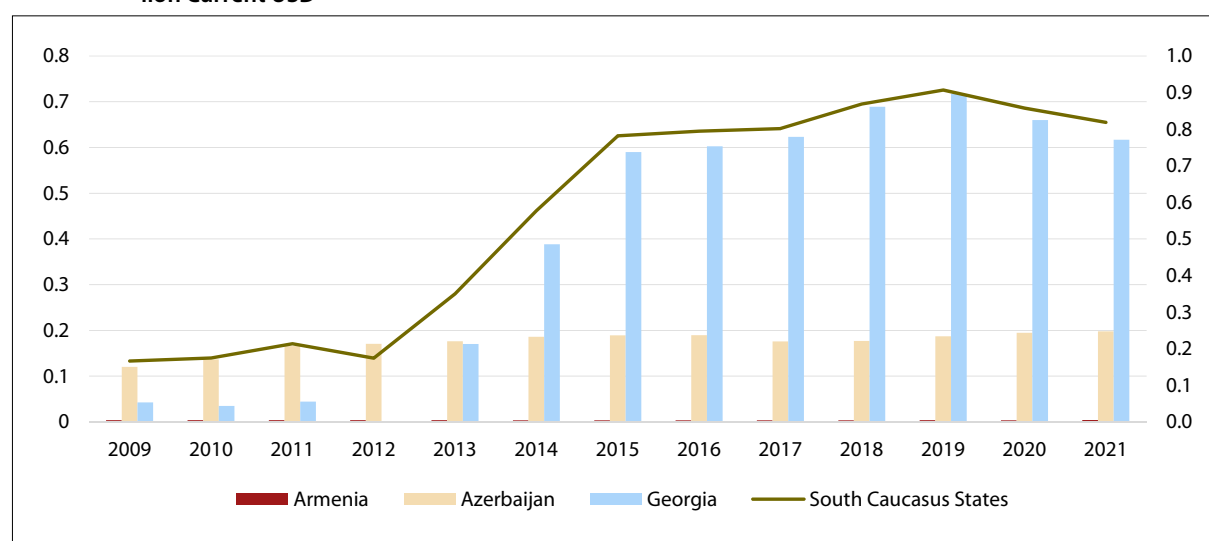
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⁸ 'Baku Int'l Sea Trade Port to expand infrastructure capacities of cargo traffic', Azernews, 4 July 2022, <https://www.azernews.az/business/196326.html> (accessed 23 March 2023).

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Appendix

Figure 1: China's Direct Investment Stocks in Armenia, Azerbaijan, and Georgia over the Period 2009–2021 in Billion Current USD



China's direct investment stocks in Armenia, Azerbaijan, and Georgia over the period 2009–2021 in billion current USD (bars and left axis). Green line indicates development of aggregated stocks for the South Caucasus states in billion current USD as indicated on the right axis.

Source: CDIS dataset of the International Monetary Fund (IMF). Depicted variable: Inward direct investment position.

Table 1a: Top Ten FDI Stock Holders in the South Caucasus States in 2021

Rank	Country	Billion USD
1.	United Kingdom	10.72
2.	Turkey	7.71
3.	Cyprus	4.0
4.	Azerbaijan	3.96
5.	Russia	3.76
6.	Iran	2.96
7.	Norway	2.90
8.	Netherlands	2.80
9.	UAE	1.98
10.	Malaysia	1.83
17.	China	0.82

Source: CDIS (IMF).

Table 1b: Top Ten FDI Stock Holders in the South Caucasus States in 2009

Rank	Country	Billion USD
1.	Russia	2.58
2.	Turkey	2.10
3.	United Kingdom	1.71
4.	Norway	1.65
5.	United States	1.44
6.	France	0.83
7.	UAE	0.81
8.	Iran	0.75
9.	Netherlands	0.74
10.	Italy	0.71
22.	China	0.16

Source: CDIS (IMF).

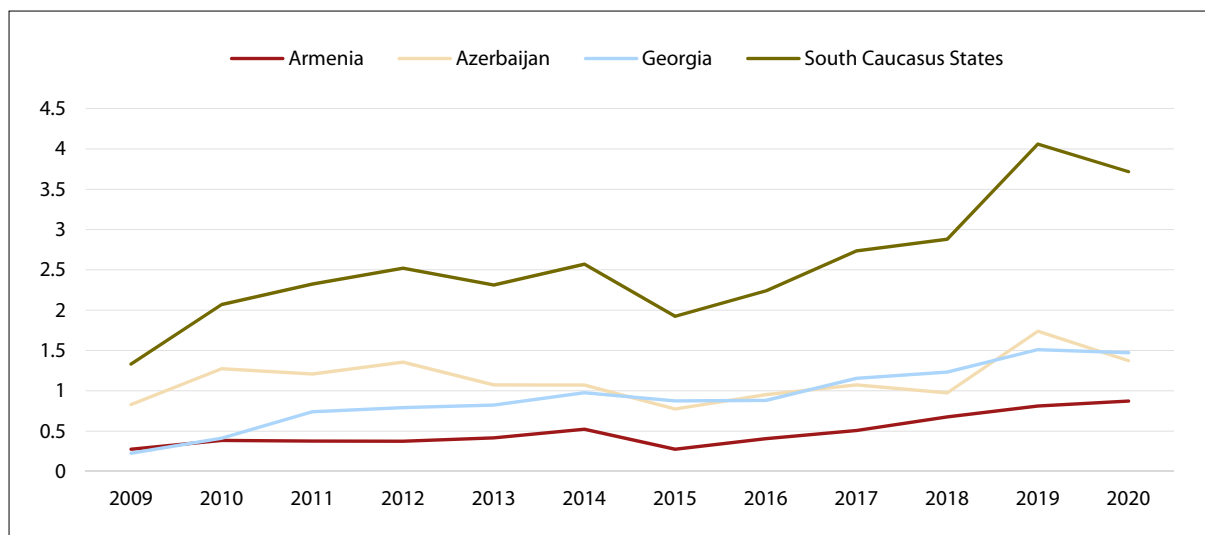
Table 2: Beijing's Official Finance Provided for Development Projects in the South Caucasus States in Million 2017 Constant USD in 2000–2017

	Armenia	Azerbaijan	Georgia	South Caucasus States
Total official development finance	\$90.4	\$580.8	\$423.5	\$1094.6
Development finance per capita	\$31	\$60	\$42	\$48
Number of projects	29	18	36	83
Debt-to-aid ratio	0	18.6	3.4	4.1
Social infrastructure projects	48.6%	2.7%	5.9%	8.2%
Economic infrastructure projects	35.5%	0.4%	85.5%	36.7%
Production projects	6.3%	96.9%	7.6%	55.1%

Note: Development finance per capita divides total development finance with the World Bank reported population size of the country in millions for the year 2017. Social infrastructure projects, economic infrastructure projects, and production projects give the shares of the sum of project values for each sector from total official development finance. Social infrastructure projects contains projects in the sectors education, government and civil society, health, water supply and sanitation, other social infrastructure, and emergency response. Economic infrastructure projects contains projects in the sectors communications, energy, transport and storage, business and other services, banking and financial services, and trade policies and regulations. Production projects contains projects in the sectors agriculture, forestry, fishing, industry, mining, and construction.

Source: AidData

Figure 2: China's Total Trade (Import and Exports) with Armenia, Azerbaijan, and Georgia over the Period 2009–2020 in Billion Current USD



Green line indicates aggregated total trade for the South Caucasus states.

Source: Observatory of Economic Complexity (OEC).

Table 3a: Top Ten Export Markets for the South Caucasus States in 2020 and Growth since 2010

Rank (2020)	Country	Billion USD in 2020	Billion USD in 2010	Export market growth
1.	Italy	4.14	7.01	-41%
2.	Turkey	2.84	0.51	+462%
3.	Russia	1.86	1.05	+78%
4.	China	1.26	0.43	+195%
5.	Switzerland	1.02	0.85	+20%
6.	India	0.69	0.33	+110%
7.	Ukraine	0.60	1.02	-42%
8.	Georgia	0.58	0.50	+16%
9.	Bulgaria	0.55	0.36	+51%
10.	Spain	0.54	0.25	+115%

Source: OEC based on data from BACI that reports the value of trade flows in current USD

Table 3b: Top Ten Import Markets for the South Caucasus States in 2020 and Growth since 2010

Rank (2020)	Country	Billion USD in 2020	Billion USD in 2010	Import market growth
1.	Russia	4.55	2.67	+71%
2.	Turkey	3.73	2.60	+44%
3.	China	2.46	1.64	+50%
4.	Germany	1.10	1.51	-27%
5.	United States	0.97	0.62	+57%
6.	Ukraine	0.84	1.35	-38%
7.	Italy	0.70	0.55	+27%
8.	Iran	0.63	0.67	-7%
9.	Georgia	0.63	0.40	+55%
10.	United Kingdom	0.56	0.77	-27%

Source: OEC based on data from BACI that reports the value of trade flows in current USD

Iran and the Role of Transit Corridors in the South Caucasus in the Context of the War against Ukraine

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Abstract

The Russian war against Ukraine, the extensive Western sanctions against Russia, the blockade of the east–west transit corridors through Russian territory, including the various China–Central Asia–Russia–Europe transit corridors and the Northern Corridor branch of China’s Belt and Road Initiative (BRI), that traverse Eurasia have impacted on new dynamics of the three corridors through the South Caucasus: the ‘Middle Corridor’, the ‘International North–South Transport Corridor’ (INSTC), and the ‘Persian Gulf–Black Sea International Transport and Transit Corridor’ (ITC). While neither Iran nor Russia play a role in the ‘Middle Corridor’ as it bypasses the two countries, Tehran and Moscow (as well as Baku) are very active in the INSTC. Furthermore, Iran aims to play an active role in the ITC in collaboration with Armenia, Georgia, Bulgaria and Greece. In general, Iran seeks to establish a ‘transit balance’ in the South Caucasus region as part of its ‘balanced foreign policy approach’ framework; the challenges and constraints it has faced in this process will be examined in this article.

Introduction

When the new conservative government of Ebrahim Raisi came to power in Tehran in August 2021, the ‘Look East’ policy grew in importance overnight to become the main approach of Iranian foreign policy. Within this framework, Raisi declared his ‘Neighbourhood Policy’ and ‘Economic Diplomacy’ as his administration’s top two foreign policy objectives. Transit corridors are vital to these efforts. On the other hand, in a world where oil exports as well as insurance operations and banking and financial transactions are subject to US sanctions, Iran hopes to prevent regional and international isolation by developing regional transit and effectively utilizing its strategic location. This also serves to create high and stable sources of income for Iran, which is especially important in the context of sanctions and other serious economic pressures.

However, as a result of the Second Nagorno-Karabakh War in 2020, the balance of power and geopolitics of the South Caucasus shifted against Iran due to the strengthening of the Turkish-Azerbaijani axis with the informational and military support of Israel; furthermore, following Russia’s war against Ukraine, several challenges were created for Iran in the field of revitalising its long-contentious nuclear agreement, the so-called Joint Comprehensive Plan of Action (JCPOA). ‘The main concern was that the scope of the rifts between Russia and the West due to the Ukraine crisis will extend to the Iranian nuclear talks, possibly preventing the parties from agreeing on the final text of the deal’ (Kaleji 2022d). These concerns grew when Russian foreign minister Sergei Lavrov mentioned that ‘we want an answer [...] we need a guarantee that sanctions (against Rus-

sia) will not in any way touch the regime of trade-economic and investment relations which is laid down in the Joint Comprehensive Plan of Action’ (Sly 2022). Indeed, selling drones to Russia and exporting Russian oil and steel to Iran’s Asian customers, including China and India, for below-market prices constituted further challenges for Iran.

Under these circumstances, it seems that transit corridors are one Tehran’s biggest opportunities to establish a ‘transit balance’ in Eurasia (and particularly the South Caucasus region) as part of its ‘balanced foreign policy approach’ framework. At the present time, ‘Iran is the only country that has regular diplomatic relations with all three South Caucasus countries: Armenia, Azerbaijan and Georgia. Armenian-Turkish relations have been severed since 1993, while relations between Georgia and Russia have been strained since 2008’ (Kaleji 2021a). Therefore, Iran considers transit and trade as an important tool to maintain balanced relations with all three South Caucasus countries.

For this reason, Iran’s active participation in both the ‘International North–South Transport Corridor’ (INSTC) and the ‘Persian Gulf–Black Sea International Transport and Transit Corridor’ (ITC) not only help its economy under the current US sanctions regime, but can also strengthen its ‘balancing’ approach in the South Caucasus. But how have transit opportunities been created for Iran? How can Iran use these opportunities? And what challenges and obstacles does it face in this process? This article answers these questions to gain an accurate, comprehensive, and realistic understanding of both the INSTC and ITC in the period since Russia’s invasion of Ukraine.

Russia's War against Ukraine and Transit Corridors

Before the start of Russia's war against Ukraine on 24 February 2022, Russia, Ukraine, Poland and Belarus had all hoped to be part of the 'New Eurasian Land Bridge' linking Europe to East Asia. These aims were derailed when Russian President Vladimir Putin ordered the full-scale invasion of Ukraine. The war, the resulting extensive Western sanctions against Russia, and the growing possibility that European border states including Norway, Finland, Estonia, and Latvia will block east-west transit corridors traversing Russian territory into Europe are having far-reaching implications for the landlocked countries of Central Asia (Kaleji 2022c), as well as the South Caucasus. Under these circumstances, two potential transit routes, the Middle Corridor and the INSTC, have been significantly activated: both of them pass through the South Caucasus and Caspian Sea. The Middle Corridor is a rail freight and ferry system from China to Europe running through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and Turkey, completely bypassing Russia (Carafano 2022). While Iran and Russia are bypassed by the Middle Corridor, Tehran and Moscow have been very active and influential in the planning and operating of INSTC.

Furthermore, Iran tries to have an active role in the ITC, which passes through the South Caucasus. While India, Iran, Azerbaijan and Russia are active in the INSTC, Iran, Armenia, Georgia, Bulgaria and Greece participate in the ITC. Although Azerbaijan and Armenia are parties to both corridors, but due to tensions between Baku and Yerevan, in practice, the Republic of Azerbaijan is very active in INSTC, while Yerevan plays an essential role in the ITC.

The Role of Iran, Azerbaijan and Russia in the INSTC

Russia, Iran and India signed the agreement establishing the INSTC on 16 May 2002. Other countries, including Azerbaijan, joined this corridor in later stages. The INSTC is a multimodal and combined network of ships, rails, and road freight routes connecting India, Iran, Azerbaijan and Russia. In particular, the Iran–Azerbaijan transit route in combination with the sea route between Iran and Russia via the Caspian Sea allows the

flow of goods between India and Russia by a shorter route without crossing the Suez Canal (see Figure 1 on p. 20 for a map of the INSTC).

Azerbaijan is Iran's main trade partner in the South Caucasus, and "topped the list of Iran's export destinations among the Caspian Sea littoral states in 2022".¹ But during the last two years, the volume of trade and transit between Iran and Azerbaijan has increased significantly, as the Astara–Baku–Dagestan land route is the main transit route from Iran to Azerbaijan and the densely populated areas of Western Russia. According to Alireza Peyman-Pak, 'the bilateral trade turnover between Iran and Azerbaijan increased by 100 per cent in July 2022 compared to July 2021'.² According to the statistics of the Islamic Republic of Iran Customs Administration, Iran's non-oil trade turnover with Azerbaijan amounted to about 716,000 tons, worth approximately US\$637 million, during the first 11 months of the current Iranian year (21 March 2022 to 19 February 2023) (Baghishov 2023). Indeed, the volume of trade between Iran and Russia has also grown significantly in 2022, an important part of which is transported via the transit route through Azerbaijan: US\$4 billion in January–October 2022, an increase of 27% in Russian exports to Iran, as well as 10% in imports from that country.³

According to Russian officials, INSTC's total capacity, including all of its different branches, can reach up to 15.4 million tons per year, thus allowing space for significant growth.⁴ At the first trilateral meeting of Iran, Azerbaijan, and Russia on 8 September 2022, the parties signed a statement to increase freight transit through the INSTC to 30 million tonnes by 2030. Additionally, Tehran hosted a transit meeting between Iran, the Central Asian countries, Russia, and Azerbaijan on 9 October 2022. The meeting resulted in an understanding on the development of transit among those countries, the unification of transit customs duties, and the issuance of one-year visas for transit truck drivers.⁵ According to the agreements made at the Tehran meeting, transit meetings will be held every 6 months. It clearly shows that Iran's approach to transit corridors in the context of the Russian war on Ukraine is part of the country's long-term goal of becoming a regional transit hub by diversifying transportation routes with neighboring countries.

1 'Azerbaijan Tops Iran's Export Destinations Among Caspian States', *Financial Tribune*, 4 July 2022, <https://financialtribune.com/articles/domestic-economy/114221/azerbaijan-tops-iran-s-export-destinations-among-caspian-states> (accessed 20 March 2023).

2 'Trade turnover between Iran, Azerbaijan increases', *Caliber.az*, 28 August 2022, <https://caliber.az/en/post/103851/> (accessed 11 January 2023).

3 'Iran-Russia Trade at \$4 Billion', *Financial Tribune*, 11 December 2022. Available at: <https://financialtribune.com/articles/domestic-economy/116385/iran-russia-trade-at-4-billion> (accessed 12 January 2023).

4 '12 million tons of cargo to transit Iran yearly on Moscow-Mumbai route', *Rail Freight*, 28 November 2022, <https://www.railfreight.com/corridors/2022/11/28/12-million-tons-of-cargo-to-transit-iran-yearly-on-moscow-mumbai-route/> (accessed 20 March 2023).

5 'Iran inks transit communique with Central Asian countries', *Shargh Daily*, 9 October 2022, <https://www.sharghdaily.com/Section-iran-256/857998-iran-inks-transit-communique-with-central-asian-countries> (accessed 20 March 2023).

It seems that two main factors have caused a significant increase in the volume of trade and transit between Iran, Azerbaijan and Russia. The first factor is Iran's cooperation with the Moscow-led Eurasian Economic Union (EAEU), which has recently been upgraded to a Free Trade Agreement. The Free Trade Agreement, signed on 19 January 2023, involves more than 7,500 types of commodities.⁶ Although neighbouring Azerbaijan is not currently an EAEU member, it is the closest direct transportation route between Iran and the important Russian market. In this regard, the INSTC, which crosses Azerbaijan, has in Iran's mind a key role to play.

The second factor is the Russian war against Ukraine. The extensive Western sanctions against Russia, including transit restrictions in Eastern Europe, have greatly increased the INSTC's importance. 'The Kremlin considers this route not only as an alternative to the Suez Canal and an opportunity to establish new supply chains, but also as a way to evade the imposed sanctions, with Iran seen as an important trade partner, at least in grain trading. Iran can also become a transit hub for Russian wheat exports to Iranian neighbouring countries, such as Iraq or Afghanistan, both of which are likely to increase wheat imports in the 2022–23 marketing year'.⁷ Since the Astara–Baku–Dagestan transit route plays an important role in trade and transit between Iran and Russia, it is obvious that the transit role of Azerbaijan has increased significantly since the beginning of Russia's war against Ukraine as well. The route is also very important for Belarus, which is under Western sanctions as a partner and ally of Russia in the war against Ukraine.

Challenges and Constraints of the INSTC

Iran's efforts to develop trade and transit within the INSTC after the beginning of the Russian war against Ukraine faces several important challenges and constraints:

1. The political relations between Tehran and Baku are not stable and have been tense several times since the Second Nagorno-Karabakh War. 'The strengthening of the axis of Turkey and the Republic of Azerbaijan with the support of Israel and Pakistan is the most important development that has happened in the Caucasus region' (Kaleji 2023). Under these circumstances, Iran faces new threats and challenges as a result of the Second Nagorno-Karabakh War, including Iran's opposition to the 'Zangezur Corridor' connecting Azerbaijan proper with its enclave

Nakhchivan—because it fears the obstruction of the 38-kilometres Iran-Armenia border—and the increased military and security cooperation between Azerbaijan and Israel. The armed attack on the Azerbaijani embassy in Tehran in January 2023, which led to its evacuation and closure by Baku, is but the latest example of tensions between the two sides. It is clear that these developments have a negative impact on economic, business and transit cooperation between Tehran and Baku in the INSTC.

2. Lack of rail connection between Iran and Azerbaijan has reduced the volume and speed of goods transfer within the corridor. The construction of the 164 km Rasht–Astara and the 55 km Zangilan–Nakhchivan railway lines through Iranian territory, as well as the revival of the Soviet-era Jolfa–Nakhchivan line, have not yet come to fruition. Undoubtedly, the most important rail gap is the 164 km Rasht–Astara route, as the only incomplete part of the INSTC as a whole. The completion of the 164 km Rasht–Astara Railroad between the cities of Rasht and Astara in Iran's Gilan Province and that in the Southwest of the Caspian Sea will connect to Azerbaijan's Astara, located at the Iranian border. The railway would enable increase in freight transport to 15 million tonnes annually, as well as making the journey 40% shorter and 30% more economical compared to existing land routes between the two countries. However, at the moment, 'the lack of this railway connection has made it inevitable that freight trains at the Astara railway station on the Iranian side will be transferred to trucks, or vice versa' (Kaleji 2022c). It is clear that these conditions have a negative effect on the rapid transfer of goods and containers between Iran, Azerbaijan and Russia. For this reason, Tehran hopes that, due to the war in Ukraine and Russia's resulting extreme reliance on the INSTC, it will be able to complete the project within the next three years (with the help of Russian investment).
3. The main transit route between Iran, Azerbaijan and Russia is the 'Astara–Astara border crossing'⁸ on the Iran-Azerbaijan border, via which trucks and containers are transported to Azerbaijan and on to Russia. On average, a truck crosses the Astara border every 7 minutes. This issue causes heavy traffic and in some cases disruptions and long stops, problems the Astara crossing shares with the Samur border crossing between Azerbaijan and Russia. At the

6 'Iran, EAEU Finalize FTA Terms', *Financial Tribune*, 10 December 2022, <https://financialtribune.com/articles/domestic-economy/116360/iran-eaeu-finalize-fta-terms> (accessed 20 March 2023).

7 'Russia looks east to boost exports amid sanctions', *Argus Media*, 6 July 2022, <https://www.argusmedia.com/en/news/2348111-russia-looks-east-to-boost-exports-amid-sanctions> (accessed 18 February 2023).

8 The name of the border towns, Astara, is the same in both countries.

border crossing of Astara exists only one 80-year-old metal border bridge, causing long queues of trucks. To solve this problem, Iran and Azerbaijan signed a ‘Memorandum of Understanding’ on 26 January 2022 to build the new four-lane Astarachay Bridge, which aims to alleviate the existing traffic issues at the border. However, it seems that until the new bridge is built, serious traffic problems will continue.

4. Since the majority of Iran’s exports to Azerbaijan and Russia in the INSTC are agricultural products, as well as medicine, there is a need for trucks equipped with refrigerated containers. The lack of these containers is considered an important challenge and obstacle in increasing the volume of trade and transit of these products in the INSTC.

Iran, Armenia and Georgia in the Persian Gulf-Black Sea Corridor (ITC)

The ITC is a multimodal and combined network of ship, rail, and road freight routes connecting Iran, Armenia, Georgia, Bulgaria, and Greece. ‘This multimodal corridor begins from the Persian Gulf and southern Iran and then proceeds to Armenia, from which it reaches the Georgian ports of Poti and Batumi in the Black Sea. From there, Roll-on–Roll-off (‘Ro-Ro’) ships cross the Black Sea to Bulgarian ports (Burgas and Varna), after which cargo proceeds again by road to Greece and further into the European Union.’⁹ Iran was chosen as the ‘trustee of the agreement’, responsible for coordinating demands and finalising documents for the national parliaments of the six countries, and it has played a central role in establishing a transit route to the Black Sea region since 2016.

It seems that the Russian war against Ukraine and the blockade of the east–west transit corridors through Russia has led to a new dynamic within ITC. According to Hussain (2022), ‘The US and EU are searching for coherent long-term strategies to reduce Russia’s geo-economic sway in Eurasia; this has included the recent American engagement of Qatar to help wean Europe from its reliance on Russian gas. The ITC furthers this Western objective by giving the former Soviet South Caucasus a non-Russian route to global markets’. The ITC, like the Middle Corridor, fully bypasses Russia, and thus the West can be motivated to support this corridor—especially since Bulgaria and Greece, two members of

the European Union, are members of the ITC (see Figure 2 on p. 20 for a map of the ITC).

For this reason, on 6 June 2022, three months after the start of the Russian invasion, the Iranian Foreign Affairs Ministry hosted a conference on the opportunities for cooperation within the Black Sea Economic Cooperation (BSEC), as observer member in this regional organisation. Senior officials, including BSEC Secretary General Lazar Comanescu, attended the conference, which was a considerable opportunity for Iran to promote the Persian Gulf–Black Sea International Transport and Transit Corridor. Iranian Foreign Minister Hossein Amirabdollahian ‘emphasised the need to finalize the Persian Gulf–Black Sea International Corridor Agreement’ and ‘expressed hope that the signing of the document and the building of the corridor would result in positive developments in trade and transit cooperation between Iran and the Black Sea region’.¹⁰

Within this transit corridor, Armenia is very important for Iran because it is the only South Caucasian country that is a member of the EAEU and can serve as a direct bridge between Iran and the bloc (Kaleji 2021b). Iran’s exports to Armenia can be transferred to Russia through Georgia. Although the Iran–Azerbaijan–Russia land routes are superior in terms of existing infrastructure, Azerbaijan is not a member of the EAEU; therefore, Armenia, being in the ITC, presents a great advantage for Iran and Russia in terms of transit, customs and banking arrangements. Indeed, the corridor can help Iran connect its ports to the Georgian Black Sea ports of Batumi and Poti. Because Tehran and Ankara have faced a series of problems over the past several years (such as disputes over extra customs fees and border security), Iran aims to bypass Turkey in terms of transit to Europe to reduce its dependence by establishing an alternative route for trade, particularly via Bulgaria and Greece.¹¹

Challenges and Constraints of the ITC

Despite Iran’s efforts to develop trade and transit within the ITC since the beginning of the Russian war against Ukraine, there are many challenges and constraints:

1. The lack of rail connection between Iran and Armenia has reduced the volume and speed of goods transfer along the corridor. The old suggested rail lines of Marand–Norduz–Meghri–Yerevan were very expensive, and the perspective of reviving Soviet-

9 ‘Iran Looks to Create Persian Gulf–Black Sea Trade Corridor’, Silk Road Briefing, 21 April 2017. Available at: <https://www.silkroadbriefing.com/news/2017/04/19/iran-looks-create-persian-gulf-black-sea-trade-corridor/> (accessed 20 January 2023).

10 ‘Iranian FM Urges Implementation of Persian Gulf-Black Sea Corridor’, Tasnim News Agency, 30 May, 2022. Available at: <https://www.tasnimnews.com/en/news/2022/05/30/2719112/iranian-fm-urges-implementation-of-persian-gulf-black-sea-corridor> (accessed 20 January 2023).

11 ‘Iran Welcomes Transit Corridor Linking Persian Gulf, Black Sea’, Financial Tribune, 23 April 2017. Available at: <https://financialtribune.com/articles/economy-domestic-economy/63028/iran-welcomes-transit-corridor-linking-persian-gulf-black> (accessed 18 February 2023); ‘1st European Cargo Bypasses Turkey to Reach Iran’, Financial Tribune, 21 November 2016. Available at: <https://financialtribune.com/articles/domestic-economy/54005/1st-european-cargo-bypasses-turkey-to-reach-iran> (accessed 12 October 2022).

- Era Railways (specifically the Jolfa–Nakhjavan–Yerevan Railway) is not clear after the Second Nagorno-Karabakh War, due to constant tension between Armenia and the Republic of Azerbaijan.
2. The ITC crosses the Iranian border and enters Syunik, Armenia's southernmost province, which is located on the route of 'Zangezur Corridor' that will connect main land of Azerbaijan to Nakhjavan. 'Several reasons underline Iran's concerns regarding the possible blocking or destruction of its border with Armenia. If this border is destroyed, all of Iran's northwestern regions will border Azerbaijan and Nakhchivan—and the number of Iran's neighbors will decrease from 15 to 14' (Kaleji 2022b). It is obvious that the possible blocking or destruction of 40-km Iran-Armenia border would cut the land route and transit access between Iran, Armenia and Georgia.
 3. Armenia's inadequate transit infrastructure and non-completion of the 'North–South Highway' poses another problem for the ITC. The 400-km road from Yerevan to Meghri on the Iranian border passes through mountainous areas and is very narrow, making it a slow and difficult journey for trucks, especially during winter with its snow and ice. Therefore, until the Armenian 'North–South Highway' is completed and linked to the 'East–West Highway' in Georgia, the transit and transfer of goods within the ITC via Armenian land routes will remain exceedingly slow, dangerous, and expensive.
 4. Differences in customs and transit regulations of the member countries of the ITC present another challenge. Bulgaria and Greece are members of the EU and adhere to the Union's customs and transit regulations. Georgia, as part of its broader goal of eventually joining the EU, has coordinated its customs and transit regulations with the bloc. However, as a Commonwealth of Independent States (CIS) and EAEU member, Armenia's customs and transit rules and regulations are more similar to those of Russia. Indeed, 'according to the "Preferential Trade Agreement" with the EAEU that was implemented on October 27, 2019, Iran has taken important steps to coordinate customs and transit regulations with the Union' (Kaleji 2022a). Furthermore, the Preferential Trade Agreement was upgraded to a free trade agreement, which will mean

greater coordination of Iran's customs, banking, export and import laws with the EAEU and Russia.

5. US sanctions against Iran's financial and banking system and constraints on issuing a Letter of Credit constitute an important challenge and constraint for the ITC. Unlike the North–South corridor, where Iran and Russia have been able to activate and coordinate national banking mechanisms and Azerbaijan cooperates with Iran through exchange or cash payments at border points, the financial and banking conditions of this corridor are very difficult for Bulgaria, Greece and Georgia. Therefore, Iran's financial and banking restrictions resulting from US sanctions and the uncertain prospect of JCPOA are a substantial challenge to the trade and transit processes within the scope of the ITC. If the negotiations to revive JCPOA fail completely, Iran's nuclear case returns to the UN Security Council and Iran will once again be subject to Chapter 7 sanctions. Iran's financial and banking problems in the context of the ITC will intensify even further.

Conclusion

In a world where oil exports, insurance operations, and banking and financial transactions are subject to US sanctions, Iran hopes to prevent its own regional and international isolation by developing regional transit and effectively utilizing its geographic location to create high and stable sources of income. Within this framework, despite all challenges and constraints, Iran has attempted to (within the changing regional and international environment resulting from Russia's invasion of Ukraine) fully exploit the capacities of the INSTC and the ITC.

In addition to the economic and commercial benefits, Iran has the opportunity to strengthen its position in the South Caucasus after the Second Nagorno-Karabakh War. We should not forget that at present, among the three neighbours of the Caucasus (Iran, Russia and Turkey), Iran is the only country that has regular diplomatic relations with all three countries of the South Caucasus. As a result, Iran seeks to use this leverage to establish a 'transit balance' in the South Caucasus region as part of its 'balanced foreign policy approach' framework, specifically using the INSTC and ITC to further cement its power in the region.

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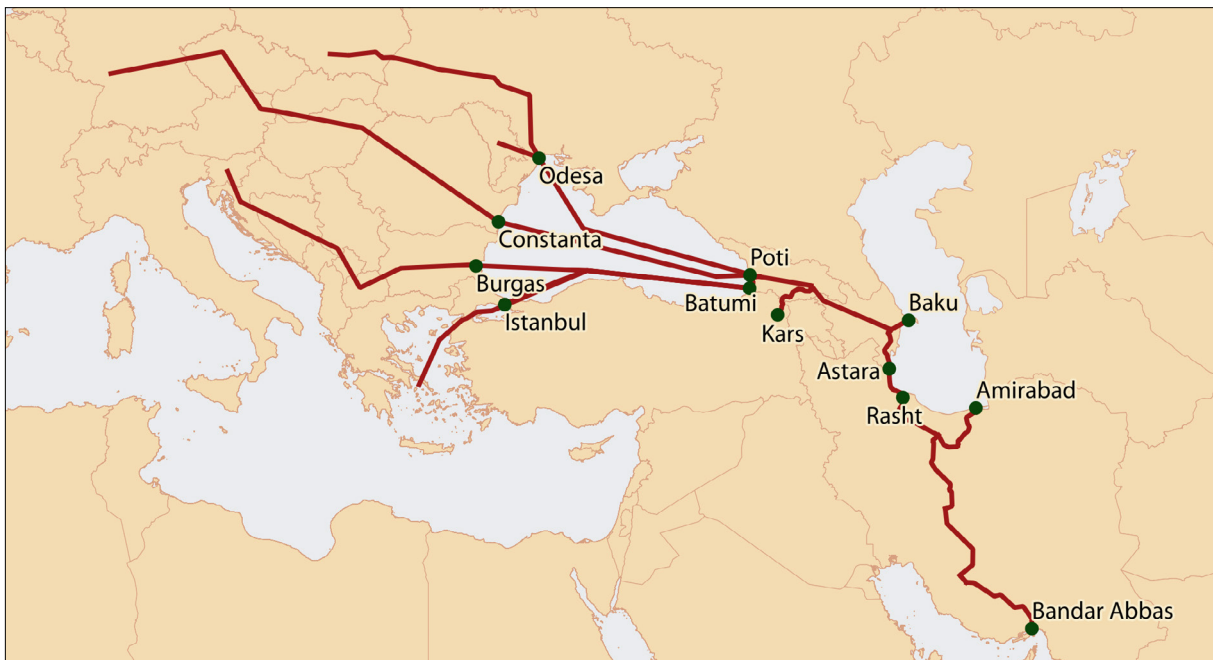
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Figure 1: The Route of the International North–South Transport Corridor (INSTC)



Map created by the Research Centre for East European Studies at the University of Bremen in QGIS, with geodata from OpenStreetMap and GADM, based on a map in: Kasturi, Charu S. (2022) *Is the INSTC Russia's new economic escape route?*, Al Jazeera, 27 July. Available at: <https://www.aljazeera.com/economy/2022/7/27/russias-new-economic-escape-route> (accessed 20 March 2023)

Figure 2: The Routes of the Persian Gulf–Black Sea International Transport and Transit Corridor (ITC)



Map created by the Research Centre for East European Studies at the University of Bremen in QGIS, with geodata from OpenStreetMap and GADM, based on a map in: Papatolios, Nikos (2022) *Persian Gulf–Black Sea corridor: why does Iran need a new gateway?*, RailFreight.com, 9 February 2022. Available at: <https://www.railfreight.com/corridors/2022/02/09/persian-gulf-black-sea-corridor-why-does-iran-need-a-new-gateway/> (accessed 18 February 2023)

Geopolitics of Infrastructure and Connectivity in the South Caucasus: The Case of Armenia and Azerbaijan

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Abstract

Russia's large-scale invasion of Ukraine since February 2022 and the Second Nagorno-Karabakh War in autumn 2020 have changed the power and security balance in the South Caucasus. Both events have had a strong impact on connectivity and infrastructure in the region and beyond. As a result, the role of the South Caucasus in connecting Asia and Europe, as well as Russia and the Middle East, will increase. Simultaneously, the imbalance between Armenia and Azerbaijan in the conflict over Nagorno-Karabakh and the confrontation between Russia and the West will undermine cooperation and connectivity in the region. Rather than serving the interests of the societies and countries of the South Caucasus, the weaponisation of corridors and infrastructure is embedded in processes of geopolitical and power competition.

Reshaping the Security Balance

While the Russian-brokered ceasefire agreement after the Second Nagorno-Karabakh War between Armenia and Azerbaijan in November 2020 and the deployment of nearly 2000 'peacekeepers' lacking international recognition to the disputed region have strengthened Moscow's role in the South Caucasus, the war in Ukraine since February 2022 has weakened Russia's broader position as a security player.¹ Russia has sent parts of its 'peace forces' from Nagorno-Karabakh and regular troops from its military base in Armenia to Ukraine, replacing these professional troops with conscripts. Russia will still remain a key security actor with its military presence in Armenia, Azerbaijan, and Georgia, and will maintain its capability to impact regional security. Yet, with its (military) resources bound up in Ukraine and with Western sanctions leading to a shift of transit routes and Russian priorities, Moscow will have to make more compromises with Azerbaijan and Turkey in the South Caucasus likely at the costs of Armenia. Simultaneously, Russian leadership will undermine any European or US attempt to help solve regional conflicts and to increase the Western role in regional security and connectivity, as this would further challenge its position as regional hegemon.

Moscow's criticism of the facilitation format provided by European Council President Charles Michel, who organised several meetings between the leaders of Armenia and Azerbaijan, and the EU monitoring mission on the Armenian border with Azerbaijan shows how much the Kremlin sees the EU as a competitor in

the region (Kucera 2023a; Rzayev/ Mammadov 2023). The key multilateral format on the conflict in Nagorno-Karabakh, the OSCE Minsk group (with its co-chairs France, Russia and the US), stopped functioning because of disagreements between Russia and the two Western countries and Azerbaijani disinterest in French participation in the negotiations.² Turkey has increased its importance in regional security as the key military supporter of Azerbaijan and through its role as a node for trade and transit for both Russia and the EU. Iran, the third major regional player, has seen its influence diminish due to the rise of Turkey and its closest regional partner, Armenia, losing the war. Teheran's policy of maintaining the status quo in the region has failed to come to terms with the current dynamics, and domestically, the regime faces a deep legitimisation crisis. Iran is concerned about Azerbaijan's possible control of the so-called 'Zangezur corridor' on the Armenian side of the border with Iran (Rzayev/ Mammadov 2023), and the conflict with Baku has been further exacerbated after an attack on the Azerbaijani embassy in Teheran (Globe 2023). All of these changes will contribute to the creation of a new regional order and security balance. What role the EU will play in this reshaping with its Eastern Partnership policy (EaP), is not yet decided.

Changing Interests in Transit and Connectivity

Although the new geopolitical and security situation provides opportunities, it also creates new constraints for

1 Заявление Президента Азербайджанской Республики, Премьер-министра Республики Армения и Президента Российской Федерации [Statement by the President of the Republic of Azerbaijan, the Prime Minister of the Republic of Armenia and the President of the Russian Federation], kremlin.ru, 10 November 2020. Available at: <http://kremlin.ru/events/president/news/64384> (accessed 22 February 2023).

2 'Russian Foreign Minister Sergei Lavrov has stated that France and the United States are refusing to work with Russia in the OSCE Minsk Group, which has been tasked, since 1992, to help resolve the Nagorno-Karabakh conflict', <https://twitter.com/OCMediaorg/status/1512425755023749122>, OC-Media, 8 April 2022 (access 24 March 2023).

connectivity in the region. As parts of the Middle Corridor, the Caspian Sea and Kazakhstan (Trans-Caspian International Transport Route) are gaining increasing importance in regard to trade between Europe and Asia, as well as alternative sources to Russian oil and gas supply to the EU via the South Caucasus. With comprehensive Western sanctions against Russia and the near shut-down of the Northern Transit Route between Europe and Asia via Russia, the need for new trade routes between Asia and Europe means greater engagement with countries such as Kazakhstan, Azerbaijan, and Georgia in areas such as infrastructure investment, customs regime harmonization, and border management and governance. Security, connectivity, and energy policy will become major interrelated areas of the EU neighbourhood policy towards the South Caucasus. While these aspects are so far not sufficiently reflected in the EaP 'Connectivity and Central Asia' strategy, they are discussed by the member states and the EU institutions as key areas for EU cooperation with the Eastern neighbours (European Parliament 2022). The current debate about updating the EU's neighbourhood and enlargement policy, which includes a discussion about connectivity, infrastructure and energy transit, is still lacking substantial new policy elements (Meister et al. 2023).

Both Russia and the EU have an interest in investing in infrastructure in the region. At the same time, Russia and the West's contradictory perceptions of security and order are reflected in regional conflicts, particularly the conflict over Nagorno-Karabakh, and carry a disruptive effect for any investment. With its victory in the Second Nagorno-Karabakh War, Azerbaijan has not only gained back the seven surrounding regions, but now controls parts of the region itself, including the symbolically important city of Shusha. Only the Russian-backed ceasefire agreement prevented Baku from taking the whole region inhabited by Karabakh Armenians. The agreement furthermore allowed Russia to deploy 'peace forces' on Azerbaijani land and to become a guarantor of security for the Lachin corridor as the only link between Armenia and Nagorno-Karabakh, as well as a possible new corridor through Southern Armenia along the border with Iran.

The ceasefire agreement stipulated that Russian 'peace forces' would guarantee transit and communication between Armenia and Nagorno-Karabakh and that a corridor between Azerbaijan and its exclave Nakhichevan crossing Armenian territory would be created. While Russian 'peace forces' have not been able to guarantee transit through the Lachin corridor since December 2022, the agreed so called 'Zangezur corridor' through the Southern Armenian region Syunik has not yet been created because of differences in terms of status and border controls for entering the transit route (Kucera 2023b).

Since December 2022, so-called environmental activists have blocked access through the Lachin corridor, creating a shortage of food and fuel supply for the Karabakh Armenians living there (Kitachayev 2023). This blockade has ended only in May 2023 with the establishment of a checkpoint by Azerbaijan on the entrance of the new road to the Lachin corridor close to the Armenian border. While the official number of people living in Nagorno-Karabakh is 120,000 people, the real number is most likely much smaller. The main dispute concerns the control over access through and along the corridor. Baku demands transit to its exclave without border controls, while the Armenian government is only willing to accept access to its territory controlled by its own customs and border forces. Russia taking full control of the corridor or Armenia not being able to control who enters the transit route could disrupt trade between Iran and Armenia. This would isolate Armenia even further, especially since its border with Turkey has been closed since 1993 in the context of the First Nagorno-Karabakh War, and the only access to its most important trading partner Russia is via an already overloaded route through Georgia. Armenia, currently the weakest actor in the region after losing the war, is thus in a very vulnerable situation lacking bargaining power.

While Russia has an interest in keeping its 'peace forces' in the disputed region to strengthen its bargaining position vis-a-vis Azerbaijan, the connection to Turkey via the territory of Armenia is becoming more important for all actors. The North-South transit route from Russia to Iran via Azerbaijan, as well as trade via Turkey, are key to Moscow. With Russia's increasing interest in improving transit and trade with its key ally Iran, these routes provide access to the Middle East and, in particular, Turkey, which has also become a major trade hub for a Russia keenly interested in circumventing Western sanctions — trade between Russia and Turkey increased by 87% in 2022 (Bourcier 2022). This interest is shifting Russia's priorities in the South Caucasus.

Securitisation of Connectivity

As long as the border between Armenia and Azerbaijan is not demarcated and there is no agreement between both countries on the status of Nagorno-Karabakh, as well as the border regime for the relevant supply corridors, every discussion about transit and infrastructure in the region will raise security and sovereignty concerns. The securitisation and weaponisation of corridors, infrastructure, and trade routes have a counterproductive effect on human security as well as connectivity and infrastructure investment. The EU's interest in buying more oil and gas from Central Asia and the Caspian region as well as in investing in the Middle Corridor to Asia creates concerns, above all in Armenia,

about the EU's willingness to compromise on the security situation of that country as well as the rule of law and human rights in Azerbaijan (Quinn 2022). However, even if these are not in fact at risk, without greater EU engagement in regional conflict resolution to help to internationalise the negotiations among the conflict parties, providing peacekeeping and monitoring missions as well as negotiation platforms, there will be no opportunity to de-securitise transit and infrastructure. If the EU does not engage in cases of regional conflict resolution as an honest broker, any infrastructure investment will be seen purely in the context of broader tensions with Russia. Looking at connectivity merely from an investment and technical perspective ignores the geopolitical implications and risks a deadlock, as is currently the case between Azerbaijan and Armenia.

Infrastructure and control over trade routes are traditionally key elements of projecting power and enforcing interests in the South Caucasus. When Azerbaijan built the South Caucasus (Gas) Pipeline (SCP) and the Baku–Tbilisi–Ceyhan (BTC) oil pipeline with the support of the US government in the 1990s and 2000s, the main goal was to develop alternative transit routes to Europe to become independent from transit via Russia. The Southern Gas Corridor has the potential to make a bigger contribution to the EU's energy security in the future. It consists of the SCP, the Trans-Anatolian Pipeline, and the Trans-Adriatic Pipeline. This infrastructure has improved Baku's bargaining position towards Moscow and made a balancing policy between Russia and Western countries possible in the past decade. There is now a discussion to increase the volumes of oil and gas flowing through these pipelines, but there are limits to this set by production and infrastructure. Currently, Azerbaijan supplies the EU with only 2% of its gas.³ The European Commission signed in July 2022 a memorandum with Baku to double the annual supply of Azerbaijani gas to 20 billion cubic metres by 2027.⁴ Additionally, a new project agreed upon between the leaders of Azerbaijan, Georgia, Romania, and Hungary is the construction of an electricity cable running under the Black Sea to transport renewable energy from Azerbaijan (and possibly also Georgia) to Europe.⁵

The Russo-Georgian War in 2008 confirmed to the Azerbaijani government that Western countries would not guarantee the security of any South Caucasian state. Russia even threatened the pipelines running

across Georgian territory to Turkey. The consequence was a rapprochement with Russia and, to a greater extent, with Turkey. Now, with its victory in the Second Nagorno-Karabakh War and the increasing interest in transit via the South Caucasus, Azerbaijan has improved its bargaining position towards the EU. For Georgia, this new situation also provides the opportunity to establish itself as a transit hub for Russia and Azerbaijan, as well as Turkey and Europe, on both the North–South and East–West routes. For Russian leadership, Azerbaijan has become more important in terms of trade and transit.

Given that the opening of the border between Turkey and Armenia is dependent on a peace agreement on Nagorno Karabakh, there will be no opportunity for additional trade routes for Armenia other than through Georgia as long as it has not agreed on the status of the disputed region with Baku. This illustrates how the disruption of transit is linked to securitisation in the region. In 2017, the Baku–Tbilisi–Kars railroad opened, linking the Caspian Sea with Turkey via Azerbaijan and Georgia. There are plans to increase the transport capacity of this line by a factor of five (van Leijen 2022). This railway line has created a new reality: even if its border with Turkey were to be reopened, the route completely side-lines Armenia in terms of rail connectivity in the Middle Corridor. Both Caspian and Black Sea ferries and port services face limitations in terms of rail throughput capacity: even if both Azerbaijan and Georgia invested in the modernisation and the expansion of capacities of railway traffic, the bottlenecks via the two seas and ports persist. Investment in the Azerbaijani and Georgian ports is already underway, but this will improve the situation only in a couple of years (Eldem 2022). The Turkish railway system, in particular, is not ready for increased overland transit.

Outlook

The EU and European funding institutions like the European Bank for Reconstruction and Development and European Investment Bank are already major investors in infrastructure in the South Caucasus region and beyond. They aim to facilitate connectivity in Central Asia and the South Caucasus and a broader transition towards a sustainable, climate-neutral growth model. Despite growing Chinese investments in line with China's Belt and Road Initiative (which aims to integrate

3 'Energy Outlook', bp.com, 30 January 2023, <https://www.bp.com/en/global/corporate/energy-economics/energy-outlook.html> (accessed 21 February 2023).

4 'Four countries offer help to boost Azeri gas supply to Europe', Reuters, 30 September 2022, <https://www.reuters.com/business/energy/four-countries-offer-help-boost-azeri-gas-supply-europe-2022-09-30/#:~:text=The%20European%20Commission%20in%20July,production%20and%20export%20to%20Europe> (accessed 25 March 2023).

5 'Hungary, Romania, Georgia, Azerbaijan agree to Black Sea electricity project', RFE/RL, 17 December 2022, <https://www.rferl.org/a/romania-hungary-azerbaijan-georgia-electric-cable-black-sea/32180990.html> (accessed 24 March 2023).

economic spaces in Asia, Europe, and Africa through different kinds of connectivity investments), these European institutions and the Central Asian Development Cooperation Instrument are the biggest investors in infrastructure in Central Asia and the South Caucasus (Kalkschmied 2022). Caspian oil and gas are already playing a role in the European market, and its importance in terms of volume and diversification of suppliers will only grow (Roberts/ Bowden 2022). The Middle Corridor will potentially become more important in trade between Europe and Asia, but it will need more investment in ports, railway, and highway infrastructure. It is interlinked with the Global Gateway Initiative of the EU, which aims to invest in different kinds of infrastructure, connectivity, health, and education and compete with China's BRI. Nevertheless, it still lacks sufficient funding (Koch 2022). The security situation in the Black Sea region will have a major impact on trade and transit routes; here, the outcome of the war against Ukraine will play a major role.

The South Caucasus as a connection between Asia and Europe, as well as Russia and the Middle East, will play a bigger role in the global trade routes. It is a region where geopolitics, security and economic interests are closely interlinked. Both the Second Nagorno Karabakh War and Russia's aggression against Ukraine have had a strong impact on the regional security balance and infrastructure projects. The overlap of intra-regional conflicts and external actors' interests creates a new dynamic in the context of the Russian aggression against Ukraine. Especially infrastructure and connectivity are major areas where different actors com-

pete, and which are used to gain more influence in the region. Therefore, connectivity cannot be developed without taking security and geopolitical interests into consideration. On the contrary, these issues are highly interlinked and can only be developed for the benefit of local and regional societies through a process of de-securitisation. The latest trends in the conflict between Armenia and Azerbaijan point in a different direction.

The stronger focus of the EU on bilateral relations with EaP countries and its redefinition as a security actor in the neighbourhood by member states follows the trends of securitisation and exclusive relations with each country. The EaP, as a framework policy for the entire neighbourhood, should explore the possibilities of linking connectivity and trade investment with the EU's role as a peace actor in regional conflicts. It should connect the different post-Soviet regions and policies from Eastern Europe to the Black Sea, the South Caucasus and on to Central Asia. Even if there is additional potential for gas supply from Azerbaijan, Kazakhstan, and Turkmenistan to Europe, this would require huge investment, particularly for the Trans-Caspian link, which will not be available soon. Here the EU should understand this investment not purely economically, but also in geopolitical and security terms, with the goal of integrating post-Soviet countries with the EU and exporting its norms and standards to the region to increase welfare, rule of law, and good governance. The internationalisation of the conflict settlement processes through a bigger role of the EU in South Caucasian regional conflicts is a precondition for peace, investment and connectivity in the region.

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